

# Chapter 8.11

## Web-Based Corporate Governance Information Disclosure: An Empirical Investigation

**Yabing Jiang**

*Fordham University, USA*

**Viju Raghupathi**

*City University of New York, USA*

**Wullianallur Raghupathi**

*Fordham University, USA*

### ABSTRACT

Effective and timely use of the Internet, with a navigable and regularly-updated corporate Web site, can improve perceptions about a company's transparency vis-à-vis corporate governance practices. Based on an empirical analysis of data from 30 company Web sites in the DJIA, we conclude that a majority of companies underutilize their Web sites in communicating corporate governance information. Nearly all companies provide only routine content disclosure using minimal Web design features. A proactive display of compliance and due diligence content is largely absent,

and most companies have yet to exploit advanced Web technologies to the fullest. Companies with better quality content and design appear to have higher corporate governance quotient (CGQ) ratings thereby implying greater transparency. The resultant framework can help companies vastly improve their Web sites by including more content that reflects due diligence and transparency and implementing Web 2.0 and other advanced technologies. Companies serious about transparency will adopt a more strategic approach to Web content and design. The lists of variables we identify can serve as checklists and/or templates for executives and researchers.

## INTRODUCTION

The importance of proper governance has been underscored recently by a wave of well-publicized corporate scandals including Enron, Tyco, WorldCom and Global Crossing, to name a few. In response, firms have taken steps to strengthen their governance not only by making boards more independent but also by explicitly charging directors to enhance corporate transparency through the adoption of higher disclosure standards. Advances in information technology (IT), such as financial information systems (FIS), extensible business reporting language-enabled (XBRL) reporting, open conference-call technology, and Web 2.0 have greatly facilitated this endeavor by ensuring the timely production and cost-effective dissemination of corporate governance information. The key role of the corporate Web site, in particular, lies in facilitating communication between the public company and its stakeholders (Jones, 2002, 2003a, 2003b; Prentice, Richardson & Scholz, 1999; PricewaterhouseCoopers, 2004; Schultz, 2003).

This article draws, and merges, two streams of the literature, namely the corporate governance disclosure stream, and the role of IT in corporate governance stream (e.g., the Web) to identify and analyze the variables (features) with respect to content and design of corporate governance information on the companies' Web sites. The focus is to show prevailing Web-based mechanisms and practices and to suggest opportunities for improvement. We provide managers and researchers with a framework blueprint on the effective use of their Web sites to communicate and disseminate corporate governance information.

The rest of the article is organized as follows: First, we provide a comprehensive review of the literature in the areas of corporate governance disclosure and transparency and the use of the Web in information dissemination. Next, we describe the research framework for this study. Third, we outline our methodology and analyze

the data collected. We then formulate a prescriptive framework for the proper use of the Web in enabling corporate governance disclosure. Fifth, we discuss the scope and limitations of our research. Lastly, we discuss our conclusions and suggest future research.

## LITERATURE REVIEW

### Background Information

Monks and Minow (2004) define corporate governance as "the structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure the answers reflect what is best for the creation of long-term, sustainable value." Put more simply, governance refers to a body of rules and regulations that corporations must follow to protect the rights of their stakeholders (shareholders, creditors, employees, and others). A 2002 Global Investor opinion survey conducted by McKinsey & Co. highlighted corporate governance as a significant investment criterion (Bhat, Hope, & Kang, 2006). The survey found investors have higher confidence in companies with good corporate governance. Steps to meet increased public interest in governance transparency are reflected in recent governance regulations introduced by stock exchanges and regulators worldwide. The Sarbanes-Oxley Act 2002, for example, is a federal law that sets new and stricter standards for corporate governance practices in the United States (Bhat, Hope, & Kang, 2006).

Good corporate governance implies greater transparency. Berardino (2001) points out that "investors want governance that is designed and administered to protect the interests of all shareholders. They want companies to accurately disclose their financial position and business performance (SCMP, 2001, p. 12)." Thus, a major issue facing the business community is the need to increase company transparency and directors'

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