INTRODUCTION

The subject of Web-based disclosure of corporate governance information is relevant because corporate governance information is important to the functioning of financial markets (Lee, 1987; Saudagaran & Diga, 1997). Voluntary information disclosure not only aids in reducing uncertainty in investment decisions with the resultant optimal allocation of resources, it also has the potential to increase the transparency of the firm functions to various stakeholders (Frankel, Johnson, & Skinner, 1999; Healy & Palepu, 2001; Tasker, 1998; Xiao, Yang, & Chow, 2004). Several different types of information technologies are now available for firms to communicate corporate governance information to stakeholders. For example, firms can now use the Internet and Web to disseminate relevant information in a timely and inexpensive fashion. Included are technologies such as eXtensible Business Reporting Language (XBRL)
and webcasts that provide interested parties easy access to timely information (Baldwin, Brown, & Trinkle, 2006; Debreceny & Gray, 2001; Debreceny, Gray, & Rahman, 2002). Corporate web pages are powerful communication tools that provide equal access, real-time publishing and interactivity between firms and the financial markets and have the capacity to meet the information requirements of various stakeholders. Clearly, detailed and broad Web disclosure of corporate governance is an indicator of good governance and has the potential to impact the firm favorably.

However, the range of information technologies available makes the decisions of how, what and when to disclose challenging ones since these decisions have the potential to impact the marketplace. While previous studies have examined the decision to provide voluntary disclosures in traditional formats, few studies have looked at firms’ choices and determinants of their Web-based disclosures (Bushee, Matsumoto, & Miller, 2003; Ettredge, Richardson, & Scholz, 2002). Additionally, while much of IT research has focused on IT governance (Brown & Grant, 2005; Sambamurthy & Zmud, 1999), there is a dearth of research on the role of IT (e.g. using the Web) in enabling corporate governance. Examples of recent work in this emerging area include (Ettredge, Richardson, & Scholz, 2002a, 2002b; Hodge, 2001; Hodge, Kennedy, & Maines, 2004; Smith & McKeen, 2006). These studies are limited, however, in that they focus on subsets of the role of IT such as Internet-based financial reporting and auditing IT.

This study contributes to prior research by looking at a broad range of Web features, which include both content and design features that firms can use as a tool for communicating and disclosing corporate governance related information. The key research question addressed in this paper is: which firm-level characteristics determine the extent to which firms use the Web to make governance disclosures? We hypothesize that firm characteristics such as firm size, financial performance, presence of financial constraint, industry sector and firm age may affect firms’ decisions of using Web for corporate governance disclosure. The hypotheses are discussed in detail in the research framework section.

The significance of this research lies in the identification of factors that influence Web-based corporate governance information disclosure. The analysis can help managers and policy makers at the national and international levels understand some of the drivers and underlying factors related to this form of disclosure. With the increasing use of Web-based disclosure and transparency as the focus, the resulting consequence is for corporations to develop new Web disclosure strategies to better respond to information on the Web.

The rest of the paper is organized as follows. We first offer a comprehensive review of the literature, drawing on relevant inter-disciplinary work in information technology (IT), corporate governance (e.g. disclosure & transparency) and Web-based disclosure. Then we describe a framework to explain Web-based corporate governance disclosure. Third, we describe our research methodology and data. We then present the results of our analysis and discuss the scope and limitation of the study. Finally, we offer conclusions and directions for future research.

LITERATURE REVIEW

Prior empirical studies on disclosure find that voluntary corporate disclosures improve stock liquidity and reduce the cost of capital (Botosan, 1997; Fairfield, Sweeney, & Yohn, 1996; Healy, Hutton, & Palepu, 1999). Healy and Palepu (2001) and Verrecchia (2001) argue that executives are motivated to provide stakeholders with equal access to disclosures since a decrease in information asymmetry can reduce the cost of capital. In addition, as Wang (1993) points out, less informed investors such as individual investors could possibly demand broader dissemination when compared to more informed investors, such as institutional investors who have access to more information from diverse sources.
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