

Chapter XVIII

Relevance and Usefulness of Corporate Web Site Disclosure Practices

Ram S. Sriram

Georgia State University, USA

Indrarini Laksmna

Kent State University, USA

ABSTRACT

We investigate whether corporations are following the “best disclosure practices” when presenting business reports on their Web sites. As a benchmark, we use the recommendations made by the Jenkins Committee (1994) to evaluate disclosures on corporate Web sites for value, relevance, and quality of information. We compute a disclosure score using 26 items recommended by the Jenkins Committee and Meek, Roberts, and Gray (1995) as indicators of best reporting practices. Our findings reveal that most corporations do not follow “best disclosure practices” when reporting information on their Web sites. Only about half of the 26 disclosure items recommended by the Jenkins Committee are reported, and less than 50% of the sample firms in our study make such disclosure. Some of the items that the Jenkins Committee recommends as essential for improving quality and relevance of reporting, such as forward-looking information (e.g., plans, opportunities and risks, forecasts, critical success factors), nonfinancial items (e.g., changes in operating performance, research and development activities), or offbalance-sheet financing, are least often reported. The findings suggest that corporations must improve their Web site disclosures for investors to find them valuable, relevant, and useful.

INTRODUCTION

The World Wide Web or Internet is becoming an important medium to communicate information about an organization and its activities. A survey of the members of National Institute of Investor Relations finds that investment relations departments are striving to fulfill investors' demand for online information (Editorial Staff, *Investor Relations Business*, 1999, 2001). Corporations recognize that providing information online is operationally and strategically advantageous (Berk, 2001; Clarkworthy, 2000; Ettredge, Richardson, & Scholz, 2001; Stewart, 1998). Studies indicate that corporations disclosing information derive benefits in the forms of increased market liquidity (Welker, 1995), lower cost of capital (Botosan, 1997), and enhanced institutional and analyst interest in the firms' stock (Healy, Hutton, & Palepu, 1999; Lang & Lundholm, 1996). Corporations also reduce costs by distributing information through their Web sites, widen the geographical coverage, and provide access to investors all over the world. The greater and quicker access to important information about corporate activities, available through interactive and connected reports, provides investors with rich and useful information for their decision making.¹

In the past, several studies examined the content of Web site reports and the characteristics of corporations that provided financial reports on their Web sites (Ashbaugh, Johnstone, & Warfield, 1999; Debrecey, Gray, & Rahman, 2002; Ettredge, Richardson, & Scholz, 2002; Petravick, 1999; Petravick & Gillet, 1996). A few studies also examined the content of Web site disclosure along several dimensions, including timeliness (Petravick & Gillet, 1998), completeness (Ettredge, Richardson, & Scholz, 2000), and types of information and presentation (Beck, 2003; Caballero, Gomez, & Piattini, 2004; Debrecey et al., 2002; Ettredge et al., 2002; Matheus, 2004; Moustakis, Litos, Dalivigas, & Tsironis, 2004). However, these studies did not examine whether

the disclosure items and presentation were relevant to investors or conformed to standards of quality reporting.

The issues of relevance and usefulness of information presented at corporate Web sites have become very important in today's corporate environment. Concerned by scandals and failure of some major corporations (e.g., Enron), the Sarbanes-Oxley Act (SOX) was passed in 2002. The SOX demands that corporations improve their reporting practices. Similarly, Regulation Fair Disclosure (FD), issued by the SEC in October 2002, also requires that publicly traded companies simultaneously supply information to professional security analysts and retail investors. The SEC specifically encourages the use of Internet to ease the distribution of information to small investors and to make such information available without the intervention of intermediaries (SEC Release No. 33-7881). Section 409 of the SOX also emphasizes the importance of real-time reporting. The Act requires that corporations immediately disclose any changes in financial condition and operating results to the public.

Highlighting the need to improve disclosure practices and the use of online and real-time media for such purposes, SOX and Regulation FD give considerable attention to corporate Web sites as prime sources of information for investors. However, corporate Web sites can fulfill expectations only if the sites provide relevant information on a timely basis, and conform to "Best Disclosure Practices." In the present study, we examine Web site disclosures, and ascertain to what extent they follow "Best Disclosure Practices." We define "Best Disclosure Practices" as disclosures that are relevant and useful to investors and that conform to recognized standards of disclosures. Studies examining information quality identified several dimensions of quality (Moustakis et al., 2004; Pipino, Lee, & Wang, 2002; Zhang, Keeling, & Pavur, 2000). Moustakis et al. (2004) use the following criteria to assess Web site quality: content, navigation, design and structure, appearance and

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