Internet Financial Reporting (IFR): the Role and its Impact on Firm Value

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Abstract - **Internet financial reporting is one of the company's way to disseminate financial information widely. The informations are expected to give a positive signal to investors, which at the end can raise the firm value. The purpose of this research was to analyzed the effect of Internet Financial Reporting on Firm Value. The population were the entire manufacturing companies listed in Indonesia Stock Exchange. The samples used purposive sampling technique and selected 83 companies. The data were analysed using descriptive statistical analysis and PLS-SEM. The result showed that Internet Financial Reporting (IFR) have a significant and positive impact on firm value. It also indicated that the implementation of Internet Financial Reporting would help investors to undertake investment decisions.**

Keywords - **Internet Financial Reporting, Firm Value, Financial Information, Signaling**

I. INTRODUCTION

One of the company's long term goal is the sustainable increase in firm value to maximization of shareholder value as in [12]. Firm value for investors and creditors is crucial to decision making. Investors are increasingly selective in investing and creditors also more selective providing credit to the company. Reference [15] states the increase of firm value is a reflection of optimizing shareholder value. Global Financial Crisis that hit Indonesia in 2008 led eight companies decreased the firm value even delisted from Indonesia Stock Exchange. For that, accurate information about the condition of the company is nessesary, one of them through Internet Financial Reporting (IFR). IFR makes it easy for companies to disseminate financial information with low cost and fast. Besides convenience for the users to access information anywhere and anytime. IFR emerged and evolved as the fastest medium to provide financial information of the company [11]. Disclosure of financial information in the IFR will give a signal to investors so that they are interested and believe to invest their funds to the company. It will increase the firm value. The purpose of this research was to analyze the effect of IFR on firm value.

II. LITERATURE REVIEW

The theories underlying this research are agency theory and signaling theory. Reference [5] define agency relationship as a contract between one or more persons (the principal) that involves another person (the agent) to perform some service or activity on behalf of those who delegate authority for decision-making processes. Signalling Theory developed by [13] stated that the company executives who have better information about the company will be motivated to disseminate the information to potential investors, so that the share price of the company increase. Signalling theory emphasizes the importance of information released by the company's investment decisions outside the company. Signal theory states that when the company showed good performance, management has a strong incentive to disseminate information, especially financial information in order to increase investor confidence Encouragement of companies to provide information is to reduce the information asymmetry between the agent and the principal [4]. Reference [7] indicates that a company will definitely do the signal in the form of positive information about the condition of the company which is expected to attract investors to invest in the company. Managers are generally motivated to deliver good information about the company to the public as soon as possible. But company's outsider does not know the truth of the information submitted. If the manager can give a convincing signal, then the public will be impressed and it will be reflected in the price of securities. Reference [14] proved disclosure website have significant impact on firm value. Reference [9] said IFR positive effect on the frequency of stock trading. Reference [6] proved that IFR significant effect on the frequency of stock prices. The hypothesis of this study is to IFR positive effect on firm value.

III. RESEARCH METHODS

The population in this research are all manufacturing companies listing on the Indonesia Stock Exchange in 2014-2015 as many as 124 companies. The research sample as many as 83 companies Obtained by using purposive sampling technique with three criteria, namely: (1) listed in Indonesia Stock Exchange 2014 - 2015 and in rupiah; (2) have a company website that can be accessed or not being underconstruction during the reserach conducted; and (3) have the financial information related to the research's variables. This research used two variables, IFR and firm value. The measurements of IFR with Internet Financial Reporting index as number of 82 items using content analysis (total score disclosed divided by the total score). The firm value will be reflected in the stock market price and it is proxied by Price to Book Value (PBV), which according to [3] was measured by the ratio of the price per share to book value per share. The collected data were annual report on the company's website by documentation technique. Analysis of the data used descriptive statistic and Structural Equation Modeling using Partial Least Squares (PLS-SEM) with Warp PLS software.

IV. RESULTS AND DISCUSSION

Descriptive statistical analysis results are as follows:

TABLE I
DESCRIPTIVE STATISTICS

Statistics			
		PBV	**IFR**
N	**Valid**	83	83
	Missing	0	0
Mean		1,693761	60,725830
Std. Deviation		1,5706945	9,6528577
Minimum		-0,1490	39,0244
Maximum		6,4100	82,9268

Table I showed the average of firm value are good enough and they have done IFR but not maximum that is equal to 60.72%. The research model of PLS-SEM test results can be seen as follows:

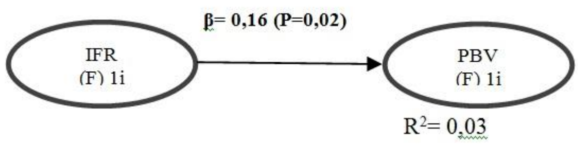

Fig. 1 Reserach Model

IFR variable had significance value 0.02 less of α = 0.05; p-value 0.16. The figures have indicated a significant positive effect between IFR and firm value, so this hypothesis was accepted. It means more information is disclosed through the IFR the higher firm value. This is consistent with agency theory and signaling theory that manager as the agent will attempt to disclose financial information to the principal as a form of accountability and to reduce information asymmetry. Encouragement of companies to provide information because there is asymmetry of information between the company and company's outsiders because manager know more information about the company and upcoming prospect than outsiders. Lack of information to outsiders about the company led them to protect themselves by giving a low price for the company. Companies can increase the value of the company by reducing the information asymmetry. One way to reduce the asymmetry of information is to give a signal to the outside, one of them a reliable financial information and will reduce the uncertainty about the company's prospects to come (Wolk et al, 2000).

But the company's outsiders do not know the truth of the information already disseminated. So it can be concluded that the presence of asymmetric information, signaling to investors or the public through management decisions become very important [2]. Managers are generally motivated to deliver good information about the company to the public as soon as possible, one of them through IFR. If the managers can give a positive and reassuring signal, then the public will be impressed and will ultimately increase the firm value.

V. CONCLUSIONS

IFR as manager's responsibility to the shareholders had a role as a basis for decision making and to reduce information asymmetry. Manager that give a positive signal to investors through IFR, impact on increasing the firm value. Based on the results, the companies had the financial Reported information on their website but not optimal yet, managers are expected to improve the content of IFR. The Research sample only in manufacturing companies, to further research can be compared with other types of companies.

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(Arranged in the order of citation in the same fashion as the case of Footnotes.)

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