

Impact of Ownership Structure on Timeliness of Corporate Internet Reporting (TCIR): Evidence from Listed Capital Goods Manufacturing Companies in Sri Lanka

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Abstract - Information plays a vital role in any field. Communicating information timely and conveniently enhances the decision-making process efficiently. The internet has become a prominent channel for firms to disseminate information to stakeholders. Therefore, this study aims to examine the level of Timeliness of Corporate internet reporting (TCIR) and how ownership structure impacts firms' timely internet reporting. This study reveals that the average level of TCIR is reasonably low. Further, it found that ownership structure concentrated with individual investors, institutions, and Government has a negative and significant impact on TCIR. Hence organizations with highly concentrated ownership tend to disseminate less timely information online. The finding of this study recommends that Sri Lankan companies increase timely engagement in internet disclosures to support decision-making, and participating in timely internet disclosures opens opportunities for potential investments for the betterment of the organization.

Index Terms - Timeliness of Corporate Internet Reporting, Corporate Internet Reporting, Ownership Structure, Sri Lanka

I. Introduction

The internet has become the most used and vital tool to share information with anyone worldwide. Businesses gradually changed and adapted to practice the internet as the communication channel between them and their stakeholders. Due to the availability and affordability of the internet, firms urge to disseminate information through websites timely to address the information needs of interested parties. Timeliness is one of the qualitative attributes of financial reporting because it ensures the recentness of information to users for their decision-making needs.

There are several studies on corporate internet reporting in Sri Lanka (Kuruppu & Al Jabri, 2015; Nagarajah & Alagathurai, 2021; Regina & Priyadarshani, 2016). Only a few studies addressed the attribute of TCIR and how firm characteristics impact TCIR (Regina & Priyadarshani, 2017). Therefore, this study aims to investigate the impact of ownership structure on the Timeliness of Corporate Internet Reporting (TCIR) done by listed Sri Lankan entities since the ownership structure plays an essential role in shaping corporate disclosures.

The research findings will assist many types of stakeholders, such as current investors, potential investors, foreign investors, policymakers, and administrative departments of the country. Attracting foreign investments with updated information through widely used communication channels will be a massive support to overcome the prevailing economic crisis in the country.

II. Research Method

The study sample was drawn from entities listed on Colombo Stock Exchange (CSE) and classified as Capital goods according to Global Industry Classification Standard (GICS) (Colombo Stock Exchange, 2022). Twenty-nine firms were found under this classification as of April 04, 2022. After removing firms with no websites, the final sample of twenty-four firms was derived for the study. As per the annual report of the Central Bank of Sri Lanka (*Annual Report, Central Bank of Sri Lanka*, 2020) composition of Gross Domestic Product (GDP) portrays the industry sector occupying 27.9% in 2020. This indicator clearly shows that the industry sector has nearly one-third of national products. Therefore, studying this sample will assist policymakers in shaping the economy and recovery from the prevailing crisis in Sri Lanka.

TCIR is measured by using primary resources, and for that purpose, the websites of the selected firms are searched through CSE's official webpage and google search engine. Details of ownership structure are sourced from secondary data, and for that purpose, annual reports of the firms are accessed accordingly. Further, the period of data collection has been done from April 04, 2022, to April 13, 2022.

A. Dependent Variable

Construction of the dependent variable TCIR Index was done by referring to previous studies and twelve items derived from Abdelsalam & El-Masry (2008), Al-Saidi (2020), and Ezat & El-Masry (2008). Further, two more items, namely

whether the firms' website provided an option to view their online store or whether they disclosed the prices of their products and whether the firms' website provided an option to subscribe to social media pages such as Facebook, Instagram, Twitter, Linked in and YouTube were added to the checklist to justify the current trend in the business world (Rodriguez et al., 2012; Sengar, 2021). Table 1 shows the list of items for the TCIR Index.

Table 1: Checklist items for TCIR Index

No	Item
1	A current press release or news
2	Link to regulatory news services
3	Current share price
4	The update time of the share price
5	Calendar of future financial events
6	Pages indicated the latest updates
7	Monthly or weekly, or annual sales of operating data
8	Market share of key products
9	Current dividends
10	Date or year of last website update
11	Availability of Interim financial reports
12	Option to register for future email alerts
13	Availability of subscribing options for social media pages
14	Link to firms' online stores or disclosures of the updated price of the products

TCIR index was scored by applying the dichotomous evaluation method. The data for the checklist items were obtained by visiting the websites of the sample firms and marked '1' if the checklist item was found on the company website and marked '0' if not. Hence, the formula applied for index calculation is given in equation 1.

$$TCIR\ index = \sum_{i=1}^{14} x_i \quad (1)$$

B. Independent Variables

Agency theory argues the relationship between shareholders and the managers who work on behalf of owners (Jensen & Meckling, 1976). Suppose the investor portfolio consists of concentrated large shareholders. In that case, they have more control over agents than minority shareholders. They can regulate the amount and type of information to be disclosed on the website since they have access to fresh information from the internal environment of the organization and no need to access the internet for decision-making (Al-Saidi, 2020). Further, their engagement in the managerial decision will increase because their investment is enormous, and they pay more attention to growing and securing their money. When the investor portfolio spreads with dispersed shareholders, they focus primarily on return rather than taking control over managerial decisions. Hence this argument was verified by Al-Saidi (2020) & Abdelsalam & Street (2007) by discovering a negative association between ownership concentration and the scale of TCIR.

Few studies (O. Abdelsalam & El-Masry, 2008; Al-Shammari & Al-Saidi, 2015; Ezat & El-Masry, 2008) revealed a significantly positive relationship between ownership concentration and TCIR regardless of the argument made by Al-Saidi (2020). Unfortunately, some studies revealed no significant relationship between said variables (Hezadeen et al., 2016). Due to varied results from earlier studies, this research hypothesized a significant relationship between the variables. Since the shareholder portfolio consists of different investors, this study attempted to investigate three types of concentrated ownership by referring to Al-Saidi (2020). They are ownership concentration by individuals, by institutions, and by Government. Hence the hypotheses developed for this research are as follows.

H₁: There is a significant impact of ownership concentration by individual investors on TCIR

H₂: There is a significant impact of ownership concentration by institutions on TCIR

H₃: There is a significant impact of ownership concentration by the Government on TCIR

According to the hypotheses development, the ownership structure is employed as an independent variable in this study. Operationalization of these variables is the sum of percentages of common shares held by individuals with more than 5%, the sum of percentages of common shares held by institutions with more than 5%, and the percentages of common shares held by the Government with more than 5%, respectively.

In addition to independent variables, profitability is calculated by Return on Assets (ROA), leverage is calculated by Debt to Asset ratio, and Firm size is calculated by the natural logarithm of total assets considered as control variables in this study. Multiple regression analysis was employed in order to witness the impact of concentrated ownership on the TCIR index. Equation 2 shows the regression model for this study.

$$TCIR_i = \alpha + \beta_1(OC_IND)_i + \beta_2(OC_INS)_i + \beta_3(OC_GV)_i + \beta_4(FS)_i + \beta_5(LV)_i + \beta_6(PF)_i + \varepsilon \quad (2)$$

III. Results and Discussion

This study preliminarily tested the reliability of checklist items to verify internal consistency. Accordingly, Cronbach's alpha resulted in 0.682. The results entail the items on the checklist have an acceptable level of internal consistency (Cronbach, 1951).

Table 2 shows the percentage of the selected companies which follows each item in the index. As the highest score, 75% of the firms tend to release current news on their websites and publish the recent update date or year of their websites. Further, only 8.33%, which means two from 24 firms publish a calendar for future financial events and current dividends on the websites. Surprisingly it is observed that option to register for email alerts done by only 16.67%, while for the same item, it is observed 77.42% in 2017 for Sri Lankan manufacturing companies (Regina & Priyadarshani, 2017). Meanwhile, an option to subscribe to social media pages scored 66.67%. This measure entails the importance and how social media is shaping the business world in the current scenario than before. Moreover, one-third of the firms engaging in online stores and disclosing prices on websites reveal Sri Lankan customers are adapting to rapid changes according to international business.

Table 2: Results of TCIR index

No	Item	Results
1	A current press release or news	75.00%
2	Date or year of last website update	75.00%
3	Pages indicated the latest updates	70.83%
4	Availability of subscribing options for social media pages	66.67%
5	Availability of Interim financial reports	41.67%
6	Link to regulatory news services	37.50%
7	Current share price	33.33%
8	Link to firms' online stores or disclosures of the updated price of the products	33.33%
9	Monthly or weekly, or annual sales of operating data	29.17%
10	The update time of the share price	29.17%
11	Market share of key products	20.83%
12	Option to register for future email alerts	16.67%
13	Current dividends	8.33%
14	Calendar of future financial events	8.33%

The descriptive results of the study are shown in Table 3. The scores for TCIR are spread from 1 to 12 out of 14, and the mean is 5.46, which only captures 39% of the total score. This shows that some firms pay more attention to timely reporting on websites, while some firms ignore timely disclosure through the internet. Further, the measures also reveal Sri Lankan firms still lack in disseminating corporate information through the internet to stakeholders compared to other nations. Accordingly, Kuwait, Ireland, and Malaysia scored 50%, 46%, and 65.45%, respectively (O. Abdelsalam & El-Masry, 2008; Al-Saidi, 2020; Kamalluarifin, 2016). When considering the independent variables, the average share ownership concentrated by Institutions (49.5%) is far more than individuals (16.64%) and Government (2.33%) concentrated ownership, and it shows considerable participation by institutional investors in Sri Lanka

When considering the correlation between each variable employed in this study, though a strong negative correlation of -0.86 was found between ownership concentrated by individuals and ownership concentrated by institutions, it is not significant ($p > 0.10$). Therefore, multicollinearity is not a severe problem in this study.

Table 3: Descriptive statistics of study variables

	Mean	Median	Standard Deviation	Min	Max
TCIR Index	5.46	5.00	2.72	1.00	12.00
OC_IND	16.64	8.17	20.39	0.00	63.48
OC_INS	49.50	54.52	25.57	0.00	86.29

OC_GV	2.33	0.00	5.15	0.00	18.76
FS	10.02	10.18	1.93	5.73	13.19
LV	0.54	0.54	0.22	0.01	0.89
PF	3.35	2.25	5.00	-6.43	12.94

Table 4 shows the final results of the regression analysis. Ownership structure vastly concentrated by individuals and institutions shows a negative impact on TCIR at 0.10 level of significance. In comparison, the Government's widely concentrated ownership structure also exposes a negative effect on TCIR at a 0.05 level of significance. Since the impact found was at a significant level, as expected in this study, the hypotheses of this study cannot be rejected. This output clearly indicates when a company's major shares belong to a few people, that company tends to ignore timely disclosures through the internet because the major shareholders have access to new information on firms' activities and achievements through internal resources. Apart from that, firm size was the most significant variable influencing TCIR with a positive association. This result is consistent with previous studies (Al-Saidi, 2020). Further leverage and profitability revealed no significant impact on TCIR. The absence of considerable impact occurred due to severe changes in capital structures and business volume during the COVID-19 pandemic. Hence, these outcomes show that firms followed timely reporting as before, irrespective of massive variance in their recent returns and capital structures.

Table 4: Regression Analysis (DV - TCIR index)

	Coefficients	Standard Error	t Stat	P-value
Intercept	1.470	3.146	0.47	0.646
OC_IND	-0.068	0.037	-1.85	0.081*
OC_INS	-0.060	0.030	-2.03	0.059*
OC_GV	-0.181	0.078	-2.33	0.033**
FS	0.899	0.230	3.91	0.001***
LV	-0.217	2.243	-0.10	0.924
PF	-0.117	0.093	-1.26	0.224

***Significant at the 0.01 level**Significant at the 0.05 level*Significant at the 0.10 level

IV. Conclusion

Though many organizations in Sri Lanka have websites to communicate with customers and other interested parties, they still lack timely internet disclosures. Moreover, since the level of TCIR is 39% which is below the average, companies should pay attention to improving TCIR to attain several advantages through TCIR. Up-to-date information on the internet gauge future investors' attention, including foreign investors. That will, in turn, assist in boosting inward remittances as Sri Lanka is currently facing an Economic crisis. Further disclosing information on the internet may help reduce annual reports' size and avoid information overload, a serious cognitive problem faced worldwide.

Since the research result shows firms with concentrated ownership tend to publish less timely information through the internet, other stakeholders face delays in receiving information. Therefore, policymakers should be concerned about imposing regulations to increase timely internet reporting.

There are more opportunities for future researchers through this study. Future research can add more items to check TCIR and could survey to reveal how other corporate governance characteristics such as role duality, board independence, and board size influence the scale of TCIR. Moreover, future studies can employ the same study method with other sectors or even compare sectors.

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