

## CORPORATE GOVERNANCE AND WEBSITES: A Field Study

Metin Uyar\*, Serdar ALNİPAK\*\* ve Esra ERZENGİN\*\*\*

### ABSTRACT

Corporate governance aims to protect interests of all stakeholders against companies' activities and applications by adding transparency, accountability, justice and participation to managerial activities as internalized principles. Reliance on corporate managements, accounting and finance specialists, and financial reports declined especially after the accounting and corporation scandals occurred in the USA and other states. Sharing financial reports with the public opinion is significant for the establishment of basic principles of corporate governance such as transparency and accountability. In this context, internet based financial reporting applications carry critical value in order to fulfill the expected function. Therefore, this study examines the listed companies on ISE (Istanbul Stock Exchange), and evaluates the relation between corporate governance applications and the internet based financial reporting in order to analyse the current situation in Turkey.

**Key Words:** Corporate Governance, Transparency, Disclosure, Internet Based Financial Reporting

### ÖZET

ABD'de ve başka ülkelerde yaşanan ve toplumsal maliyeti geniş kitlelere yansıyan muhasebe ve şirket skandalları sonrasında, şirket yönetimine, muhasebe ve finans uzmanlarına ve bu uzmanların hazırlamış oldukları finansal raporların güvenilirliğine ve kalitelerine olan inanç azalmıştır. Bu durumun bir yansıması olarak gelişen toplumsal reaksiyonlar sonucunda ise kurumsal yönetim kavramına olan ilgi artmış ve bir takım uygulamalar hayata geçirilmiştir. Kurumsal yönetim kavramının temel ilkelerinden olan şeffaflığın ve hesap verebilirliğin sağlanmasında, finansal raporların hazırlanması kadar, bunların kamu oyu ile paylaşılması da büyük önem arz etmektedir. Bu bağlamda internet tabanlı finansal raporlama uygulamalarının beklenen fonksiyonu yerine getirmesi kritik değer taşımaktadır. Söz konusu durumun ülkemizdeki mevcudiyetini analiz etmek amacıyla IMKB'de listelenen firmalar incelenerek kurumsal yönetim uygulamaları ile internet tabanlı finansal raporlama arasındaki ilişki çalışmada değerlendirilmektedir.

**Anahtar Kelimeler:** Kurumsal yönetim, şeffaflık, hesap verebilirlik, internet tabanlı finansal raporlama

---

\* *Assistant Professor*, Beykent University, Faculty of Economics and Administrative Sciences, [metinuyar@beykent.edu.tr](mailto:metinuyar@beykent.edu.tr)

\*\* *Research Assistant*, Beykent University, Faculty of Economics and Administrative Sciences, [serdaralnipak@beykent.edu.tr](mailto:serdaralnipak@beykent.edu.tr)

\*\*\* *Research Assistant*, Beykent University, Faculty of Economics and Administrative Sciences, [esraerzengin@beykent.edu.tr](mailto:esraerzengin@beykent.edu.tr)

## **1. INTERNET AND FINANCIAL REPORTING**

The internet is a tool, which provides direct, useful, cheap and detailed research opportunity for investors as it enables openness and transparency for companies. In practice, most of the internet based financial reporting activities are prepared in optional and disorganized formats. Companies allocate the least noticeable parts of their websites for the links of financial statements. However, there are companies that present their financial reporting activities, as it should be (Ashbaugh et al. 1999; Debreceeny et al. 2002; Ettredge et al. 2002). According to previous researches, publication of financial statements on the internet pages influences investors' decisions by enhancing transparency (Hodge et. al. 2004). Companies focused on internet based financial reporting activities in favor of investors, particularly after the Sarbanes-Oxley Act in the USA, also in our country after the decision taken by Capital Markets Board of Turkey in 2005. This is an indication of the effects of corporate governance applications on internet based financial reporting activities.

Investors use the internet in order to have financial information and knowledge about available and potential investment opportunities (Davis et. al. 2003). Instead of printed sources, publication of financial statements on the internet provides more transparency, as it enables further information and supervision for investors. Additionally, the internet technology enables a company to display its financial information in various formats (hypertext, graphics, smart calculators, multiple file formats – PDF, html, etc.) which provide different viewpoints for investors. According to Hodge (2004), the internet directly influences the decision making process by enhancing transparency and analytical thinking possibilities for investors. Legislative authorities impose obligations on companies to display their financial statements on the internet especially after recent accounting and banking scandals. It is obvious that encouraging governance brings more transparency (Ajinkya et al. 2005).

In this context, this research analyzes the influence of corporate governance applications on the internet based financial reporting activities, and evaluates the relation between these activities and transparency. Istanbul Stock Exchange and XKURY index listed companies and their internet pages are reviewed in order to examine the relation mentioned above. Therefore, the public disclosure index, used for the previous studies, is implemented. This index determines a company's transparency level by analyzing the information and the content displayed on the internet. The research also examines the influence of corporate governance on the degree of public disclosure through the internet. Corporate governance is evaluated by means of shareholder rights, ownership structure, board composition, the audit committee and the influence of these factors on the degree of public disclosure through internet based financial reporting.

Relevant researches mostly analyzed the relation between internet based financial reporting (IBFR) and quantities like; company size, profitability, and leverage ratio (Craven and Marston, 1999; Ettredge et al., 2002; Debreceny et al., 2002; Oyelere et al., 2003). Some studies point out the factors of corporate governance as the determinants of internet based transparency (Xiao et al., 2004). Other researches express that corporate governance enhances transparency, and the internet provides a convenient environment for this purpose (Gul and Leung, 2004; Ajinkya et al., 2005).

### **1.1 Hypothesis**

The research primarily analyzes the relation between the corporate governance and the internet based financial reporting activity. According to the agency theory, managers and stakeholders have a conflict of interest. Managers may declare deceptive statements about the financial status of their companies in order to raise their interests. Corporate governance is a resistive system that obstructs such tendencies of managers or other power groups. Consequently,

auditing and compulsiveness are the principles of corporate governance. The internet provides a convenient environment for corporate governance in order to fulfill its duty. Transparent statements provide more information about a company and the internet is convenient for obtaining up-to-date information. Therefore, there is a linear relationship between transparency and publication of financial statements on the internet.

The research evaluates the presence of corporate governance within the context of corporate governance score, which is a combination of shareholder rights, ownership structure, board composition, and characteristics of the audit committee. Since shareholder rights and managerial interests are in conflict, many companies allow a limited number of shareholders in management. On the other hand, internet based financial reporting (IBFR) advances and strengthens shareholder rights. In this sense, it would not be wrong to state the following hypothesis.

*H1: There is a relation between corporate governance score and IBFR.*

In this context, the influence of ownership structure on IBFR should be examined. The dual structure of managerial ownership and block ownership are significant elements. Partner managers may lead the company in parallel with the managerial interests. However, IBFR constitutes an impediment for arbitrary management by providing transparency and disclosure. Block ownership stands for shareholders who own more than 5 % of company shares. Block ownership constitutes a constraint against the manipulation of management in favor of majority shareholders. Consequently, IBFR prevents management from manipulation of majority shareholders. This relation can be stated in Hypothesis 2 as follows.

*Hypothesis 2: There is a negative relationship between block ownership and internet based financial reporting.*

Independency of the board of directors is crucial for the establishment and application of corporate governance. A board, which has high level of independency, has active duty in monitoring financial accounting process (Klein, 2002) and improving the reliability of financial statements (Anderson et al., 2004). Empirical studies show that there is a positive relation between corporate disclosure and independency of the board. Another significant component of corporate governance is the active duty of the audit committee. The audit committee members should have adequate competences and qualifications in order to establish an active and efficient committee. A committee, specialized in financial subjects, is seen as an effective factor in order to provide transparency, shareholder protection and well-qualified financial statements. Consequently, financial expertise of the audit committee members influences disclosure. In this context, a relation between disclosure and the expertise of the audit committee members, evaluated by the internet-based financial reporting, is established. Hypothesis 3 expresses this relation as it follows:

*Hypothesis 3: There is a positive relation between internet based disclosure and financial expertise of the audit committee members.*

## **1.2 Sample And Measurement Scale**

The research sample is composed of the listed companies on Istanbul Stock Exchange corporate governance index. ISE Corporate Governance Index is established in order to evaluate the firm performance of price and return in the context of the notification of Capital Markets Board of Turkey (Serial Number VIII, No: 51) according to the undermentioned rules. (ISE, 20.02.2009) The related research institution prepares the rating scale of the index upon companies' requests. A company's rating score should be at least 6 in order to be listed on the index.

Format and content control schemes (Xiao et al., Ettredge et al., 2002, Debreceeny et al., 2002) are used in order to determine transparency and disclosure provided by internet based financial reporting. Table 1 shows the measurement schemes for format and content. Website units for investor relations of 13 listed companies on ISE corporate governance index are analyzed in order to evaluate 36 items of the mentioned table 1. See Also Additional 1

## **2. VARIABLES AND DATA ANALYSIS**

Dependent variables, which reflect the effectiveness of internet based financial reporting, are expressed by CONTENT, FORMAT, DISCLOSURE, and TOTAL variables. FORMAT variable is the sum of the values for questions from 1 to 12 on Table 1. This sum is calculated separately for each company. CONTENT variable is the sum of the values for questions from 13 to 36 on the same table. DISCLOSURE variable is the sum of the questions numbered 18, 19, 20, 35 and 36 and calculated separately for each company. The last dependent variable, which is the total value of 36 questions, is expressed as TOTAL.

Independent variables of the research are GOVX (Corporate Governance Score), BLOCK (Block Ownership in Company Shares), and FINEXPERT (Financial expertise of auditing committee members). Data of the companies are analyzed by SPSS program. Descriptive values of the variables are shown on Table 2.

Table 2: Descriptive Statistics

Variable	Average	Standard Deviation	Minimum	Maximum
Dependent Variables				
CONTENT	15,28	4,12	2	23
FORMAT	8,93	2,38	4	11
DISCLOSURE	2,50	1,13	1	4
TOTAL	31,28	5,48	27	35
Independent Variables				
GOVX	8,04	0,40	7,08	8,76
BLOCK	1	0	1	0
FINEXPERT	0,4	0,12	1	0

Correlation table, which expresses the linear relationship between variables, is shown on Table 3.

Table 3: Correlation Table of the Variables

	A	B	C	D	E	F	
CONTENT	A						
FORMAT	B	0,78					
DISCLOSURE	C	0,63	0,77				
TOTAL	D	0,56	0,59	0,65			
GOVX	E	0,81	0,83	0,71	0,60		
BLOCK	F	-0,47	-0,42	-0,49	-0,41	-0,45	
FINEXPERT	G	0,32	0,38	0,38	0,41	0,44	0,47

$p < 0,05$

There are numerous strong positive relations at  $p < 0,05$  significance degree as seen on the table. On the other hand, there is a medium level negative relation between block ownership and internet based financial reporting. Regression values, composed for examining the statistical significance and hypothesis, are shown on Table 4.

Table 4: Results of Regression Analysis

	A FORMAT	B CONTENT	C DISCLOSURE	D TOTAL
Constant Value	1,08	1,61	0,79	2,15
GOVX	0,0259	0,0268	0,0121	0,0451
BLOCK	-0,0349	-0,0440	-0,2242	-0,0320
FINEXPERT	0,0826	0,0758	<b>0,0481</b>	0,0601
Regression Model	Paisson	Paisson	Paisson	Paisson

According to the regression analysis, the significance degree is lower than 0,05 between Corporate Governance Score (GOVX) and FORMAT, CONTENT, DISCLOSURE and TOTAL. Therefore, the positive relation between GOVX, an incidence of shareholder rights, and IBFR is verified. In this context, Hypothesis 1 is accepted.

Majority mostly has tendency to dominate minority especially in companies where there is block ownership. In this context, block ownership becomes a threat for internet based financial reporting. There is a negative relation between BLOCK variable and FORMAT, CONTENT, DISCLOSURE and TOTAL variables as expressed in the results of regression analysis. Block ownership influences internet based financial reporting at 0,05 significance degree and Hypothesis 2 is accepted.

Independent board members are clearly seen when ISE listed companies of the sample are examined. A board, constituted by independent members, enables the establishment of corporate governance and internet based financial reporting. Furthermore, efficiently working audit committees and their structures are extremely important. In this sense, it is also highly significant for audit committees to have comprehensive knowledge of financial statements and to carry out correct evaluations of financial statements. The influence of audit committee's financial expertise on the dimensions of internet based financial reporting (Format, Content, Disclosure, and Total) at 0,05



significance degree is clearly expressed on the regression table. Therefore, Hypothesis 3 is accepted.

## CONCLUSION

This study analyzes the influence of corporate governance applications on the internet based financial reporting activities. Transparency, accountability and justice are prerequisites for the protection of investors and third parties. The internet provides a convenient environment for companies to establish transparency and protect the interests of all stakeholders. The internet also provides accurate analysis and correct comments by supplying financial information. In this context, the study expresses that the corporate governance (independent variable) has a strong influence on internet based financial reporting activities (dependent variable). Scaled format of corporate governance and corporate governance score (GOVX), which are the indicators of corporate governance, enable more transparent and open companies that disseminate information elaborately in terms of content and format. Besides, it is obvious that the companies with finance specialist auditors are more transparent on the internet environment than the others.

**Appendix:** Companies listed on ISE Corporate Governance Index and Their C. G. Scores

Company Name	Corporate Governance Score
Anadolu Efes	8,10
Y ve Y Gayri Menkul Yatırım Ortaklığı	8,16
Türk Traktör	7,83
Otokar	7,94
Vestel Elektronik	8,34
Asya Katılım Bankası	7,56
Hürriyet Yayıncılık	8,32
Tüpraş	8,20
Yapı Kredi Bankası	8,02
Dentaş Ambalaj	7,08
Doğan Yayın Holding	8,76
Tofaş	8,16
Şekerbank	8,00

## References

- Ajinkya, B., Bhojraj, S., Sengupta, P. (2005). "The Association Between Outside Directors, Institutional Investors And The Properties Of Management Earnings Forecasts". *Journal Of Accounting Research*, 43 (3), 343–376.
- Anderson, R.C., Mansi, S.A., Reeb, D.M. (2004). "Board Characteristics, Accounting Report Integrity, And The Cost Of Debt", *Journal Of Accounting And Economics*, 37 (3), 315– 342.
- Ashbaugh, J., Johnstone, K.M., Warfield, T.D. (1999). "Corporate Reporting On The Internet", *Accounting Horizons*, 13 (3), 241–257.
- Craven, B., Marston, C., (1999). "Financial Reporting On The Internet By Leading UK Companies", *The European Accounting Review*, 8, 335–350.
- Davis, C.E., Clements, C., Keuer, W.P. (2003). "Web-Based Reporting: A Vision For The Future". *Strategic Finance*, 45–49.
- Debreceeny, R., Gray, G.L., Rahman, A. (2002). "The Determinants Of Internet Financial Reporting", *Journal Of Accounting And Public Policy*, 21, 371–394.
- Ettredge, M., Richardson, V.J., Scholz, S. (2002). "Dissemination Of Information For Investors At Corporate Web Sites", *Journal Of Accounting And Public Policy*, 21, 357–369.
- Gul, F.A., Leung, S. (2004). "Board Leadership, Outside Directors' Expertise And Voluntary Corporate Disclosure", *Journal Of Accounting And Public Policy*, 23, 351–379.
- Hodge, F.D., Kennedy, J.J., Maines, L.A. (2004). "Does Search Facilitating Technology Improve The Transparency Of Financial Reporting?", *The Accounting Review*, 79 (3), 687–703.
- Klein, A., (2002). "Audit Committee, Board Of Director Characteristics, And Earnings Management", *Journal Of Accounting And Economics*, 33 (3), 375–400.
- Oyelere, P., Laswad, F., Fisher, R. (2003). "Determinants Of Internet Financial Reporting By New Zealand Companies", *Journal Of International Financial Management And Accounting* 14 (1), 26–63.
- Xiao, J.Z., Yang, H., Chow, C.W. (2004). "The Determinants And Characteristics Of Voluntary Internet-Based Disclosures By Listed Chinese Companies", *Journal Of Accounting And Public Policy*, 23, 191–225. [www.imkb.gov.tr](http://www.imkb.gov.tr). (data accessed 20.09.2010)

## Addition 1

Table 1: The Measurement Schemes of FORMAT and CONTENT

Scores 1 (for present) and 0 (for absent) were assigned to each disclosure item.

<b>DISCLOSURE ITEMS</b>	<b>% of Firms Disclosing</b>	
<b>FORMAT</b>		
1	Access to Annual Reports in Different Formats	85
2	Financial Data in Processable Format	23
3	Hyperlinked Table of Contents	100
4	Drop-Down Navigational Menu	100
5	Hyperlinks Inside the Annual Report	61
6	Hyperlinks To Data On A Third Party's Website	100
7	Audio Files	15
8	Video Files	15
9	E-mail Alerts	-
10	Direct E-mail to Investor Relations	100
11	Dynamic Graphic Images	100
12	Internal Search Engines	100
<b>CONTENT</b>		
13	Current Year's Annual Report	100
14	Last Year's Annual Report	100
15	Recent Quarterly Report	100
16	Other Filings	100
17	Direct Link For Reporting Regulations	-
18	Charters For The Audit Committee	23
19	Code of Conduct and Ethics For Directors, Officers and Employees	46
20	Members Board of Directors	100
21	Recent Monthly Financial Data	84
22	Performance Overview	100
23	Earnings Estimates	84
24	Calendar of Events of Interests to Investors	100
25	Recent Financial News Releases	100
26	Listing of Analysts Following the Firm	7
27	Analyst Ratings	7
28	Text of Speeches and Presentations	-
29	Same-day Stock Prices	100
30	Historical Stock Prices	100
31	Information About the Firm's Stock Transfer Agent	100
32	The Advantages of Holding the Firms' Stock	100

33	Information Regarding A Dividend Reinvestment Plan	53
34	Dividend History	53
35	Corporate Governance Principles/Guidelines	100
36	Charters For Other Committees	46
<b>TOTAL</b>		