CHAPTER I

INTRODUCTION

1.1 Background of Study

From time-to-time technological progress continues to develop, starting from the era of agricultural technology, the era of industrial technology, the era of information technology, and the era of communication technology (Cash et al., 1992). Technological advancements, digitalization, and the development of the internet affect all areas of life. This is used very intelligently by corporations through internet reporting (ECLAC, 2021). The internet is seen as one of the important media for reporting company information, so that information about company performance can be accessed by all stakeholders globally, better and faster (Ashbaugh et al., 1999). Internet reporting plays an important role in the economic and business world, especially in attracting consumers and investors to be more interested in the company (Momany et al., 2014).

The development of internet reporting was in large part driven by advances in technology and the increasing demand for company information to be made available online. Internet reporting refers to the practice of companies providing financial and other information on their websites or other online platforms (Ashbaugh et al.,1999). This can include a wide range of information, from basic financial statements to more detailed disclosures about a company's operations, strategy, and risks. In the mid-1990s, an ever-increasing number of companies had World Wide Web (Web) sites on the Internet. In addition to sales and customer service materials, a growing percentage of those companies place business reporting information on their sites, including financial data. Even a cursory review of these Web sites reveals a vast diversity in content and presentation of corporate information via the Internet for investors and other stakeholders (IASC, 1999).

The growing demand from investors and other stakeholders for more accessible and transparent financial information has driven companies to develop more sophisticated and user-friendly internet financial reporting tools and platforms (Apostolou, 2000). As more companies began to provide financial information online, regulators and standard setters developed guidance and standards to ensure the accuracy and reliability of this information. At first, financial disclosures on corporate websites are mainly voluntary and unregulated (Prentice et al., 2001). Companies are under no obligation to maintain a website. If they do, the site content is largely discretionary. As more companies began to provide financial information online, regulators and standard setters developed guidance and standards to ensure the accountability and reliability of this information. From the mid-1990s until the early 2000s, the International Accounting Standards Board (IASB), the US Securities and Exchange Commission (SEC), and the Financial Accounting Standards Board (FASB) recognized the potential of the internet for financial reporting. They began developing guidance and standards to support this new medium (Bushman & Landsman, 2010).

In the United States, the SEC began exploring the internet's use for financial reporting in 1995. It adopted rule changes to encourage companies to provide information to investors via the internet. The SEC issued interpretive guidance in 1998 and 1999 on using the internet and other electronic media for financial reporting. This guidance provided recommendations on how to use the internet to distribute financial information, such as earnings releases, financial statements, and other financial reports. This was then welcomed by the Financial Accounting Standards Board (FASB), a US-based organization responsible for developing accounting standards for US companies. In 2000, the FASB published a statement of financial accounting standards (SFAS) called "Electronic Distribution of Business Reporting Information." This statement provides guidance on using the internet and other electronic media to distribute financial information. The

SFAS included recommendations on ensuring the accuracy and completeness of financial information disseminated over the internet, as well as maintaining the security and integrity of this information. The development of rules regarding internet financial reporting is also supported by the IASB (2000). Through the document "Improving Business Reporting - A Customer Focus," IASB discusses recommendations on how to use the internet to disclose financial reporting.

Constitutionally in Indonesia, regulations related to financial reporting through the internet in Indonesia have been regulated by Indonesia Financial Services Authority Regulation (OJK) No. 29/POJK.04/2016. This regulation stated in Chapter IV Article 15 that the Annual Report must be published (Mandatory) on the Issuer's or Public Company's Website on the same date as the submission of the Annual Report to the Financial Services Authority. Regulations related to procedures for submitting financial reports electronically by issuers or public companies are also regulated in this Financial Services Authority Regulation No. 7 /POJK.04/2018 concerning submission of reports through the electronic reporting system of issuers or public companies.

Even though financial reporting via the internet is mandatory for public companies in Indonesia according to OJK regulations, and public companies registered on IDX have tried to implement it according to the rules, their levels of implementing IFR are different. According to research conducted by Hayati & Suprayogi (2018), the difference in the level of IFR implementation in Indonesia is caused by significant differences in terms of the components of the IFR index. Regarding the language used, several banks do not use English or other languages on their website. This will make it difficult for users of financial statements from other countries to see the company's condition. Press releases are also one of the reasons for the significant differences in IFR quality in the four countries. News updates in Indonesian public companies have varying consistency. Some have updated news within the last week, and some have updated news for more than one month. Even though there are differences in the level of IFR implementation in Indonesia, the quality of Indonesian companies' IFR shows a higher value than Malaysia, Iran, and Sudan (Hayati & Suprayogi, 2018). The results of this study are also supported by Handayani & Almilia (2013), who found that the average total internet financial reporting index on company websites in Indonesia is greater than the total internet financial reporting index on manufacturing company websites in Malaysia. The higher level of the internet financial reporting index for companies in Indonesia is presumably due to awareness of corporate governance over the importance of implementing internet financial reporting to support more transparent disclosure to company stakeholders.

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled (Cadbury, 1992). It encompasses the relationships among a company's management, board of directors, shareholders, and other stakeholders and sets the framework for its decision-making. Good corporate governance practices help to promote transparency, accountability, and ethical behavior, and they help to reduce the risk of fraud, mismanagement, and other types of corporate misconduct (Eisenhardt & Bourgeois, 1988). It also helps to build trust and confidence among investors, employees, customers, or other stakeholders. Corporate governance can also enhance the company's reputation and long-term growth (OECD, 1999). Corporate governance involves a range of practices and structures designed to ensure that the company is well-managed and operates in the best interests of its stakeholders. Leblanc (2018) discussed the key elements of a governance structure. The elements included the board which is responsible for setting the direction of the company and ensuring that management is executing the strategy effectively, the committees to assist the board in fulfilling its duties and responsibilities, the management which is responsible for running the company and implementing the strategy set by the board, the shareholders who own the company and have the right to vote on major decisions such as electing directors also approving major transactions, and regulators or other external stakeholders who may have a significant impact on the company's governance structure and operations. The decision on how well the implementation level is thought to be influenced by the board of commissioners, directors, and audit committee. Considering the functions of the board of commissioners, directors and audit committee for oversight and control (IAASB, 2015). The board of commissioners, directors, and audit committee oversees the financial reporting process and ensures that it is accurate and complete. They may review financial statements and other disclosures, discuss accounting policies and practices with management, and engage external auditors to provide independent assurance. A strong governance structure can ensure that these oversight and control mechanisms are effective (OECD, 2015).

An effective corporate governance can ensure that the company's financial information is accurate, complete, and timely, and that it is presented in a transparent and accessible manner to stakeholders (IIRC, 2013). On the other hand, weak governance can lead to inaccurate or misleading financial reporting, damaging the company's reputation and undermining investor confidence. There has been a growing body of research examining the impact of internet financial reporting on corporate governance. For example, a study by Hussainey & Al-Najjar (2011) found that companies that use the internet to disclose financial information are more likely to have better corporate governance practices, such as higher board independence and stronger audit committees. Another study by Yassin (2017) found that internet financial reporting positively influences the quality of corporate governance in Jordanian firms. However, there are also concerns that the use of technology in financial reporting could lead to information overload and a decrease in the quality and relevance of financial information (Ormin & Jerry, 2016). Therefore, there is a need for further research to understand the relationship between internet financial reporting. There have been several research studies examining the relationship between corporate governance and internet financial reporting in Indonesia. A study from Basuki et al. (2017) found a positive relationship between corporate governance and internet financial reporting in Indonesian listed companies. The study found that companies with better corporate governance structures, as measured by the number of independent directors and board size, were more likely to provide more comprehensive internet financial reporting. Another study researched by Ardiyanto & Mulyadi (2019) found that companies with better corporate governance structures, as measured by the presence of independent directors, the separation of the roles of CEO and Chairman, and the frequency of board meetings, were more likely to adopt internet financial reporting. Overall, these studies suggest that there is a positive relationship between corporate governance and internet financial reporting in Indonesia, and that companies with better corporate governance structures are more likely to adopt more comprehensive and transparent internet financial reporting practices.

Furthermore, apart from the government structure, Urban (2015) found that blockholders with long-term investment horizons can incentivize firms to provide high-quality financial information to reduce information asymmetry and enhance transparency, which can ultimately benefit both the firm and its shareholders. Another study about blockholders by Chou (2011) found that firms with high levels of block ownership may provide more voluntary disclosures, particularly related to forward-looking information and risk factors. Blockholders are the shareholders who hold more than 5% of the company's total outstanding shares (Holderness & Sheehan, 1988). Blockholders may influence the company's management and board of directors, affecting the quality, timing, and transparency of the company's internet financial reporting.

Companies need to consider the potential influence of blockholders in implementing internet financial reporting.

Apart from the governance structure and blockholders, company age is also expected to have a significant influence on internet financial reporting. The company age is the length of time by the company, starting from its establishment until an unlimited time that shows how long the company is able to survive (Penrose, 1959). Research by Hsu et al. (2013) finds that older companies tend to have longer financial reporting histories, which can provide a richer source of data for analysis. Older companies most likely have more established and mature reporting systems, which can lead to higher-quality financial reporting (Al-Shammari, 2007). However, older companies may also have more complex reporting structures and may use older reporting technologies, which can limit the availability of data for analysis.

In addition, apart from the government structure, blockholder, and company age, Dastgir & Dajani (2017) found that companies with higher technology costs were more likely to adopt internet financial reporting, and that internet financial reporting was positively associated with firm size and financial performance. However, they also noted that regulatory and cultural factors may influence companies' decisions to adopt internet financial reporting. Technology cost refers to the expenses associated with implementing and maintaining technological infrastructure and tools, such as software, hardware, and IT services (Bhardwaj et al., 2010). In the context of business, technology cost can include the cost of developing and maintaining websites, customer relationship management (CRM) systems, and other digital platforms. Although there is a connection between the technology cost and internet financial reporting, the exact nature of the connection may differ depending on the nation, industry, and business size.

Above other sectors that are widely highlighted, used, and have an interest in the public are the financial sector, especially banking industry. Apart from being a public company, banks also collect a lot of funds from the public. Hence, even though the public individually does not have a direct interest in the internet reporting banking industry, they still have concerns and importance related to this industry.

Based on all the previous explanations and discussions, this study chose to research "Impact of Governance Structure, Blockholder, Company Age, and Technology Cost on the Implementation of Internet Financial Reporting" for public bank companies listed on idx in 2016-2021.

1.2 Problem Identification

Based on the background of the study described above, the formulation of the problem can be concluded as:

1. Does governance structure have a significant impact on the implementation of internet financial reporting?
2. Does blockholder have a significant impact on the implementation of internet financial reporting?
3. Does company age have a significant impact on the implementation of internet financial reporting?
4. Does technology cost have a significant impact on the implementation of internet financial reporting?

1.3 Research Objectives

1. To determine the impact of governance structure on the implementation of internet financial reporting.
2. To determine the impact of blockholder on the implementation of internet financial reporting.

3. To determine the impact of company age on the implementation of internet financial reporting.
4. To determine the impact of technology cost on the implementation of internet financial reporting.

1.4 Research Benefits

1. Provide additional empirical evidence about the impact of governance structure on internet financial reporting.
2. Provide additional empirical evidence about the impact of blockholder on internet financial reporting.
3. Provide additional empirical evidence about the impact of company age on internet financial reporting.
4. Provide additional empirical evidence about the impact of technology costs on internet financial reporting.

1.5 Writing Systematic

Writing systematic is a descriptive description of the things to be written. The research consists of several chapters. To give an overview in the preparation of writing this research, the authors make systematic writing which will then be described in five chapters as follows:

CHAPTER I: INTRODUCTION

This chapter describes the background of the problem, problem formulation, research objectives, research contributions, and systematic in the preparation of research writing. This chapter is an initial description of what the researcher do in this research.

CHAPTER II: LITERATURE REVIEW

This chapter describes theories or scientific findings from scientific books, journals, and research results that are related to the problems or research questions used as the basis for the theoretical reference used in the analysis of this research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter describes the type of research, research location, research focus, operational and measurement definitions, population and sample, data collection techniques, and the last is data analysis techniques.

CHAPTER IV: RESEARCH RESULTS AND DISCUSSION

This chapter describes the presentation of research data, descriptive analysis, and interpretation of data from the research.

CHAPTER V: CONCLUSIONS

This chapter describes the research conclusions as an answer to the formulation of the problems related, the limitations of the research, and suggestions for future research.