CHAPTER I

INTRODUCTION

1.1 Background

In the last few decades, information system is growing really fast in terms of IT. An observation by Elliott (1992), revealed that information technology is changing the way in which business is done. It is transforming technology system from tangible to intangible, which shown in several business fields, such as industrial, service, production, travel agent, and etc. For the example, the existence of computer in industrial processes helps to speed up the work of administration employees, including sending the documents, letters or files,or for bookkeeping. In the other hand, in service industry, JNE Express with their *trace and tracking* menu helps on allowing customer to monitor the shipment of goods whenever he / she wants,resulting in the satisfaction of the customer.

Moreover, the transformation of technology can also be perceived in the way people communicate with each other. According to Wood (2004), communication is a systemic process in which individuals interact with and through symbols to create and interpret meanings. The transformation in communication can be seen by the establishment of new supporting technologies, such as satellite, telephone, television, internet, radio, newspaper, and others. Furthermore, one of the biggest changes in the way people rely on their message and display information without any barriers by using a very wide or open access of network is called Internet.

In this globalization era, internet cannot be separated from people's life, despite their activities. As defined by O'Brien (2003), internet is a rapidly growing computer network of millions of businesses, education, and government networks that are interconnected by the number of users more than 200 countries. Ashbaugh et al. (1999), Lai et al. (2010), mentions the advantages of Internet as borderless, real-time, and considered low in cost. These complete characteristics make it easily accepted by the public and become very popular in the world. According to Sukoco (2007), a person who own a personal computer with access to the internet can exchange information to individual in another place who also have computer and internet access. These conveniences attract more people to use it. The internet users in the world are increasing from year to year, as shown in the table below:

Table 1.1

World Internet Usage Statistic

Regional	Internet Users (2000)	Internet Users (2010)	Internet Users (March, 2017)	World Population (2017 Est.)
Africa	4.514.400	115.631.340	353.121.578	1.246.504.865
Asia	114.304.000	891.526.978	1.874.136.654	4.148.177.672
Europe	105.096.093	475.123.735	636.971.824	822.710.362
Latin America / Caribbean	18.068.919	211.657.013	385.919.382	647.604.645
Middle East	3.284.800	67.797.386	141.931.765	250.327.574
North America	108.096.800	271.330.900	320.068.243	363.224.006
Oceania, Australia	7.620.480	21.277.930	27.549.054	40.479.846
World Total	360.985.492	2.054.345.282	3.739.698.500	7.519.028.970

Source: www.internetworldstats.com

From the table above, in 2010, the number of internet users in the world was ±2 billion or 30% of the world's population. Dramatically, by March 2017, the number of internet users in the world increased to more than 3,7 billion or 49,7% of the world's population, which means, almost half of the world's population have used the internet until March, 2017. It shows that the internet has become an important tool in sharing information. It can also be seen that Asian continent's internet users are fairly large with the number reached 1,8 billion users.

In addition, Ashbaugh et al. (1999), in Lai et al. (2010), mentioned that the communication through internet has been adopted by the business sector as an important tool for providing information. The adoption transformed the traditional presenting corporate information into digital information system that can be accessed globally by various parties, such as creditor, shareholders, and analysts.

In Indonesia, based on the data which was released by APJII (Asosiasi Penyelenggara Jaringan Internet Indonesia), quoted from Tekno Kompas (http://tekno.kompas.com), accessed on September, 2017, that reads as follows:

> *"Survey conducted throughout 2016 found that 132,7 million peoples in Indonesia were connected to the internet, with a total population of 256,2 million. It indicates a 51,8% increase compared to the number of internet users in 2014, which is only about 88 million peoples."*

This article indicates that more than a half of Indonesian use the internet media as a part of their daily activities, from social, economic, cultural, technological, political, and other.

Rozak (2012), explained that business organization has been widely utilizing the www (world wide web) system to support business activities. Each company has their own website personalization that provides the information of the company in general, such as company's vision and mission, history of the company, profile, products, management structure, and so on. For example, the Coca Cola's website provides information of their products, including the product's composition, the virtual campaign of their brands, and also collection of photos and videos. The utilization of www (world wide web) helps investors understand the importance of knowing in advance the financial background of company where he / she will invest. Investors can quickly access the corporate financial information as a basis for the decision making. In accordance with the theory of Efficient Markets, the stock prices, volume and frequency of stock trading formed in the market are a reflection of information provided in the website. Investors can react quickly to new information that goes on the market, thus causing stocks to immediately make adjustments. The stocks will move eventually when useful information entered the market. Then, investor's activity will be reflected in the movement of shares in the market.

The utilization of website benefits the companies to attract more investors by providing financial information on the company's website to help them in decision making. Companies utilize the practices of internet as a media in delivering their financial information, which commonly called as Internet Financial Reporting (IFR).

Asbaught et al. (1999) in Lai et al. (2010), define Internet Financial Reporting (IFR) as a way companies include their financial statement through the internet / company's website. It is a form of voluntary disclosure which has been practiced by various companies. Ettredge et al. (2001) in Lestari and Chairiri

(2005), describe the financial information presented in Internet Financial Reporting (IFR) encompassed comprehensive financial statement, including footnotes, financial statement section, financial highlights, and a summary of financial statement.

According to Lai et al. (2010), the development of IFR practices is driven by a pronouncement from the United State Securities and Exchange Commission (SEC US) in August, year of 2000, where SEC made a statement that all public companies were recommended to make all legally-mandated information about the company's performance to all interested parties at the same time. In other words, creditors, shareholders, analysts, and investors should have equal opportunity to access information in the internet to avoid the discrimination of information.

In Indonesia, *Bapepam-LK (Badan Pengawas Pasar Modal dan Lembaga Keuangan)* issues same regulations through the decision of the chairman of *Bapepam* No. X. K.1, Year of 1996 regarding the disclosure of information that must be announced to the public that reads as follows:

> *"Any public company or issuer whose registration statement has become effective must submit to Bapepam and announce it to the public as soon as possible, has to be collected by the end of the 2nd working day after the decision or the availability of material information or facts that may affect the value of the firm's securities or investment decision of the capitalist".*

Bapepam has also issued a regulation No.X.K.6 chapter 3, Year of 2012 in August, concerning about the submission of annual reports of public companies through a website that reads, as follows:

> *"An issuer or public companies that already have a website page prior to the enactment of this rule, must present the annual reports on the website. For issuer or public companies that don't have website, then within one year of enactment of this regulation, the issuer or public companies concerned must have a website containing financial reports".*

The existence of this regulation is expected to encourage companies that already have a website to implement IFR (Internet Financial Reporting) and to motivate companies to be more transparent with the information that is important for investors in making decision. The higher the level of disclosure of information published, the greater the effect on investor's decisions. According to Work et al. (2000) in Kusumawardani (2011), IFR and the disclosure of information on the company's website are the company's effort to reduce the information asymmetry between companies with the external users.

IFR has opened a new research domain on accounting and finance, but internationally, there are only few researches that examine the influence of IFR to the stocks. Most of the previous researches available were focus on the determinants or factors that influenced Internet Financial Reporting with the most common variable, firm size as a factor that affects IFR.

Therefore, based on these limitations, author intends to conduct the study of IFR and the disclosure of website-based information to the frequency of stock trading and the sector that will be used as a sample is the Food and beverage sector listed in Indonesian Stock Exchange (IDX). The reason author chooses this sample is because, in fact, in 2013, Indonesia boasted an economic growth of approximately 6% and remains a very large market for Food and Beverage products. In connection with this, the sector was established as one of the industrial development priorities set by the Indonesian government both foreign and domestic investment for its potential for both domestic manufacturers and importers or suppliers of processing equipment and semi-finished products. The sector has proven to be very resilient during economic downturns and remained the same, among the most important markets for many multinational food companies. The author would like to know whether the practice of Internet Financial Reporting (IFR) and the level of disclosure of the website-based information have a relationship with the frequency of company's stock trading or not. Hence, the title of this research is **"THE RELATIONSHIP OF INTERNET FINANCIAL REPORTING AND THE LEVEL OF DISCLOSURE OF WEBSITE-BASED INFORMATION ON FREQUENCY OF COMPANY'S STOCK TRADING (Empirical Study in Consumer Goods industry, Food and Beverage sector listed in IDX 2012-2015)"**

1.2 Problem Statement

Based on the background of the problem, this research aimed to answer the following questions, which are as follows:

1. Does the Internet Financial Reporting (IFR) have a relationship with the frequency of company's stock trading?

2. Does the level of disclosure of website-based information have a significant effect on the frequency of company's stock trading?

1.3 Research Objectives

The objectives of the study of the effect of Internet Financial Reporting and level of disclosure of website-based information of frequency of company's stock trading are:

1. To determine the relationship of Internet Financial Reporting (IFR) with the frequency of company's stock trading.
2. To determine the significant effect of the level of the disclosure of information website-based to the frequency of company's stock trading.

1.4 Research Benefits

The research is expected to provide the contributions as follows:

1. For theoretical benefits

   This research will helps in increasing the accounting knowledge as a reference, and development of theory in accounting field, especially regarding the Internet Financial Reporting practice, distribution of information through website, and frequency of company's stock trading.

2. For practical benefits

   a) For the company

For the company, this research can gives an understanding of Internet Financial Reporting practice in terms of application, transparency of corporate financial statements, with the result in improving performance of the company and communication with the external parties, especially investors.

b) For further research

This research can be a reference source and information about Internet Financial Reporting, level of disclosure of website-based information, and frequency of company's stock trading for further research.

c) For the author

This research is expected to increase knowledge, references regarding the practice of Internet Financial Reporting, and level of disclosure of website-based information to the frequency of company's stock trading.

1.5 Writing Systematic

In order to make it easier and make moderate the forwarding of content, this research is divided into five chapters:

CHAPTER I

This chapter contains about background of the research, problem statements, objectives of research, contributions of research, writing systematic.

CHAPTER II

This chapter contains the literature, theory, and last research related with Internet Financial Reporting, frequency of company's stock trading, and disclosure of website-based information. It also contains theoretical framework of this research and previous studies supported the research.

CHAPTER III

This chapter contains the explanation about research method which are research design, population and source of sample, type of data and variable measurement, research variables, operational definition, data analysis.

CHAPTER IV

This chapter contains the explanation about results, including data description, data analysis.

CHAPTER V

This chapter explains about conclusion of research, implication, limitation and recommendation for further research.