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Determinations of Internet Financial Reporting: Evidence form Bahrain Bourse

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ABSTRACT

The use of internet in business has become inevitable as the result of marvelous development in information technology. Internet Financial Reporting (IFR) is supposed to have a significant role in raising companies' corporate earnings and their value. The objective of this study is to examine the level of adoption of IFR among listed companies in Bahrain and to examine the relationships among the companies of specific characteristics and IFR. The sample of the current study consists of all 47 listed companies in Bahrain Bourse (BB) in the financial year 2013.The results reveal that 42 companies (89.4%) own websites while 5 companies (10.6%) do not own websites on internet. Moreover out of 42 websites owned companies, 38 of them (90.5%) are adopting IFR while the other 4 (10.6%) do not. The findings also reveal that there is direct relationship among reporting financial information online and the four variables: size, leverage, liquidity and industry type. However, an inverse relationship is noted among IFR and profitability. In addition, size and leverage are also found to be the most significant variables that affect adopting IFR in the listed companies in Bahrain followed by liquidity. This paper contributes towards a better understanding and acceptability of determinations of Internet Financial Reporting by listed companies in Bahrain Bourse.

Keywords: Accounting, Internet Financial Reporting, Bahrain Bourse (BB).

INTRODUCTION

Recently, the internet has become a very important part of our lives. It has been one of the most important characteristics of modern life all over the world. The number of users of the internet has dramatically increased, especially because nowadays it is used by many sectors that offer services to consumers such as companies, banks and dealers. Even now governments render their services through online that are known as e-governments. These internet based e-governments are not only adopted by developed countries but all over the world. The great success of internet is the result of its important characteristics such as possibility and ease of communication through net at any time and from any place. This enables the competing firms and service providers to provide all the information and services that can help to achieve their desired goals. There is no doubt the financial sector is one of the most important sectors that is affected by the use of internet. The reason is that internet is an effective means of communication that helps this sector to communicate and cooperate with the outside world and achieve its goals. Therefore, the use of corporate financial information via internet is supposed to have a significant role in raising companies' corporate earnings and increasing their value. "Pinch & Sunley" (2009) stated that the most spreading information tended to be by disseminators of knowledge in the cluster of high-technology businesses are: the business advices, the evaluation of commercial strategy and the recruitment and scrutiny of key company personnel. The researchers

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have indicated that venture capital is a very important factor that influences building high-technology communities.

Firms usually disseminate information about their financial issues and any related topics. The information has been published using the traditional way depending on paper reports. The developments from the last few decades have witnessed demanded shifting from using paper reports to using a more practical and efficient way. The term "Internet Financial Reporting" has come to the surface to refer the process of using internet to publicize reports relating to financial issues in the firm. "Poon" and "Yuen" (2003) defined IFR as the use of the firms' websites to disseminate information about financial performance of corporations.

The use of internet by firms has expanded to more than the marketing activities of the firm's products. Internet financial reporting is one of the most important purposes for which internet are used. The importance of using internet financial reporting is due to many factors including the amount of information that can be published and the number of beneficiaries who can easily access this information at any time and from any place. These can be learners, investors, managers, government officials, business consumers and shareholders. Internet financial reporting is a perfect deliver to disclose corporate information. The adoption of internet financial reporting permits corporations to pose classified and additional financial data easily. According to "Agboola" and "Salawu", 2012 the Internet financial reporting helps firms to deliver information to people all over the world, while the traditional way that delivers printed paper of financial reports is eliminated to specific people."Momany" and "Al-Shorman" (2006) described the importance of disclosing financial reports online for many reasons:

- The cost of internet financial reporting is less than the cost of the traditional way of dissemination information. The firms will already need to establish an internet presence even though they will depend on non-internet financial reporting. This means that disclosing financial reports online can avoid this cost.
- The internet financial reporting provides more up-to-date information which can be updated whenever it is necessary including any needed and necessary information to be available for those who seek such information. This increases the frequency of financial disclosure which helps the company communicate its results and information on a yearly, quarterly or even a monthly basis.
- The number of consumers, investors, shareholders or any kind of visitors can be as great as possible since the information is available and accessible for everybody at any time. The internet financial reporting, therefore, is not limited to a selected group as the case of paper-based annual report.

Many firms have been making use of the technologies introduced by internet for reporting. The use of vocal and visual aids as well as the use of hypertext makes sites more attractive and interactive. Firms are using these technologies to broadcast meetings and hold online conferences which help make deals and take more accurate decisions. According to "Chatterjee" and "Hawkes" (2008), the use of internet financial reporting can reduce incidental requests for information from non-shareholder financial statement users which can in turn reduce the costs involved for companies as well as increase the responsiveness to these queries. The disclosing of financial reports online becomes easy by the tools of internet. Moreover, these tools facilitate searching about specific data for users. According to "Ettredge *et al*"(2001), the usefulness of disclosing financial reports online in the firm depends on the ease of pose corporate finance information via internet, the volume of data and the permissions given for users to use these information.

On the other hand some researchers (See tharaman, et al., 2005) pointed to some problems that face the organizations that implement Internet financial reporting which include the absence of instructions or standards to preserve the goodness and accuracy of corporate reports that is provided online, the lack of awareness of the importance of Internet financial reporting to an organization and that the Internet financial reporting frameworks are not well-defined or fully developed. Whereas "Khan" and "Ismail" (2012), claimed that internet financial reporting has some disadvantages including IFR expenses, security problems, and experiences.

The financial sector in Bahrain is one of the most important and influential economic sectors in the country. There have always been great efforts to develop this sector and help it compete with the surrounding markets. The way to achieve the desired development has been the focus of many previous studies who investigated different factors that affect the concerned firms including the effectiveness of the dissemination of corporate information for the firmsthrough the use of internet all over the world, the importance of training programs, investing in the human capital and many other different areas. However, the body of literature lacks a study that aims to investigate the effects of Internet Financial Reporting (IFR) in the light of some specific characteristics of the firms that have significant influence on IFR practice. Therefore the significance of the recent study lies in the facts that:

- The study provides a clear vision about the extent of internet reporting all the business sectors in Bahrain.
- The study documents evidence on the relationship between IFR practices and the firm's specific characteristics in Bahrain**.**

2.Research Problem and Research Questions

As a result of the rapid increase in number of investors and shareholders in the financial markets, the need of disseminating financial statements has increased to fulfill the satisfaction of shareholders. Moreover, the disclosing of earning information by large firms requires being fair, it should be disseminated widely and simultaneously to the investors by internet (Jorgensen &Wingender 2004).Adopting internet financial reporting (IFR) by companies has several benefits. Firstly, adopting internet financial reporting enhances the companies' efficiency and attracts investors from all over the world. Secondly, IFR serves people who need to collect information about companies via internet. The users can easily access internet at any time, from anywhere and obtain efficient information inexpensively. In addition, the adoption of IFR by the companies can enhance performance of these companies through the cooperating and exchanging of ideas, experiences and information between these companies. However, there are some factors that prevent companies from adopting IFR including: the necessity for a continuous updating of the information to benefit the users as much as possible, the illegality of requirements and the unwanted transparency in disclosing financial information. "Bin Au Khan & bin Ismail" (2012) summarize the advantages of the internet financial reporting as: the globalism, investors' communication and timelines, whereas the disadvantages of exposing financial information online include the problems of privacy and security, cost and experiences. Based on the above discussion, it is clear that the investigation of the extant of adoption IFR by the listed companies in Bahrain is important in this study.

Recently, there have been too many researchers investigating the extent of disclosing financial reports online among firms all over the world. Researchers were interested in examining the effect of some selected characteristics (e.g. size, profitability, liquidity, leverage… etc.) on IFR companies. "Khadaroo" (2005) performed a comparative study that compares the internet reporting practices of Malaysian listed companies with those in Singapore. The study also examines the implications of web technology for business reporting and the challenge it poses for standard-setting bodies. The results show that the companies listed in Singapore has more countenance than those in Malaysia. Moreover, the Singapore companies characterized more potential to use the Internet than those in Malaysia.

The recent study is different than other studies in Bahrain that it sought to examine the relationship between IFR and five specific characteristics of the listed firms. To the researchers' best knowledge; there has not been any kind of such research over the last ten years in Bahrain. Therefore, the recent study is considered to be a unique addition to the body of literature about the financial reporting dissemination in Bahrain.

This research aims at answering the following questions:

- How many Bahraini companies possess websites on the internet?
- How many companies disclose financial information on their websites?
- What is the relationship between IFR practices and the firm's specific characteristics in Bahrain?

3.Theoretical Literature

This section reviews the previous literature and filters the most related topics to understand the results of this research and identify the gaps and the relation between the recent research and the previous research.

3.1*Determinants* of IFR.

There are usually some determinants or characteristics that affect the use of the IFR. Many researchers have tried to identify the most important determinants that affect the use of internet financial reporting in firms. According to "Oyelere, *et al*"., (2003) there are many distinguishing determinants which include the size of firm, liquidity, industrial sector, leverage, auditor size, profitability, internationalization, listing status, country, ownership structure and liquidity. Results of the study by "Miniaoui, & Oyelere",2013 have identified the firm's volume , the debt ratio , industry sector, and profit ratio as the most significant factors of IFR adoption by the firms in UAE. The recent study focuses on the liquidity, industry type, firm's size, leverage, and profitability because theses have been frequently mentioned as important determinants.

3.2 Theories of Voluntary Disclosure

3.2.1 Legitimacy theory

One of the most common and cited theories in the field of accounting is the "legitimacy theory". However, many researchers are not sure about what this theory offers to the voluntary disclosures of corporations. The legitimacy theory is often used to refer to both social and environmental reports disclosure in firms. It is considered important because it represents the outside perceptions by the stakeholders and the society itself.The most common definition of the legitimacy theory is the definition of "Suchman", (1995) who has referred to legitimacy as the generalized perception or assumption that the actions of an organization are desirable and appropriate within a socially constructed system of norms, values, beliefs, and definitions. Legitimacy is important for both profit and non-profit organizations. These organizations need legitimacy as well as they need money to operate. It seems that the business sector typically conforms to social rules and expectations because it needs social legitimacy. The organizational legitimacy is a useful concept for organizations to explain corporate report behavior (Tsang, 2001).

Seeking, maintaining and keeping legitimacy is therefore an important way for the organizations to survive and continue functioning properly. According to "O'Donovan" (2002) the lower the perceived legitimacy of the organization, the less likely it is to bother providing social and environmental disclosure. "Ogden" and "Clarke" (2005) have claimed that organizations use annual reporting for legitimacy purposes. This leads to the assumption that disclosure of information is a means through which the firms can gain their legitimacy and, therefore, highlights the importance of the internet financial reporting.

3.2.2 Agency Theory

The agency theory interprets why organizations voluntarily disclose information primarily for stakeholders and public in general. The organizations believe that contact with agents is a good means for monitoring actions and this contact can be best achieved by disclosure of proper information. According to agency theory, there are conflicts of interest between two parties; outsiders and insiders. These conflicts are more likely to occur in larger organizations (Mohammad and Monirul, 2012). This indicates that the advantage of disclosing information is correspondingly greater. The managers (insiders) usually need to be trustworthy to the shareholders (outsiders) through the reduction of agency cost by disclosing more information about the organization (Sweiti, and Attayah, 2013). "Francis *et al*"; (2002) has argued that less outsider ownership results in less information asymmetry between the insider and outsider shareholders; therefore ownership concentration reduces the need for strong corporate governance and transparency. According to "Zimbwa", (2005) companies with a greater concentration of shareholding are likely to have lower levels of transparency and thus not disclosing information whereas companies with higher leverage ratios are more likely to have higher levels of transparency and disclose more information as a result. This leads to the assumption that there is a relation between the firm's size, leverage and cost and benefits on the one hand and the disclosure of information on the other.

3.3 International Perspectives.

The internet disclosure practices have been the focus of many researchers during the last few decades. Many studies were conducted all over the world. "Debreceny" and "Rahman" (2002) conducted a cross country study on 660 companies in 22 countries. They examined the variables that effect adopting IFR. The findings stated that technology, stock exchanges and company size were the most significant factors on disclosing financial reporting in the companies listed on US. In a later study, "Pendley" and "Rai", (2009) investigated the change of use of internet in disclosing financial information on US. The researchers examined a sample of companies during the years 2006 and 2007. The study reported a very high change in the ways used to pose financial information via internet. The findings concluded that 59% of the companies were using partially outsourcing method for supplying needed information; while 41% of companies were completely using outsourcing method for adopting IFR. The researchers noted that the outsourcing is a good method to reduce cost of adopting IFR, but it may cause some unprofessional terms regarding the quality of information regulations. Another study in Central and Eastern Europe (CEE) countries was carried out to investigate level of IFR in 91 companies. The capital markets of four countries were selected: Croatia, Slovenia, Bosnia and Herzegovina and Serbia. The results concluded that Slovenia had the highest level of adopting IFR. The lowest level of IFR was reported in

Bosnia and Herzegovina (Pervan & Bartulović ,2012).

One of the recent studies was introduced in France by “Pozniak” (2013). The study aimed to investigate the determinants of IFR and the quality of the use of internet in disclosing corporate financial information. The researcher compared the results of 34 companies in Brussels and 34 companies in Paris. The study reported that market place, size, age, and IT sectors have an effective influence in disclosing financial reporting online. Moreover, the study noted that Belgian had companies with higher qualifications than those in Paris. A similar study was carried out by “Laswad”, “Fisher” and “Oyelere”, (2005) in New Zealand. Findings showed that the most significant factors on internet as a voluntary disclosure are types of council, press visibility, leverage, and municipal wealth. The determinants of IFR were also studied in Indonesia by “Almilia” (2009). In this study the level of internet financial disclosing was investigated. Sample of the study was the listed public companies on Jakarta Stock Exchange (JSE). The study stated that return on equity and the company size is the most effecting variables on IFR.

The level of the corporate financial dissemination on internet was examined in companies listed in Roman by “Victoria”, “Madalina”, “Nicoleta”, and “Carmen” (2009). The researchers collected data of about 60 listed companies for the years of 2005 until 2007. The main influencing factors on IFR were examined. The study revealed that majority of companies was disclosing advisory information in their sites with low level of technology. Also, “Ujah” and “Okafor” (2011) conducted a research to study the practice of disclosing corporate information on internet for African companies. Data about private and public companies in a sample of 47 countries was collected. The researchers investigated whether these companies possess websites or not. Furthermore, several variables were examined to determine the significant factors of the disclosure on internet. The findings showed that size and companies’ efficiency were the most important factors. Another study conducted by “Malhotra”&“Makkar” (2012), examined 50 websites of Indian companies. They found that 80% of the companies disclose their voluntary information. The study noted that the number of companies that disclosing their full annual reports was very low. The researchers recommended adopting financial reporting via internet because of its impact on the firms especially for investors.

3.4. Middle East Perspectives.

The determinants of IFR by companies in Middle East countries were also examined. One of these studies the one that was conducted for the Turkish firms; the determinants of IFR were investigated by “Bozcuk” (2012). The study was a unique addition to the literature as it gave the users of IFR insights about how firms change to use internet for disclosing corporate financial information. The study examined the impact of six independent variables: growth, profitability, size, ownership, corporate governance and industry. The study conducted a well performed system to score the use of IFR for listed companies and measure its level. The study, also applied several statistical tests such as the multivariate regression analysis. The results indicated that large firms had positive effect in the level of using financing reporting via internet. In addition, the study noted that the main factors affect the adopting of IFR is corporate governance, auditor, and firm size. A similar study in Egypt was carried out by “Aly, *et al*”. (2010). “Aly” investigated the internet sites of Egyptian listed companies in order to verify the association between the disclosures of corporate information using the web and firms value. Ordinary least square multiple regression analysis had been conducted to find out significant association between the firm value and voluntary disclosure of corporate information. The results showed that 56% of the listed Egyptian companies provided relevant corporate information. In addition, the study reported that disclosure of corporate information on the internet had a variation level in market, and the association was particularly influenced by profitability, the non-Egyptian companies' type and the industry type regardless of the volume of the firm, liquid ratio, debt ratio, and the size of auditor.

The study of "Al-Htaybat", 2011) sought out to examine the observations of users about disclosing financial reporting practices in Jordan, which is considered being one of the emerging markets in the Middle East. The researcher eliminated his study to 200 users divided into four (4) clusters as: 50 auditors, 55 bank credit officers, 60 academics members of universities and business schools, and 35 financial analysts. A total of 114 responses were received back via email and "Kruskal-Wallis" test was applied to analyze the data. The study reported that the users of IFR highly agreed about the ease and availability of using IFR no matter the place or the time, which is so helpful in making decision. The study noted that there were differences in the respondents' opinions regarding the benefits of IFR in making decision and indicated that the Jordanian users still prefer the traditional copy of the annual reports as a source of the accounting information.

3.5 Gulf Countries.

In GCC countries, the extent and determinants of disclosing financial reporting via internet was also investigated. A study by (Oyelere and Mohamed, 2007) performed in Oman showed that of the 142 firms, 59% (84 companies) had an accessible Web site, and of these 84 companies only 31(36.9%) provided financial information on their home page. Al-Moghaiwli (2009) conducted a study to investigate the extent of internet disclosure practices of Qatar listed companies on the Doha Securities Market (DSM). The study also examined the main factors that affect the adopting of IFR. A total number of 43 companies were examined in the study. The researcher gathered electronic data, and analyzed four (4) independent variables that affect the use of IFR, these: asset, return on assets, investors and directors. The results indicated that 90.6% (39 companies) had websites and a total of 28 (71.8%) of these companies provided complete form for financial reporting via internet. The results also concluded that the ownership, firm size, and profit ratio structure are the main factors influencing IFR adoption. Moreover, the researcher noted that the level of internet disclosure by the firms in Qatar is still primitive. The current study is different from Al-Moghaiwli (2009) in that it sought to examine five variables instead of four variables. The variables investigated by the current study are mostly different which include industry type, leverage and liquidity.

Another study by "Alanezi", (2009) was conducted in Kuwait to examine the significant variables that affect the adopting of IFR. A total number of 179 companies listed on Kuwaiti joint-stock (KSX) were investigated. The variables of company size, type of auditors, profitability, liquidity, and leverage were examined. The study reported that (100 companies) 56% of the listed companies disclose financial information. In addition the study indicated that auditor type and company size were the only effective factors that were associated to IFR firms. The current study is different from this study in that it is conducted in a different country with different situations and examines different variables from the above study such as industry type.

"Momany" and "Pillai" (2013) conducted a modern empirical study in the United Arab Emirates to investigate the extent of volunteer (IFR) among (UAE) firms listed on the Abu Dhabi finance market (ADX). 65

companies were examined, and the researchers used UAE electronic search engines to collect data. The researchers classified the companies that possessed website into three categories: comprehensive disclosing, partial financial statement, and highlights financial disclosing. Eight (8) characteristics were tested. The study examined the effect of profit ratios, firm's volume, firm's age, the type of ownership and its concentration, debt ratios, corporate governance and asset ratios. The logistic regression analysis was applied to the data as an estimation method, and several statistical tests were done like correlation variance. The results showed that 89% of the listed companies had special sites on the Internet whereas the other 11% did not have any sites. The study also found out that 60% of the firms on Abu Dhabi possessed web-sites provided financial information online while 40% of the firms did not provide corporate finance information online. In addition, the results showed that 91% of the companies provided comprehensive financial statements whereas 9% provided partial financial statements. The findings of the study had showed that profitability and corporate governance were the significant factors that affect the adoption of IFR. The current study is different from this study in that it is not an empirical study and examines some more different variables included industry type.

A similar but a more specific research was conducted by "Miniaoui&Oyelere", (2013) on Emirates to investigate the determinants of disclosing corporate financial information online. The study stated that the firm size, industry sector, the leverage, and profitability were the most important variables of volunteer IFR. The study results showed, "larger companies with greater leverage are more likely to set up a website and use it for IFR than smaller less leveraged ones". The researcher also applied the logistic regression analysis to examine the significant factors of IFR by the firms. The study noted that the banking sectors, investment and finance sectors and insurance sector had the major portion (62%) of IFR companies. The current study is different from this study in that it examines different variable from the above study such as liquidity.

The adoption of IFR to spread companies' information is a recent phenomenon and some studies consider its future implication. "Al-Motrafi" (2008) noted that the use of online financial reporting in Saudi Arabia may involve rising the concerns of the accounting information disclosing, and this may lead users (such as auditors and regulators) to contribute in financial reporting to extract regulations and moderate the use of IFR to fulfill statutory. Moreover, the researcher noted that firms may concentrate on innovation of IFR which may help companies induct a reporting strategy to fulfill users satisfactory level (such as getting benefits by disseminating better information, and extant the companies communication).

"Al-Motrafi" (2008) examined the extent of using of IFR by Saudi public companies (113 companies); the researcher tested the influence of eight specific characteristics on disclosing financial reporting attitudes. The study has found out that 95(84%) of the companies own websites while only 51 companies (45%) are adopting IFR. Moreover, the findings of the study have noted that none of these companies possess comprehensive financial information. In addition the study has also stated that firm's size and stock market are the main variables that affect the mount of corporate information posed.

A prior comparative study was conducted by "Joshi & Al-Modhahki", (2003) to determine the extent of disclosing corporate financing information in Bahrain listed companies compared with those in Kuwait. The study aimed to determine the variables that were more significant for the dissemination of financial reporting. A sample of 75 companies (Kuwait 42 and Bahrain 33) was selected. Six (6) characteristics were tested; company size, profitability, debt ratio, industry type, auditor size, and country effect. The researchers analyzed the collected data about these companies and deduced that 47.6% of Kuwait companies owned website, while 48.5% of Bahrain companies did. They also concluded that the size and industry were the most significant variables that affect adopting IFR. Another study was carried out by “Mohamad,&Oyelere” (2008) to examine the practices of disclosing corporate information via internet in Bahrain. The study was preparatory and limited since it didn't investigate an in-depth view of the potential practices. The researchers collected data available about all the 49 listed companies in Bahrain Stock Exchange (BSE). They used Google and Yahoo engines and telephone calls to investigate whether the listed companies own websites or not. The study reported that 40(81.6%) of the companies possess websites while only 27(67.5%) of these companies were adopting IFR. Moreover, the findings showed that 34 companies provided historical information about themselves and 34 provided information about their services and products, whereas 31 companies provided financial information. In addition, the researchers stated that only 25 companies posed both annual reports and financial highlights.

The study of “Joshi & Al-Modhahki” (2003) examined the association between some company characteristics and disclosure on the Internet for 75 companies in Bahrain and Kuwait. It did not examine the relationship between liquidity and the adoption of IFR. The study of “Mohamad &Oyelere” (2008) did not investigate an in-depth view of the potential practices for the determinants of IFR. The current study is an in-depth study that examines the determinants of disclosing financial reports via internet (IRF) practices of the listed companies in Bahrain. The recent study is different from other studies in that it sought to provide users with a clear insight about the extent of adopt IFR in Bahrain. In addition, the study documents evidence on the relationship between IFR practices and the firm's specific characteristics in Bahrain. The study examines the relationship between IFR and three specific characteristics of the listed firms in the Kingdom of Bahrain.

4.Research Design and Methodology

This study is using the quantitative method design with a descriptive analysis of the collected data. A sequence of steps is followed in the current study in order to collect and analyze data for the purpose of getting the research results. Firstly, the researchers investigate whether each listed company has a website or not using the familiar electronic search engines like www.google.com and the homepage of Bahrain Bourse (http://www.bahrainbourse.com.bh). Secondly, the researchers investigate whether the companies that possess websites are disclosing financial information or not. Thirdly, the websites of the companies are then classified into two categories; websites that disclose financial information and websites that do not disclose any financial information. Then, the statistics for the independent variables of the five characteristics and the dependent variable IFR including the means and standard deviations are summarized. Finally, the correlations of the variables are explored using the SPSS to estimate the significant relationship between the variable IFR and the independent variables. The research's methodology of the current study is shown in the flowing figure. (Figure1)

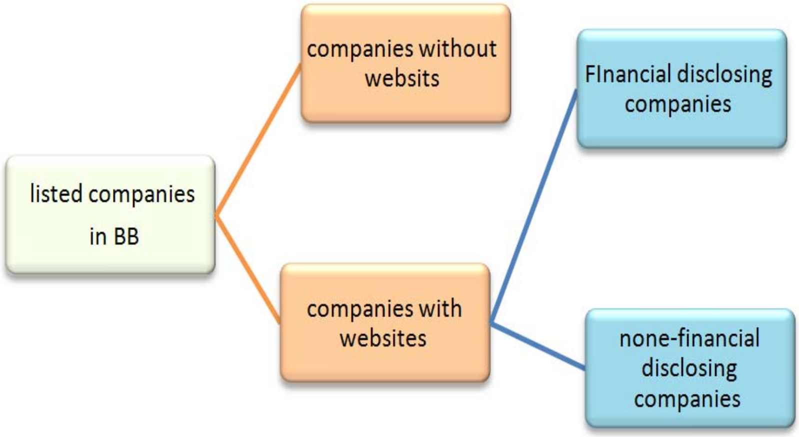

Figure 1. Research's Methodology adaptation (Momany& Pillai, 2013)

4.1 Primary Data.

The primary data is collected from the Bahrain Bourse. All the needed information about the 47 listed companies in the year of 2013 was reviewed. Furthermore, financial data related to these companies is collected from Bahrain Bourse Investors' Guide 2013 and other electronic search engines like www.google.com.

4.2 Secondary Data.

The secondary data in this research is collected through the literature body available on the internet specially through accessing the electronic library system for Bahrain University, as well as any available reliable source of information that can enrich the recent research.

4.3 Sample Selection.

The population of the current study consists of all the 47 listed companies in Bahrain Bourse (BB) on the financial year 2013. The listed companies are divided into eight (8) sectors according to Bahrain Bourse (BB) as follows: 7 companies in the commercial-banks sector, 12 companies in the investment sector, 5 companies in the insurance sector, 9 companies in the service-sector, 3 companies in the Industrial sector, 5 companies in the Hotel-Tourism sector, 2 companies in the closed companies-sector, and 4 companies in the sector of Non-Bahraini-Companies. (Table 1)

***Table* 1. The listed companies in BB divided into sectors**

sectors	Number on companies
commercial-banks sector	7
Investment sector	12
Insurance sector	5
Service sector	9
Industrial sector	3
Hotel-Tourism sector	5
Closed companies sector	2
Non-Bahraini sector	4
Total	**47**

5.Research Hypotheses and Variables

The study aimed to investigate the significance of the relationships of five (5) independent variables with IFR, so the following hypotheses are generated to be tested:

H_1 : There is a positive association between company size and the adoption of IFR.

H_2. There is a positive association between company profitability and the adoption of IFR.

H_3. There is a positive association between company liquidity and the adoption of IFR.

H_4. There is a positive association between leverage and the adoption of IFR.

H_5. There is a positive association between industry type and the adoption of IFR

5.1.1 Dependent Variable.

In the current study the extent of adopting internet financial reporting IFR is going to be investigated. Many factors may affect the use of IFR by the firm. So IFR is considered to be the dependent variable. The IFR and non-IFR companies will be classified into nominal forms (i.e., one and zero.).

5.1.2 Independent Variables.

The relationship of five (5) selected characteristics (size, profitability, liquidity, leverage, and industry type) with the using of IFR by companies is examined. These characteristics are considered as the independent variables for the study. Table 2 summarizes the dependent and the independent variables of the study as well as the definition and the measurements of each variable.

***Table* 2.**

Variable	Label	Definition and Measurements	IFR Determinants
Independent			
Size	SIZE	Firm size is	
Profitability	PROFIT	Return on total assets (ROA)	
Liquidity	LIQUID	Cash assets by	
Leverage	LEVER	Total debt to	
Industry type	INDUS	Is represented by a binary variable that will take the	
Dependent			***Table 2***
Adoption of IFR	IFR	Is represented by a binary variable that will take the value of 0 if the firms' annual report for the	The labels and measurement of the study variables

*Commercial bank sectors, investment sectors, insurance sectors, non Bahraini companies sectors and the securities and investment company -from the closed sector- are considered to be financial firms.

The effect of the five characteristics (the independent variables) on the use of IFR (the dependent variables) is shown bellow in Figure 2.

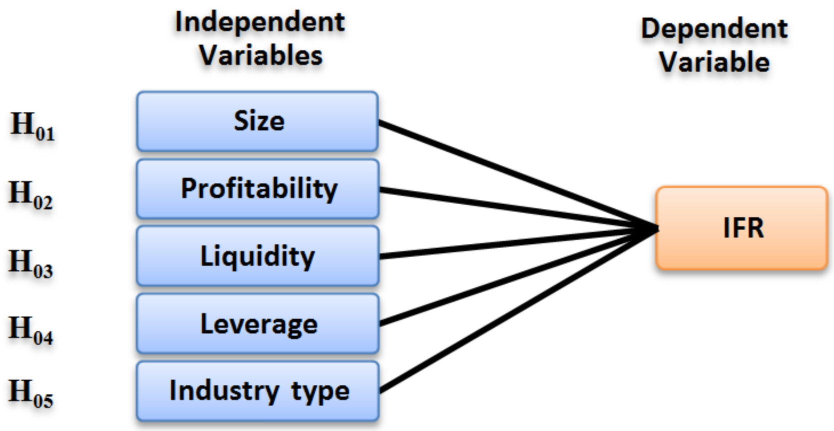

Figure 2 . Research Model

The collected data is analyzed through the Statistical Package for Social Science (SPSS) version 18.0 and the statistical program Microsoft Office Excel. The relationship between the variables is investigated through the application of correlation. Also, several statistical tools will be applied for the purpose of analyzing including cross tabulation and descriptive statistics.

6.Research findings

6.1.1 Sample Description.

The current study describes the extant of IFR by the 47 listed companies in Bahrain Bourse (BB) in May 2014. Table 3 illustrates the description of the sample study. The companies were divided into sectors according to (BB), so the percentage of the companies in each sector was calculated by the statistical program SPSS. The majority of the companies (25.5%) are from the investment sector, while closed companies sector exemplifies the lowest portion (4.3%). The insurance and the hotels & tourism sectors have apportion of (10.6%) for each, while Commercial Banks are about (14.9%), Bahraini companies (8.5%) and industrial (6.4%).

Table 3. percentage of sectors

		Frequency	Valid Percent.	Cumulative Percent.
Sectors	Commercial Banks	7	14.9%	14.9%
	Investment.	12	25.5%	40.4%
	Insurance.	5	10.6%	51.1%
	Services.	9	19.1%	70.2%
	Industrial.	3	6.4%	76.6%
	Hotels & Tourism.	5	10.6%	87.2%
	Closed	2	4.3%	91.5%
	Non Bahraini	4	8.5%	100%
Total		**47**	**100%**	

6.1.2 Website Percentage.

The percentage of companies that posses websites is provided in (Table 4). The findings reveal that 42 companies (89.4%) own website while five companies (10.6%) do not. The results show that 100% of the companies in the sectors of Commercial Banks sector, Insurance sector, Industrial sector and Non Bahraini

Companies have websites. Whereas, 11 out of the 12 companies in the investment sector (91.7%), 8 out of 9 companies in the services sector (88.9%), 3 out of 5 companies in the Hotels & Tourism sector (60%) and one out of two companies in the closed companies sector (50%) have their own websites.

Table 4. Website percentage

			Companies without websites	Companies with websites	Total
SECTORS	Commercial Banks	Count	0	7	7
		% within SECTORS	0%	100 %	100 %
	Investment.	Count	1	11	12
		% within SECTORS	8.3%	91.7%	100 %
	Insurance.	Count	0	5	5
		% within SECTORS	0%	100 %	100 %
	Services.	Count	1	8	9
		% within SECTORS	11.1%	88.9%	100 %
	Industrial.	Count	0	3	3
		% within SECTORS	0%	100 %	100 %
	Hotels & Tourism.	Count	2	3	5
		% within SECTORS	40%	60%	100 %
	Closed Companies	Count	1	1	2
		% within SECTORS	50%	50%	100 %
	Non Bahraini Companies	Count	0	4	4
		% within SECTORS	0%	100 %	100 %
Total		Count	5	42	47
		% within SECTORS	10.6%	89.4%	100 %

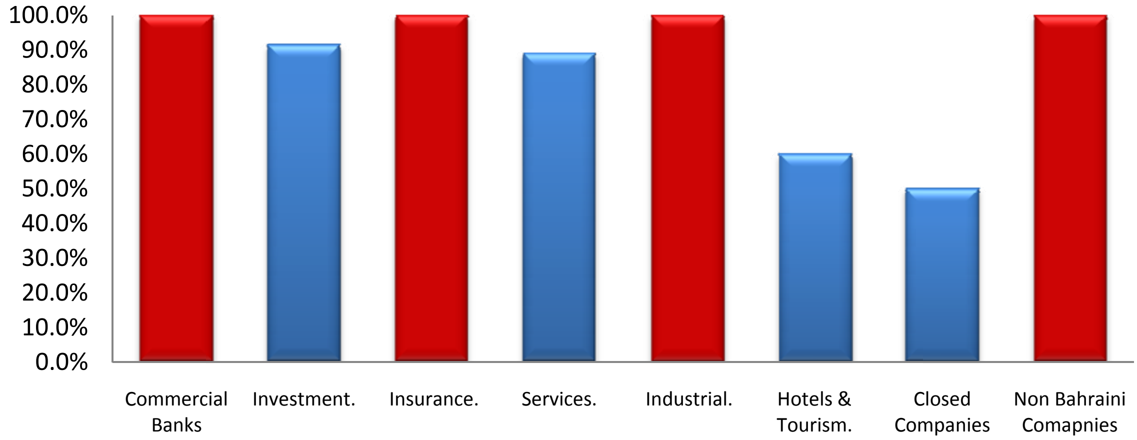

Figure 3. Percentage of companies own websites

6.1.3IFR Percentage.

The percentages of companies that are adopting IFR are described (Table 5) below. The results show that 38 companies (80.9%) are adopting IFR while 9 companies (19.1%) are not. In more details, 100% of the following sectors are adopting IFR: Commercial Banks sectors, Insurance sector and Industrial sector. On the other hand, there are 10 out of 12 companies (83.3%) in investment sector, 7 out of 9 companies (77.8%) in the services sector, 2 out of 5 companies (40%) in the Hotels & Tourism sector, 1 out of 2 companies (50%) in the closed companies sector and 3 out of 4 companies (75%) in the non Bahraini companies sector are adopting IFR . Table 5 and Figure 5 below show the percentages of companies that are adopting IFR

Table 5. IFR percentage

		Number of companies	Companies not adopting IFR	Rate	Companies adopting IFR	Rate
Sectors	Commercial Banks	7	0	0%	7	100 %
	Investment.	12	2	16.7%	10	83.3%
	Insurance.	5	0	0%	5	100 %
	Services.	9	2	22.2%	7	77.8%
	Industrial.	3	0	22.2%	3	100 %
	Hotels & Tourism.	5	3	60%	2	40%
	Closed Companies	2	1	50%	1	50%
	Non Bahraini Companies	4	1	25%	3	75%
Total		47	9	19.1%	38	80.9%

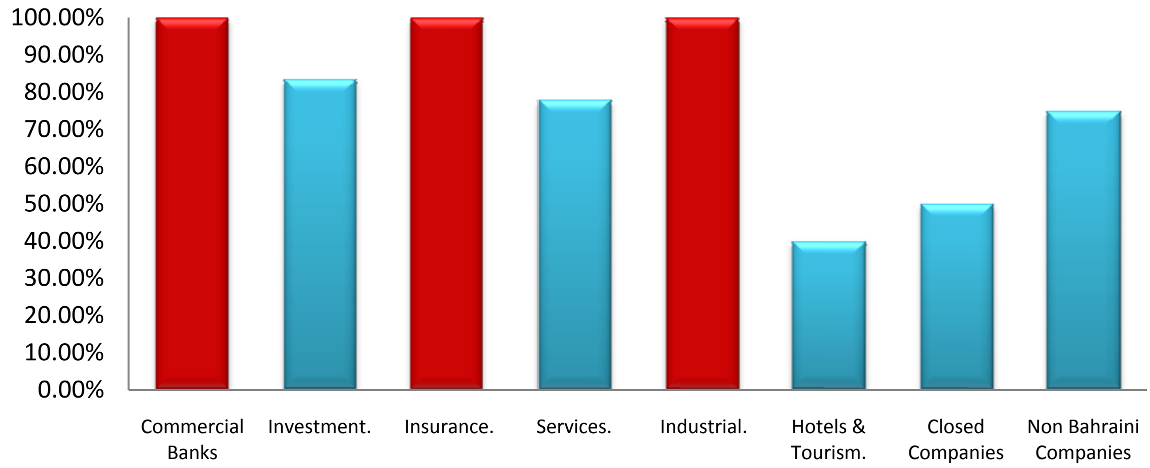

Figure 4.Percentage of companies adopting IFR

The researchers investigated whether the companies that possess websites disseminate their financial information on their sites. The company that does not represent its annual report or the financial statements - at least until the year 2013 - is considered to be a non-IFR company. (Table 6) below represents that the percentage of the companies provide financial reporting in their websites is 90.5 (38 companies), while 9.5% (4 companies) do not provide financial reporting. Companies in four sectors, namely: (the commercial banks, insurance, industrial and closed companies) all report their financial information on websites with a percentage of 100%. Investment sector is the second highest percentage in adopting IFR (90.9%) followed by the services sector (87.5%) then the Non Bahraini Companies sector (75.0%), whereas the lowest percentage is for Hotels & Tourism sector as shown in (Figure 6).

Table 6. companies with website & IFR adopting or not

		companies with website	**companies with website & IFR**	**Rate of sector**	**companies with website & Non-IFR**	**Rate of sector**
Sectors						
	Commercial Banks	7	7	100%	0	0%
	Investment.	11	10	90.9%	1	9.1%
	Insurance.	5	5	100%	0	0%
	Services.	8	7	87.5%	1	12.5%
	Industrial.	3	3	100%	0	0%

	Hotels & Tourism.	3	2	66.7%	1	33.3%
	Closed Companies	1	1	100%	0	0%
	Non Bahraini Companies	4	3	75%	1	25%
	Total	42*	38**	90.5%	4	9.5%

*42 companies out of 47 have websites on internet. This table illustrates the availability of financial reports on 42 companies' websites while the 5 companies do not have websites

**38 companies disclose their financial information on their websites out of 42 companies that own websites.

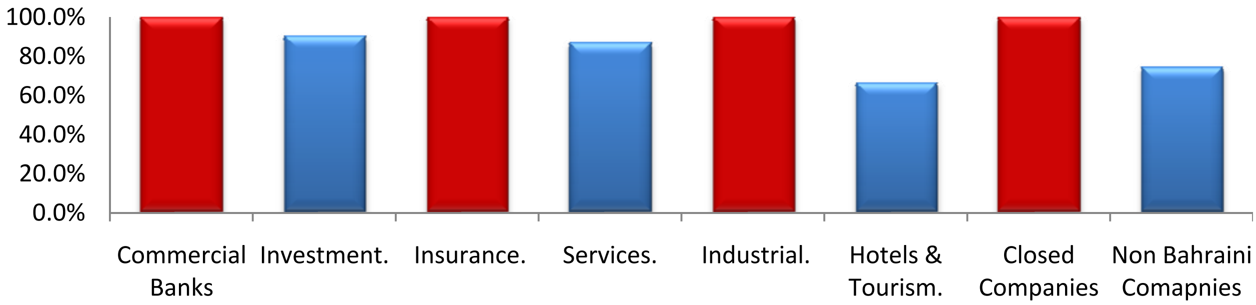

Figure 5. Percentage of companies with websites and adopting IFR

6.1.4 Means and Standarad Deviations.

Table7. means and standard deviations

	N	Minimum	Maximum	Mean	Std. Deviation
IFR	47	0	1	0.809	0.398
Size=Log Asset	47	7	10	8.273	0.899
Profitability=return on asset%	47	-11.05	15.19	3.439	4.775
Liquidity	47	-0.10	0.42	0.116	0.109
Leverage	47	0.047	1.710	0.497	0.352
Industry Type	47	0	1	0.617	0.491

The results in Table 7 show the means, standard deviations, minimum and maximum values for the dependent variable IFR and the independent variables (size, profitability, leverage, liquidity and industry type). The findings show that the mean of internet financial reporting is (0.809) which indicates that the majority of the Bahraini listed companies provide their financial reporting via internet. Also, the results stated that more than 50% of the firms are financial firms since the means of the industry type is (0.617) and this is a one reason of the high average for the dependent variable IFR. Moreover, the difference between the minimum and maximum value of log total assets of the firm is low which indicates that the studied companies are convergent in size. The mean of the leverage is (0.497) which reveals that half of the firm's assets are invested through debt. In addition, the results of the standard deviations ranked from (0.109) for the liquidity and (4.775) for the profitability. IFR, size, liquidity, leverage, and industry type have the least standard deviations which denote that the data is near the mean. Whereas profitability has a deviation of (4.775) which indicates that the data is extended out over large domain of values.

6.2 Testing of Hypotheses and Discussion of Findings.

For the purpose of analyzing the data, the "Spearman's" r test is applied. This test was chosen because that not all of the variables data are continuous such as the IFR and Industry Type. This section provides the findings in indication to the most significant coefficients at the significant level of 0.05. Table 8 provides correlations coefficients of the variables and the findings will be analyzed with reference to the most significant relationships and the result of testing the hypotheses.

The results show that two correlations coefficients (Size and Leverage) are statistically significant at the level 0.01, whereas the other correlations (Profitability, Liquidity and Industry Type) are significant at the level 0.05. The results show that there are statistically significant relationships exist between the independent variables and IFR. A correlation of 0 .430 was detected for the variable "size". That is the larger the firms are, the more likely they are to report their financial information online. The first hypothesis stated that there is a direct relationship between company size and the adoption of IFR. According to the results, this hypothesis is accepted.

Another significant correlation of (-0.297) was detected for the variable "Profitability". This indicates the absence of the direct relationship between the profitability the adoption of IFR. Therefore the second hypothesis which stated that there is a direct relationship between profitability and the adoption of IFR is rejected.

The findings also revealed a significant correlation of 0.318 for the variable "Liquidity". This indicates that the firms which have more liquidity are likely to disseminate their financial reporting via internet. This finding suggests that the cash and cash equivalent asset of the firm is a significant factor on adopting IFR. The third hypothesis stated that there is a direct relationship between company liquidity and the adoption of IFR and therefore is accepted.

A significant correlation of 0.417 was observed for the variable "Leverage"; this indicates that the firm which has more portion of debt is likely to posses its financial reports online. Therefore, the fourth hypothesis which stated that there is a direct relationship between leverage and the adoption of IFR is accepted

Table 8. Correlation Analysis

		Correlation Coefficient	Sig. (1-tailed) P- value	N
Spearman's rho	Size	.430**	.002	47
	Profitability	-.297-*	.025	47
	Liquidity	.318*	.018	47
	Leverage	.417**	.002	47
	Industry Type	.284*	.027	47

**. Correlation is significant at the 0.01 level (1-tailed).

*. Correlation is significant at the 0.05 level (1-tailed).

6.3 Discussion.

The main objectives of this research have been achieved through analyzing the collected data and testing the provided hypotheses. The results support and were nearly similar to prior findings. The first objective was to investigate the extent of adopting the disclosure of financial reports online among the listed companies in Bahrain (BH). The results reported that 42 companies (89.4%) own website with 38 companies (90.5%) adopting IFR. When the results of the current study are compared to the prior results in GCC, the results of the current study has got higher percentages than most of that revealed in the other countries of GCC such as UAE (Momani and Pillai, 2013) which noted that (89%) of the 65 listed companies have websites and 60% of them reveal financial information on-line. Also, the current result is higher than that was in Oman (Oyelere and Mohamed, 2007) which reported that 59% (84 companies) had websites and only 31of these were adopting IFR with a percentage of (36.9%). In Qatar, the results are quite similar in the percentage of companies that possess websites (90.6%) (Al-Moghaiwli, 2009), but they denoted less percentage of (71.8%) in reporting financial information online. The current result for adopting IFR is also higher than that was carried out in Kuwait by Alanezi (2009) which denoted that 56% of the listed companies disclose financial information.

A related prior descriptive study was conducted in Bahrain by "Mohamad and Oyelere” (2008), reported that 40(81.6%) of the companies possess websites while only 27(67.5%) of these companies were adopting IFR. The current study noted that the percentage of the website companies and IFR have increased probably because of the importance of disclosing financial reporting via the electronic means of communication as it represents the outside perceptions by the stakeholders and the society itself according to legitimacy Theory.

Moreover, the current study suggested that there is an increase in adopting IFR because the Bahraini companies realized that disclosing financial reports via internet reduces the company cost as well as minimizes the agency problems as described by Momany and Pillai (2013) in accordance with the agency cost theory.

The second objective of the current study was to examine the relationship between IFR and firms specific characteristics (size, profitability, leverage, liquidity and industry type). The current results reveal that there are direct relationship between reporting financial information online and the four variables of size, leverage, liquidity and industry type. However, a negative correlation was found between IFR and profitability. In addition, size and leverage were found to be the most significant variables that affect adopting IFR in Bahrain listed companies followed by liquidity. The same result was carried out in UAE-listed companies by "Miniaoui & Oyelere",(2013) as they stated that "larger companies with greater leverage are more likely to set up a website and use it for IFR than smaller less leveraged ones".

Regarding the relationship between characteristics of the companies and the use of the internet financial reporting, the results of the recent study support the results of the previous studies as follows:

- The size of the firm is the most common determinant to explain the internet financial reporting. Positive associations between the size and the internet disclosure have been identified by several researchers (Oyelere *et al*., 2003); (Rodrigues and Menezes, 2003); (Xiao *et al*., 2004); (Pervan, 2006). According to (Momani and Pillai, 2013), large companies are supposed to have additional propensity to internet financial reporting disclosure because of many reasons: "Larger companies have more incentives to disclosure on the internet, have more visibility and so draw bigger attention from the general public, government, shareholders, other stakeholders or even the competitors". These companies can manage the cost and benefits more easily because of the great number of users. "The large companies have further resources to have a more efficient internet information strategy and have additional disclosure on the internet". According to "Oyelere, *et al*"., (2003) "large companies always have a larger number of products and their distribution networks are very complex and require more information disclosure than smaller firms". Moreover, larger companies attract more suppliers, customers and analysts and therefore have a higher demand for information related to their activities. Also, large firms have the ability to adopt internet financial reporting with low expanses. The previous arguments developed the hypothesis that there is a direct relationship between the firm's size and the adoption of IFR.
- Leverage is the amount of debt used to finance a company's assets (Momany and Pillai, 2013). Leverage is often referred to as one of the important factors that affect the adoption of internet financial reporting. The results of "Agyei-Mensah", (2011) show that, among other determinants, leverage is an important determinant of internet financial reporting in the firms. Some researchers indicated a positive association between disclosures on internet financial reporting and leverage (Xiao *et al*., 2004). According to "Miniaoui, & Oyelere", (2013) bigger firms with more debt ratio are more likely to have website and disclose financial reporting online than smaller ones with lower leverage. "Al Shammari" (2007) claimed that firms with higher debt ratio are supposed to pose more information to reassure creditors that they are secured enough to pay dept ,therefore agency costis decreased. The results of "Al Shammari", (2007) show that firms that are adopting IFR are large whith higher debt ratio, lower liquid asset and more profitable than other firms. "Basuony" and "Mohamed" (2014) stated that" it is suggested that firms that are highly leveraged are more

inclined to try and satisfy debt suppliers by disseminating reliable information on the website to make these creditors more confident about the ability of the companies to pay their debts". The findings of "Miniaoui and Oyelere", (2013) identify the leverage as one of the most significant factors of IFR on UAE firms. However, "Cormier *et al.*" (2009), claimed that there could be an inverse relationship between leverage and the adoption of IFR. This clearly shows that the previous literature did not offer hard and conclusive evidence on the association between leverage and the adoption of IFR by firms.

- Liquidity and industry type are of the determinants that are usually investigated as factors that somehow affect the level of information disclosure in the company. "Al-Akra *et al.*" (2010) found that the industry sector is positively related to voluntary disclosure practices. Whereas, liquidity and auditor type are negatively associated with voluntary disclosure. "Ezat and El-Masry" (2008) found that the determinants of liquidity and service activity type have significant direct effect on the the adoption of IFR. "Xiao *et al.*" (2004) reported a direct relationship between industry type and the adoption of IFR. According to Al "Shammari" (2007) liquidity and industry type have a significant effect on the adoption of IFR. "Oyelere", "Laswad" and "Fisher" (2003) stated that Internet-based financial reporting is directly related to some variables including liquidity. Regarding liquidity, "Oyeler *et al.*" (2003) found out a significant association between the adoption of IFR and liquidity. On the contrary, "Marston" (2003) who investigated the extent of IFR in 99 leading Japanese companies' reports that there was no relationship among industry type and overseas listing on IFR practices in the investigated companies.
- Profitability has been frequently considered as one of the significant variables of the adoption of IFR (Oyelere *et al.*, 2003; Pervan, 2006). The internet financial reporting was inversely related to profitability by a study carried out by "Xiao *et al.*" (2004). Another study indicated that negative relationship between the internet financial reporting and profitability. Moreover, a negative association was incurred between IFR and the profitability (ROA) by "Miniaoui & Oyelere", (2013). This clearly suggests that the more the profitability of the firms the more likely to be less transparent to shareholders and less attend to disseminate relevant information about dividends paid. On the contrary, profitable firms have the ability to adopt IFR and have more motives to attract new investors as well as other competitors in the market. Many studies revealed a statistically significant relationship between Profitability internet financial reporting in firms (Oyelere *et al.*, 2003; Pervan, 2006). It seems that the firms that have high profitability attends to disclose financial reports to provide users (such as investors and searchers) the information needed and to fulfill stakeholders satisfactions about dividends paid. The findings of "Aly Simon, and Hussainey", (2010) reported the firm size, the debt ratio, profit ratio, and industry sector as the most significant factors of IFR on UAE firms. Other researchers, however, reported no significant effect of profitability to the disclosure of financial reporting online (Oyelere *et al.*, 2003; Xiao *et al.*, 2004; Momany and Al-Shorman, 2006). Here too, the relationship between profitability and the disclosure of financial reporting online in the firm needs to be investigated.

7. Conclusion and Recommendations.

7.1Conclusion.

The internet financial reporting is very important since it benefits firms, investors, managements, governments, business consumers and shareholders. In addition the internet is a very excellent instrument to disseminate financial and non financial information. Also, internet financial reporting reduces the companies cost associated to publishing and delivering reports, especially to shareholders to supply their requirements of periodically or urgent information. The internet financial reporting is affected by different determinants or variables such as the firm's size, type, country and many others.The analysis of the collected data about the listed companies in Bahrain Bourse (BB) suggests many points as listed below:

- Most of listed companies on Bahrain have their own websites and the majority is disclosing their financial reporting online.
- All the companies in three sectors in (BB): Commercial Banks, Insurance and Industrial have websites and report their financial information online.
- More than half of the listed companies in BB are financial firms and that explains the high percentage of IFR companies.
- The listed companies in BB are convergent in size.
- The listed companies in BB invest half of the assets through debt.
- The listed companies in BB have got higher percentages regarding IFR than most of the companies in GCC such as UAE, Oman and Kuwait.
- There are significant positive relationships between reporting financial information online and four variables: size, leverage, liquidity and industry type while there is an inverse relationship between IFR and profitability in the listed companies in BB.
- Size and leverage were denoted to be the most significant variables that affect adopting IFR in Bahraini listed companies.
- Larger companies attract more suppliers, customers and analysts and therefore have a higher demand for information related to their activities.
- Companies with more debt ratio are supposed to posses more information to satisfy their strong financial position and certify ability to cover their liabilities. "Al Shammari" (2007) claimed that the direct relationship between adopting IFR and leverage is to reassure creditors that they are secured enough to pay debt, therefore agency costs is decreased .

7.2Recommendations.

Based on the findings of the current study, the researchers recommend the following:

- The non-IFR companies should be encouraged to adopt internet financial reporting.
- Companies with high return on asset are recommended to adopt IFR because they have ability to adopt IFR and have more motives to attract new investors as well as other competitors in the market.
- The companies that volunteer IFR should maintain reporting their financial information online regularly to be more significant for the users such as investors and learners.

7.3 Implications of the Study.

The results show that the majority of the listed companies in Bahrain possess websites and adopt IFR in their websites. The results also indicated that there are variables that directly affect the voluntary IFR in the local market such as company size, leverage, liquidity. However the profitability has an inverse effect on adopting IFR in local companies. Thus all the listed companies in Bahrain are expected to adopt IFR. Also, the local companies, especially the ones with high profit are recommended to be more transparent on disclosing financial information online for the shareholders.

7.4 Summary.

This study aimed to examine the extent of disclosing financial reporting via internet by the listed companies in Bahrain, and to determine the most significant variables that affect the adoption of IFR by these companies. After the needed analysis was done the result revealed that 42 companies (89.4%) have website with 38 companies (90.5%) adopting IFR. The results also show that there are positive associations between reporting financial information online and the four variables of size, leverage, liquidity and industry type. However, a negative association was found between IFR and profitability. In addition, size and leverage were found to be the most significant variables that affect adopting IFR in listed companies in Bahrain followed by liquidity. Companies with high ROA (profitability) are recommended to adopt IFR to increase their transparency for shareholders.

7.5 Limitations of the Study.

The current study has the following limitations:

- The scope of the study is limited to only the forty seven (47) listed companies in Bahrain Bourse. This may limit the ability to generalize the results.
- The variables of the study are limited to size, profitability, liquidity, leverage, and industry which only represent five (5) characteristics of the listed companies.
- Finally, the financial information of the study is collected by the end of the year 2013 as it was disclosed by the listed companies; therefore this study is limited to the time of collecting information.

7.6 Future Research.

According to the results and the limitations of the study, some suggestions for the future research emerge as follows:

- Public companies could be investigated by other researchers.
- For future researches, more independent variables need to be considered in order to determine their effects on IFR.
- Future research needs to take the time factor into consideration and gather information that is as up-to-date as possible.

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محددات نشر التقارير المالية عبر الانترنت: دليل من بورصة البحرين

نجلاء الجودر [1]،عادل السريع [2]

ملخص

أصبح استخدام الإنترنت في مجال الأعمال التجارية أمر لا مفر منه نتيجة للتطور المذهل في مجال تكنولوجيا المعلومات. ومن المفترض أن يكون لنشر التقارير المالية عبر الانترنت(IFR) دورا كبيرا في زيادة أرباح الشركات وقيمتها.هدفت هذه الدراسة إلى التعرف على مستوى تبني نشر التقارير المالية عبر الانترنت بين الشركات المسجلة في مملكة البحرين والتعرف إلى العلاقة بين الشركات ذات الخصائص المحددة ونشر التقارير المالية عبر الانترنت.تكونت عينة الدراسة الحالية من جميع الشركات (47) المدرجة في بورصة البحرين في السنة المالية (2013). أظهرت النتائج أن 42 شركة من هذه الشركات تملك مواقع خاصة بها على الشبكة في حين هناك 5 شركات وبما نسبته (10.6٪) لا تملك مواقع على شبكة الانترنت. وقد كشفت النتائج أن 38 شركة من الشركات التي تملك مواقعها الخاصة على الانترنت تتبنى نشر التقارير المالية عبر الانترنت، مقابل (4) شركات لا تعتمد ذلك.كما أظهرت النتائج أيضا أن هناك علاقة مباشرة بين تقديم المعلومات المالية على الانترنت ومتغيرات الدراسة الأربعة والمتمثلة بالحجم، والنفوذ والسيولة ونوع الصناعة، في حين وجدت علاقة عكسية بين تقديم المعلومات المالية على الانترنت ومتغير الربحية. كما تبين من النتائج أن الحجم والنفوذ هي أكثر المتغيرات التي تؤثر على اعتماد نشر التقارير المالية عبر الإنترنت في الشركات المدرجة في البحرين يليها متغير السيولة.

الكلمات الدالة: المحاسبة، التقارير المالية عبر الانترنت، التقارير المالية، بورصة البحرين.

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