

EMPEROR'S NEW CLOTHES: HOW MUCH INFORMATION DO CORPORATE WEB SITES REALLY DISCLOSE?

Tung Bui, College of Business, University of Hawaii, 2404 Maile Way, Honolulu, HI 96822
808- 956-5565, tung.bui@hawaii.edu

Siva Sankaran, College of Business, California State University
18111 Nordhoff St., Northridge, CA 91330, 818-677-4012, siva.sankaran@csun.edu

ABSTRACT

Information disclosure patterns at corporate web sites for 141 US companies were examined. Four industries – information technology, healthcare, consumer goods and industrial goods & services – were studied. The impact of firm size was also considered. Results indicate that most of the information companies provide are available elsewhere. However, information for investor decision-making such as future company outlook and management strategies is rarely disclosed. In overall information disclosure, information technology and healthcare companies lead the way. Larger firms disclose more than smaller ones.

INTRODUCTION

Companies present a variety of information including history, financials, press releases, share prices and investor relations at their web sites [1]. However, there is a wide variation in what companies disclose [2]. The purpose of this study was to identify the areas of this divergence.

DESIGN OF THE STUDY

Four types of industries - healthcare, industrial goods and services, consumer discretionary, and information technology - established in the US were studied. All companies were classified by Research Insight as non-bankrupt and were followed by at least two analysts. Table 1 shows the number of firms in each industry and their classification according to size.

Table 1 Number of firms by industry and size

We examined each item in the sampled web sites and grouped these into general items and information items. In the *general items* category we collected service or help items for investors such as if the web site had a visible link to the investor relation web site, a site map, a search box, or contact information

	Large	Small	Total
Healthcare	20	19	39
Industrial Goods and Services	20	18	38
Consumers	18	15	33
Information Technology	16	15	31
All Companies	74	67	141

etc. *Information items* refer to corporate information for investors. Information items were further divided into three sub-categories: the *corporate* information category, the *financial and stock* information category, and the *management and board of directors'* information category. The corporate information category contained information about the company such as company overview, products and services, operation's information, news etc. The financial and stock information category summarized stock information, main financial information such as the annual or quarterly report and other financial information like financial ratios / dividend information. The management and board of

directors' information category contained corporate governance information and management discussion and company outlook information.

In the content analysis, we assembled from all the atomic sampled web sites information to create a bank of total of 94 information items and 8 general items, thus forming a total of 112 items in a *master list*. We treated this list as the ideal content for a corporate web site to aspire for to achieve perfect information disclosure. For each item matched, a one ('1') was assigned, a zero ('0') otherwise. We added all the 1's to form a combined score. Thus, a company received a score of 112 (the maximum possible) if information for all the items was disclosed at the web site and 0 if no items were provided.

RESULTS

The results of the *General Items* category showed that large (small) firms provided on average 75.2% (61.3%) of all collected general items. For the *Information Items* category, large (small) firms provided 31.7% (25.6%). Larger firms tended to provide more information overall on their web sites. The gap was most pronounced under the *Management and Board of Directors* sub-category for smaller firms (15.8%) as compared to larger firms (26.8%). Analysis of data on the *corporate information* category showed *News* to be the single most popular item on corporate web sites. But the rest of the items were conspicuous by the lack of information. For example, larger (smaller) firms scored 3.8% (1.6%) on *Operations* and 9.9% (1.6%) on *Sustainability*. Our conclusion is that despite a lively corporate web site presence, investors often cannot find important data they need for investment decisions.

Companies were generous with their disclosure of financial information (eg. SEC Filings), but the underlying reality is that SEC, Financial, Stock and Analyst information were already widely available elsewhere besides the company's own web sites. However, when it came to Management Forecast, firms were unwilling to voluntarily disclose information that could be most helpful to investors (5.8% for large firms and 1.3% for small firms). SEC filings such as form 10K, 10Q or Section 16 and also archived SEC filings were among the most provided information items by both large and small companies. The same applied to the annual report, news or archived news. Historical annual reports were more often provided by large companies (82%) than by small companies (68%). Financial information such as stock quote, stock exchange on which the company is traded, the ticker symbol, and charts were often provided on the web sites of both large and small companies. However, in the list of 25 most provided items, only large companies provide such items as corporate governance guidelines and earnings releases.

The least provided information items by both large and small companies were transactions, company's external business, political and individual ties, compensation of executives and management and director's compensation. Management forecasts and management discussion of past financial data, historical segment data, stock repurchase information or debt information were also a rarity on a company's web site. There was also very little information about strategy, goals or objectives, description of properties or the company's industry.

DISCLOSURE BY INDUSTRY

*

IT companies provided on average the most information on their web sites. Healthcare companies were not far behind. This might be because healthcare companies are on average more profitable and they were eager to present their financial information to investors. The consumer discretionary companies provided in all categories more information than industrial companies except for the corporate information category. In summarizing, we provide the breakup of figures in the four industries classified

by firm size (Table 2). Small firms generally lagged behind large firms in all information categories and across all industries. The most lag was observed in industrial goods & services and least lag in consumer industries.

<i>Categories</i>								
<i>General Items</i>								
<ol style="list-style-type: none"> 1. <i>Corporate Information Category</i> 2. <i>Financial and Stock Category</i> 3. <i>Management and Board of Directors Category</i> 								
<i>Average</i>								

Table 2 Results of all categories, industry and size

CONCLUSION

Our study showed differences in practices in information disclosure across various industries and their size. Apart from standard financial information, only 6% of the sampled companies provided some kind of management forecast information and only 1% of companies provide some kind of management discussion of past financial data and prospects for the company. There was also very little information about strategy, goals or objectives, description of properties or the company's industry. Certainly, companies do not seem to be exploiting the full potential of the Internet as a fast and cheap medium in order to disclose useful information to investors. One wonders if this thriftiness in information disclosure is merely an accident, reluctance or a calculated avoidance on the part of companies. This finding in itself could be the goal for future research.

REFERENCES

- [1] Ettredge M., Vernon J.r., and Susan S., Dissemination of information for investors at corporate Web sites, *Journal of Accounting and Public Policy*, 2002, 21, 357–369.
- [2] FASB, *Business reporting research project: Electronic distribution of business information*, Financial Accounting Standards Board, Norwalk CT, 2000.

Acknowledgement: The authors thank Ewa Froidevaux for her significant contribution to this research during her internship at the University of Hawaii.