International Journal Of
Recent Scientific Research
ISSN: 0976-3031
Volume: 7(5) May -2016

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THE OFFICIAL PUBLICATION OF
INTERNATIONAL JOURNAL OF RECENT SCIENTIFIC RESEARCH (IJRSR)
http://www.recentscientific.com/ recentscientific@gmail.com

ISSN: 0976-3031

Available Online at http://www.recentscientific.com

International Journal of Recent Scientific Research
Vol. 7, Issue, 5, pp. 11016-11020, May, 2016

International Journal of Recent Scientific Research

Research Article

EFFECT OF INTERNET FINANCIAL REPORTING ON FREQUENCY OF STOCK TRADING AND ABNORMAL RETURN MANUFACTURING COMPANY LISTED IN INDONESIAN STOCK EXCHANGE

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ARTICLE INFO

Article History:

Received 20th February, 2016
Received in revised form 29th March, 2016
Accepted 30th April, 2016
Published online 28th May, 2016

Keywords:

Frequency of Stock Trading, Abnormal Return, Internet Financial Reporting.

ABSTRACT

This study aims to examine the influence of internet financial reporting (IFR) against frequency and abnormal stock returns, and the indirect influence IFR against abnormal return through frequency trading is based on the problem of how the market reaction to the company's information published on the company's website. Of the 141 manufacturing companies listed on the Jakarta Stock Exchange was taken a sample of 59 companies selected purposively. The test results showed that their IFR influence on frequency trading, but there is no influence IFR against abnormal return, so that IFR through frequency trading does not affect the abnormal return. Companies that apply IFR have a high frequency trading. While abnormal return of companies that implement IFR no different with companies that do not implement IFR, meaning that information published on the company's website did not react significantly to the investor. The results of this study are relevant to the theory of market efficiency, where stock prices already reflect all available information.

INTRODUCTION

Nowadays with the advantages of the internet and supported increase of Internet users, leading business organizations should take advantage of Internet sites to support business activities. Internet can be used for any business applications that involve data communications, including communications within the company and with the environment (McLeod, 2007). Based on this emerging medium that is used to inform the financial statements and information about the company through a website called Internet Financial Reporting (IFR). Disclosure of financial information on the company's website (Internet Financial Reporting - IFR) is a form of voluntary disclosure practiced by various companies (Hargyantoro, 2010). This disclosure by the company outside of the disclosures required by the financial watch.

The phenomenon of the use of IFR by the company quite popular in many countries that has developed. In 2006, more than 70% of large companies in the world have applied IFR (Kahn, 2006). Use of IFR is also venturing into Indonesia, especially the enactment of a free trade agreement and the ASEAN economic community on January 1, 2016 that led to high competition among businesses and the State. This prompted the need for more complete information support and timely, particularly for investors, including information about the company's financial statements.

Information is the key to successfully invest in the stock market. The faster and the more important information is received; investors increasingly have the opportunity to make a profit on the stock exchange (Anoraga and Pakarti, 2001). Damayanti and Supatmi (2012) in his research said that the abnormal return obtained by investors after the company disclosing company information via the Internet (Internet Financial Reporting) is greater than before IFR.

Research on the relationship between the stocks IFR was first performed by Lai *et al*., (2010). In his research found that companies that implement IFR and companies with a high level of disclosure of information likely to have abnormal stock returns bigger and stock prices are moving faster. In this study, Lai *et al*., (2010) using Autoregressive and the Final Prediction Error to determine the speed of change in stock on the new information in the IFR.

This study uses the Internet Financial Reporting variables measured by Internet Disclosure Index by Spanos (2006). The disclosure index includes not only financial information but also non-financial information presented in the company's website, including the accessibility of information. The

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variables considered to affect the stock price that ultimately affect stock trading frequency and abnormal return.

LITERATURE REVIEW

Internet can be used for any business applications that involve data communications, including communications within the company and with the environment (McLeod, 2007). Internet has several characteristics and advantages such as facilitating the dissemination of information useful for decision making, timely, global access and low cost (Ashbaugh *et al*. 1999). With the advantage of the internet and supported the increase of Internet users lead a business organization has been widely use the Internet to support its business activities.

The Internet provides a unique form of voluntary disclosure of companies that enable companies can provide timely information to the public (Abdelsalam *et al*. 2007). Media internet or the website is now not only used the company to offer products or services produced, but also used to present the financial statements is popularly called Internet Financial Reporting (IFR).

Internet Financial Reporting is a way that made the company to include its financial statements through the Internet, through the website of the company. Existing accounting literature stating that IFR is known as a voluntary disclosure (voluntary disclosure), not because of the content of the disclosure, but because of the tools used.

Studies that there is still a focus on the factors and contents of the IFR. While research on the relationship between IFR and stock is still limited. IFR research to elucidate the effect of the stock, are Lai *et al*. (2010) who found that companies that implement IFR with the level of transparency of information were likely to produce abnormal returns bigger and stock prices move faster, compared with companies that do not implement IFR.

Voluntary disclosure is the disclosure made by the company beyond that already required by accounting standards or regulatory watch. So that not all companies do the same disclosure practices, but in accordance with the needs of the company. Meek *et al*., (1995) asserted that voluntary disclosure is the free choice of the management company to provide accounting information and other information that is deemed relevant for decision making by the annual report. Applications of IFR by the company have been widely in various foreign countries that have developed. Many companies that make the company's website in order to inform the company's internal information in order to draw attention of creditors, analysts, stockholders, and other communities to invest in the company (Ashbaugh *et al*., 1999). Furthermore Ashbaugh *et al*., (1999) also states that IFR is seen as an effective communication tool to customers, investors, and shareholders. Abdelsalam *et al*., (2008) found responsiveness is one thing that is important to improve the quality of communication and affect investor confidence in capital markets.

The capital market will evaluate each announcement issued by the issuer, so it will cause some changes in trading stocks, for example, changes in the volume and frequency of trading, changes in stock prices, the bid / ask spread, the proportion of ownership, and other. This indicates that the announcement of the entry into the market has information content, thereby triggering a reaction by the actors on the capital market. This is consistent with that put forward by Dorner (2005) is the financial information available to the public will have an impact on stock movements.

Disclosure of information on the website is also as an attempt by the company to reduce the asymmetry of information between the company and outside parties. Disclosure of information on the website is a signal of the company to outsiders, one of them a reliable financial information and will reduce the uncertainty about the company's prospects to come (Wolk *et al*., 2000). Lai *et al*., (2009) stated that a major benefit for the company to disclose as much information as possible so that investors are able to distinguish between good companies and the bad.

IFR important element is the degree or quantity of disclosure (Ashbaugh *et al*., 1999). The higher level of disclosure in the quantity or transparency, the greater impact of disclosure on investor decisions. More specifically, IFR has opened a new research domain in the areas of accounting and finance, but little is researching how IFR affects the stock. The size of the company (firm size) is the variable that most often appears as a factor affecting the Internet Financial Reporting (IFR).

The concept of efficient markets was first proposed and popularized by Fama (1970). In this context what the market means is the capital market (capital market) and the money market. A market is said to be efficient if no-one, both individual investors and institutional investors, will be able to earn abnormal returns (abnormal return), after adjusting for risk, using existing trading strategies. That is, the price, volume and frequency of shares that form in the market is a reflection of existing information. Then, Mishkin and Eakins (2011) disclose an efficient capital market is defined as the capital market with the price of securities that reflect all available and relevant information. Based on the statement of Mishkin and Eakins (2011), it can be concluded that the faster the information is reflected in a security, the more efficient capital market.

In accordance with the Efficient Market theory is that investors will react quickly and fully to new information that is entered in the market, particularly financial information that led to the stock immediately make adjustments. This is consistent with that expressed by Beaver (1968) in Lai *et al*., (2010), Ball and Brawn (1968) and Fama *et. al* (1969) that the stock will move when the information is useful to enter the market.

Each disclosure of information would make investors re-examine their assessment of the value of shares and made the decision to sell or hold stock. Furthermore, the information disclosed by IFR quickly available to all investors and asymmetry of information and shorten the delay will decrease the accessibility of information.

So, to say the company will have to apply IFR stock price-responsive so as to have a higher trading frequency than companies that do not implement IFR. This is because the financial information that is useful for investors to be published more quickly. Each announcement issued by issuers would get a reaction from investors to be considered an investment.

RESEARCH METHODOLOGY

Sampling Method

Manufacturing companies listing on the Indonesia Stock Exchange as many as 141 companies. However, the selected sample of 59 companies purposively in accordance with the company's desired criteria as follows: 1). Manufacturing companies that have a website, 2) manufacturing companies that implement Internet Financial Reporting (IFR). 3) Manufacturing companies that publish financial reports of companies that have dated March 31, 2015, 4). Manufacturing companies that have relevant financial information and a complete consisting of Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and Notes to Financial Statements.

Variable Operationalization

1. *Frequency of stock trading* is the amount of stock trading transactions in a given period. Frequency describes the number of times an issuer's shares are traded in a certain period of time. Frequency of stock of each company can be found in Fact IDX, 2015.
2. *Abnormal stock returns* is the difference between the actual return with the return expectations. Abnormal return used in this study is the abnormal return accumulation or cumulative abnormal return (CAR). CAR is the total abnormal return previous day in the event period. CAR can be calculated by the following formula (Jogiyanto, 2013: 625):

$CAR_{i(-5,+5)} = t=-5\sum+5\ Ar_{it}$

Where:

CAR: cumulative abnormal return for firm i during the observation period of approximately 5 days from the date of publication of the financial statements. (5 days before, one day of the date of publication and 5 days after the date of submission of financial reports)

Arit: abnormal return for firm i on day t

3. *Internet Financial Reporting* is the disclosure of financial information and non-financial companies that published through the company's website. Disclosure index used in this study refers to the items disclosed by Spanos (2006). This index is divided into 7 groups with a total of 45 items of disclosure, which consists of 23 items of financial information, three items of information of shareholders, 6 items contact information and more, four items of information of corporate social responsibility, one item of information of corporate governance, and 7 item presentation format and accessibility of the website.

Data analysis technique

The following path diagram gives explicit causal relationships between variables internet financial reporting (IFR) with frequency of stock trading and variable abnormal return. Each of the p value represents the path and the path coefficient. The path coefficient value calculated using regression analysis.

QuickTime™ and a
decompressor
are needed to see this picture.

Figure 1 Path Analysis Model

FINDINGS AND DISCUSSIONS

Description of Variables

Abnormal Return (AR) showed that a minimum value = -0.26714 Abnormal Return of Japfa Comfeed Indonesia Tbk and maximum values = 0.21844 of Kalbe Farma Tbk. The average value of Abnormal Return = -0.0141 and a standard deviation = 0.079. Frequency of Stocks Trading (FST) shows a minimum value = 300 owned stock Delta Djakarta Tbk and maximum values = 1.088 million shares owned Kalbe Farma Tbk. While the average value = 131569.49 and standard deviation value = 233842,227. Internet Financial Reporting (IFR) ratio indicates a minimum value = 0.378 for Assosiasi Keramika Indonesia Tbk and maximum values = 0.822 for Kalbe Farma Tbk. While the average of Internet Financial Reporting (IFR) disclosure = 0,641 and standard deviation = 0.095.

Table 1 Description of Variables

Variable	N	Min	Max	Mean	SD
FPS	59	300	1088000	131569.49	233842.227
AR	59	-0.26714	0.21844	-0.0141020	0.07926892
IFR	59	0.37778	0.82222	0.6406783	0.09546123

RESULTS OF PATH ANALYSIS

Path analysis method is an analysis that determines the magnitude of the causal relationship between variables influence either directly or indirectly.

$$FST = \alpha + e1 + \rho 1IFR \quad \text{................. (1)}$$

$$AR = \alpha + \rho 2IFR + \rho 3FST + e2 \quad \text{................. (2)}$$

The results of path analysis in this study are as follows:

Based on the above test results, it can be arranged regression equation this study as follows:

Log FST = 1.166 + 0.489 IFR
AR = -0.072 + 0.281 IFR - 0.257 Log FST

The influence of Internet financial reporting (IFR) with respect to frequency stock trading indicates the value adjusted R^2 = 0.226. It shows that 22.6% variable frequency stock trading can be explained by the variable Internet financial reporting (IFR). Where as for 77.4% explained by other variables outside of this study. Influence of Internet financial reporting (IFR) to abnormal return stock show that the value of adjusted R^2 = 0.041.

Table 2 Test Results Path Analysis

Model	Independent Variable	Dependent Variable	α	Path Coefficient	t-value	Sig.	Adjusted R Square
Equation 1	Internet Financial Reporting	Frequency of Stock Trading	1,166	0,489	4,234	0,000	0,226
Equation 2	Internet Financial Reporting	Abnormal Return	-0,072	0,281	1,905	0,062	0,041

This suggests that the abnormal return of 4.1% variable can be explained by the variable frequency of Internet financial reporting (IFR) and stock trading. Whereas of 95.9% influenced by other variables outside of this study.

Internet financial reporting (IFR) has t-value of 4.234 and 0.00 significance value < 0.05. These results indicate that the variable Internet financial reporting (IFR) positive and significant effect on the frequency of stock trading. Internet financial reporting has t-value amounted to 1,905 with significant value 0.062 > 0.05. These results indicate that the variable Internet financial reporting (IFR) did not affect the frequency of trading. Internet financial reporting (IFR) shows t-value amounted to 4.234 with a significance level of 0.00 < 5%. While testing on the variable frequency stock trading showed t-value of -1.746 with a significance level of 0.086 > 5%. That is, the variable frequency stock trading is not significant at 95% confidence level. Therefore, the variable frequency of Internet financial reporting (IFR) through an effect on abnormal stock returns cannot be substantiated.

Hypothesis testing results show that the variable Internet Financial Reporting (IFR) positive and significant impact on the frequency of Stock Trading. Total direct influence on the Internet Financial Reporting (IFR) variable Frequency Trading Stocks is 0.489 or 48.9%. That is, the stock trades 48.9% influenced by the information disclosed on the company's website. The higher the level of disclosure of company information on the website, the higher the possibility that investors trade shares. The results are consistent with research conducted by Damayanti and Supatmi (2012) and Hargyantoro (2010), which says that any disclosure will make investors re-examine their assessment of the value of shares and made the decision to sell, buy or hold stock. It also fits with the theory of efficient markets, namely the price of all securities traded already reflect all available information. That is, the market will react when there is new information that entered the market so that the stock immediately makes adjustments. Therefore, new information coming into the market and are useful for investors will affect the stock price is formed through the transaction process or convergence of supply and demand which will automatically affect the frequency of trading. Lai *et. al* (2010) stated that voluntary disclosure by the company through the website will provide value-added information to investors and will lead to stock price changes. Information disclosed through the media website quickly available to all investors reduce information asymmetries and shorten delay the accessibility of information. Therefore, companies that practice IFR had a high frequency trading as quickly distributed corporate information so that investors can make decisions very quickly as well.

Results of hypothesis testing Abnormal Return (AR) to variable indicate that Internet Financial Reporting (IFR) has no effect on Abnormal Return (AR). It can be seen from the significant value of Internet Financial Reporting (IFR) variables below 5%, which means that Internet Financial Reporting (IFR) is not significant in the level of 95% could affect Abnormal Return (AR). The results showed that the variables of Internet Financial Reporting (IFR), as measured by Internet Disclosure Index by Spanos cannot explain the abnormal return variable. The information disclosed on the website of the company less relevant to the market so as not reacted by the market in the form of abnormal return. Jogiyanto (2013) says that the announcement, which has information content abnormal return, will provide to the market. Possible announcements are published on the company's website said it does not contain the information because the information published late. So investors have to get it from the internal company or from other sources on the Internet. So that when the information is published on the website of the company, did not result in significant changes in stock prices so that no abnormal return. In addition, other factors such as inflation, economic and political conditions, or other accounting information can also affect the reaction of the market, so that the information published on the company's website alone can not affect the investor. The results are consistent with research conducted by Damayanti and Supatmi (2012), which says that the abnormal return between firms that applied Internet Financial Reporting (IFR) and does not apply Internet Financial Reporting (IFR) is no different. Because both financial information (financial and non- financial) can be obtained not only through the company website. Damayanti said that companies that have a good performance can provide abnormal return to the market even though the company does not publish financial statements on the company's website.

Hypothesis testing results show that the direct effect of financial reporting to the Internet variable frequency stock trading amounted = 0.489 with a significance level of < 5%. While the direct effect of variable frequency stock trading against the abnormal return = -0.257 with a significance level above 5%. This shows that the financial reporting through the Internet variable frequency stock trading effect on abnormal return cannot be substantiated. These results indicate that the information published through the company website that encourages investors to trade shares caused no abnormal returns received by investors. Although these shares are shares that are attractive to investors, but it does not indicate that the investors receive a return of more than investors' expectations. Investors are keen to trade stocks due to good news information published on the company website, but instead represents important information for investors so as not to cause the reaction of investors in the form of abnormal return. Therefore, the level of frequency trading cannot influence the abnormal returns. According Jogiyanto (2013), which can provide important information to the market abnormal return can be either a stock split information, an initial public offering (IPO), dividend announcements, accounting information, and personal information. This is also supported by research conducted by Abnormal return Rusliati and Farida (2010), which proved that a stock split can provide abnormal returns to investors. The results of these studies indicate that there are differences in abnormal return around the announcement of the stock split. Companies that have a good enough performance to increase the average abnormal return after the announcement of a stock split.

CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

Internet Financial reporting positive and significant effect on the frequency of Stock Trading in the companies listed in

Indonesia Stock Exchange period of 2014. The level of frequency trading 48.9% influenced by the information published through the company website. Internet Financial Reporting does not affect the Abnormal Return on manufacturing companies listed in Indonesia Stock Exchange period 2014 through the Internet Financial Reporting frequency stock trading nor indirect effect on the Abnormal Return on manufacturing companies listed in Indonesia Stock Exchange period 2014.

This study uses only independent variable Internet Financial Reporting, so the need to add other variables that can affect the market reaction. Market reaction is used as the dependent variable in this study is the Abnormal Return and Frequency Trading Shares so need to look for other dependent variables so that the variables can be influenced by the information disclosed through the website can be identified. Frequency Trading Stocks as an intervening variable is also no direct impact on Abnormal Return so need to look for other variables that may affect the Abnormal Return.

For that we need to do research on other factors that could affect the market reaction, so that other variables that affect the market reaction could be identified. It was also necessary to add another market reaction as the dependent variable as Stock Trading Volume and Share Price. It is also possible to expand the sample research and measurement approaches IFR different variables.

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How to cite this article:

Rahmawati.2016, Effect of Internet Financial Reporting on Frequency of Stock Trading and Abnormal Return Manufacturing Company Listed in Indonesian Stock Exchange. *Int J Recent Sci Res.* 7(5), pp. 11016-11020.

ISSN 0976-3031
9 770976 303009 >