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The Role of Foreign Shareholders in Online Financial Reporting: A Comparative Study of Malaysia and China

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Abstract. With the COVID-19 pandemic, using the Internet has become a must for businesses to communicate information to users. One of the main aims of online reporting is to serve users outside the geographic area. The purpose of this study is to empirically examine the association between foreign ownership and the extent of online financial reporting in two developing countries, i.e., Malaysia and China. Foreign ownership is the independent variable and the extent of online financial reporting is the dependent variable, with two control variables, i.e., web presentation and type of industry, which includes six industries, namely industrial products, plantation, property & construction, technology, trading & services, and consumer products. This study uses the agency theory and signaling theory to support hypotheses arguments and results. The sample size of this study consists of 300 companies (150 companies from each country) and the data is collected from the websites of the selected companies. OLS regression in STATA software is used to analyze the data. The findings show that companies in Malaysia do not connect their online financial reporting to foreign shareholders as much as companies in China. Interestingly, the results show that web presentation is significantly associated with the extent of online reporting in Malaysia and China. Industrial products, trading & services, and consumer product companies are positively associated with the extent of online reporting in China, but not strongly significant in Malaysia. The results help regulators and other related parties to enhance the level of transparency amongst listed companies in both countries.

Keywords: Agency theory, China, Foreign shareholders, Malaysia, Online Reporting.

1. INTRODUCTION

Over the last two decades, there has been a rapid increase in internet usage for every aspect of human life as well as for business. This heavy reliance on internet technology has increased even more with the existence of the COVID-19 pandemic. Now, everything is being digitalized, especially information transmission. Internet World Stats reported that in 2018, Asia ranked the highest in internet usage in the world at 49%, followed by Europe at 16.8%. This may explain why many companies are attempting to enjoy the advantages of internet technology and use it as an effective channel for global communication. It is believed that the internet medium is cost-effective, widespread, timely, flexible, and dynamic, with unlimited space (Uyar, 2012; Al_arussi et al., 2013; Alam & Rashid, 2014; Pratiwi et al., 2018). Due to the significant and widespread use of internet reporting, many researchers around the world have been drawn to study this phenomenon. These studies can be divided into two dimensions: the first one is descriptive studies. In these studies, the researchers have described the extent of internet disclosure between companies and between countries (Lymer and Tallberg, 1997; Ismail & Tayib, 2000; Almilia, 2015; Bowrin, 2015; Al_arussi and Hanefah 2007; Bin-Ghanem & Ariff, 2016; Ali Khan & Ismail, 2012; Fisher & Naylor, 2016; Dolinšek & Lutar-Skerbinjek, 2018). The second dimension is empirical studies which have examined the determinants of the level of online financial reporting (Al_arussi et al., 2009, Mohamed and Basuony, 2015, Mokhtar, 2017; Ariff, et al., 2018; Ahmed et al., 2015; Ahmed, Burton & Dunne, 2017; Pervan and Bartulovic, 2017, Ardiansah & Hamidah, 2017; Al-Sartawi & Reyad, 2018; Psimada & Sergios, 2014; Khusniah and Mayasari 2019; Widari et al., 2018). Many theories have been used to explain internet disclosure, such as the stakeholder theory (Vitolla et al., 2019); signaling theory (Haniffa & Cooke, 2002; Al_arussi & Shamkhi, 2016); disclosure theory (Trabelsia, Labelleb, & Dumontier, 2014); cost and benefit theory (Al_arussi et al., 2009); legitimacy theory (Widari et al., 2018); and agency theory (Al_arussi et al., 2013; Omar and Rahman, 2019).

One of the main objectives of disclosing internet reporting is to fulfill the information needs of users who are in different geographic areas from their companies and to attract potential foreign investors. In other words, the disclosure of financial information on companies' websites is very important to attract potential foreign equity. Foreign investment is not only important for a company to increase external funds and enhance its reputation, but is also important for that country's economic growth (Ferreira and Matos, 2008). Accordingly, foreign shareholders need more information to understand and protect their investments as well as to make the right decisions when investing (Agarwal et al., 2015). Based on this argument, it is expected that many studies would have examined the relationship between online financial reporting and foreign direct investment (FDI), but this has not been the case; only a few studies have examined this relationship and the results have been not as expected. For example, Taran et al. (2017) found a negative relationship between foreign ownership and online financial reporting; while Xiao et al. (2004); Aljifri et al. (2014); and Al_arussi & Shamkh (2016) found no relationship. The authors of these studies have suggested further studies on this relationship. Hence, this study fills the gap and empirically examines whether or not the existence of foreign shareholders affects the level of online reporting disclosure in China and Malaysia. As far as the authors are concerned, this is the first comparative study to examine this relationship in these two countries. This study chose China and Malaysia because these two countries have similarities in business as they are both emerging markets and companies in

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both countries are going global, seeking international growth as an importer-exporter (Soo, 2019). According to Chinadaily.com, the two-way trade volume between China and Malaysia in 2013 reached $106 billion, making Malaysia China's third-largest trade partner in Asia, just behind Japan and South Korea and eighth-largest overall. In other words, both countries have been the third-largest trading partners within ASEAN since 2008 for five years in a row. In addition, both countries do not regulate online financial reporting and have suffered currency depreciation. Hence, this study aims to answer the following questions:

- What is the current level of online financial disclosure by companies in Malaysia and China?
- What is the relationship between foreign ownership and the level of online reporting by companies in Malaysia and China?

This study contributes to the extant literature in a number of ways. First, the study contributes to knowledge on online disclosure by updating the level of online financial disclosure in two countries, i.e., Malaysia and China. There is no doubt that transparency is very important in many economic ways either at the company level, industry level, or country level. Previous studies have focused more on paper-based reporting; however, with the COVID-19 pandemic and the difficulties to be physically present in the geographic location of the firm (Poon, Li, & Yu 2003; Silva & Alves, 2004), it is crucial for firms to focus more on online reporting as a medium for communicating information to users (Marston & Polei, 2004; Pratiwi et al., 2018). Second, as far as the authors' knowledge, this study is the first study that sheds light on the connection solely between foreign investment and online disclosure, which adds important insights to foreign shareholders in both Malaysia and China; it would thus be useful for future studies to evaluate this aspect in other countries as well, and determine whether or not online financial reporting can achieve its stated objective of fulfilling the financial reporting needs of emerging economies (Ferreira and Matos, 2008), which includes attracting foreign investment (Turmin et al., 2016; Mustapa, 2017).

Nevertheless, a few previous studies have found a positive association between foreign shareholders and the level of paper-based financial disclosure (Wong et al., 2008; Beuselinck et al., 2017; Bokpin et al., 2009; Fang et al., 2015; Hansen et al., 2015; Jankensgård, 2018; Mangena & Tauringana, 2007). A few other studies have focused on this relationship and have found contradictory results. This study is the first comparative study to focus on this relationship as it is important for countries to know their online disclosure level compared to other countries, and how their own companies react to foreign investment. Third, this study responds to the call by previous studies such as Xiao et al. (2004), Al_arussi & Shamkh (2016), Mokhtar (2017), Taran et al. (2017) that recommended more studies to investigate the negative association between foreign shareholders and disclosure and whether or not this relationship is applicable for all countries in all time. For example, Taran et al. (2017) found a negative association between foreign ownership and online financial disclosure when they studied the disclosure practices of listed companies in Central and Eastern European countries. The results are contrary to expectations, as they also found that foreign shareholders are not sensitive to changes of items in reported information. The study recommends further investigation of this negative relationship.

An earlier study by Xiao et al. (2004) has found no relationship between the level of online financial disclosure and the existence of foreign ownership in listed companies in China. Similar results have been found by Al_arussi & Shamkh (2016) when they examined this relationship in Malaysian companies. Finally, this study contributes by empirically examining the association between the website attributes and the extent of financial disclosure, as previous studies have combined both as one index for voluntary disclosure (Kelton & Yang, 2008; Aly et al., 2010; Khan and Ismail, 2011). Although web presentation is a control variable in this study as well as the type of industry, it is one of the aims of this study to figure out whether or not a good website presentation reflects a higher level of online disclosure. Knowing this relationship can help regulators and information users to understand the link between web presentation, and the contents of the online disclosure.

The rest of the paper is organized as follows: Section 2 summarizes the previous studies and develops the hypothesis; section 3 illustrates the methodology of data collection and analysis; section 4 discusses the results; and finally, section 5 concludes the study.

2. LITERATURE REVIEW

2.1. Previous Empirical Studies

There is no doubt that with rapid technological growth and advancements, the internet avails companies a chance to provide, replace and enhance the traditional way of communication with their information users (Marston & Polei, 2004). Nowadays, with the COVID-19 pandemic, using the internet as a device for communication has almost become a must, which in turn, adds to the significance of a company's web-based reporting. A company's information users can access its reporting on the website at any time and without any boundaries (Abdelsalam & El-Masry, 2008; Oyelere, Laswad, & Fisher, 2003; Al_arussi et al., 2009; Aly, Simon, & Hussainey, 2010). On the other hand, companies can use web technology to increase the quality of disclosure (Trabelsi et al., 2014); promote their identity (Poon, Li, & Yu, 2003); and announce information about their company's activities (Chan & Wickramasinghe, 2006; Sriram & Laksamana, 2006). The information on the internet can be presented in different languages and in different dynamic presentations, such as drawings multimedia, audio, video, and others, from a huge selection of files, like pdf, HTML, and images. It can also serve as a platform for interacting with users (Al_arussi & Shamkhi, 2016, Balsari et al., 2016). FASB (2000) has determined that content and presentation are the most important dimensions of information disclosure in companies' websites, and financial information is useful when it is relevant and represents faithfully the purpose of the disclosure.

Globally, many studies have examined online reporting practices by focusing on developed countries, such as the United States, the United Kingdom, Japan, Finland, Australia, Ireland, Turkey, and New Zealand (Kelton & Yang, 2008; Lymer and Tallberg, 1997; Almilia, 2015; Bowrin, 2015; Chan & Wickramasinghe, 2006; Oyelere et al., 2003; Fisher, Oyelere, & Laswad, 2004; Balsari et al., 2016; Abdelsalam & El-Masry, 2008). A few other studies have been done in developing countries (Khadaroo, 2005; Celik, Ecer, & Karabacak, 2006; Barako, Rusmin, & Tower, 2008; Al Arussi et al., 2009; Mohamed and Basuony, 2015, Mokhtar, 2017; Ariff et al., 2018; Ahmed et al., 2017; Pervan and Bartulovic, 2017; Ardiansah & Hamidah, 2017; Al-Sartawi & Reyad, 2018; Psimada & Sergios, 2014; Khusniah and Mayasari, 2019; Widari et al., 2018). Although the majority of these studies have insisted on the importance of internet reporting in reaching out-boundary investors as well as attracting foreign investors (Balsari et al., 2016; Keliwon et al., 2017; Khan and Ismail, 2011; Pernamasari, 2019), only a few studies have focused on the role of foreign shareholders in determining the level of internet reporting in companies (Xiao et al., 2004; Al_arussi & Shamkh, 2016; Taran et al., 2017).

Types of share ownership include local and foreign shareholders. A speculator is defined as an investor that owns shares in a company (Bekaert et al., 2002). Foreign ownership refers to shares owned by shareholders in a firm who come from other countries. One of the advantages of having foreign shareholders, besides the ability to raise more capital, is the ability to increase firm value (Wei et al., 2005); and establish new markets (Gurunlu & Gursoy, 2010).

Foreign shareholders also are more independent than local shareholders and can better monitor management (Ahmed & Iwasaki, 2015). Ferreira and Matos (2008, p. 500) argued that "*Foreign and more independent institutions are many times credited with taking a more active stance, while other institutions that have business relations with local corporations may feel compelled to be loyal to management*". Aggarwal et al. (2011) argued that firms may change some governance roles and policies due to their foreign shareholders' propositions and suggestions. In this study, the terms, foreign ownership, foreign direct investment, and foreign shareholders, are used interchangeably.

According to the report of the United Nations Conference on Trade and Development (UNCTAD) (2019), in Malaysia, FDI inflow was USD 11.3 billion in 2016, and then, continuously declined in the following years to USD 8.1 billion in 2018, although more than half of the world's economies have experienced accelerated economic growth between 2017 and 2018. It is undeniable that FDI is a major pillar for supporting economies around the world (Patmawati & Maimunah, 2013; Carbonell & Werner, 2018). For countries around the world, whether developed or developing, or in transition, the importance of FDI for development, income growth, modernization, and employment cannot be denied (Adegboye, 2017; Ma, 2018). Malaysia, as a developing country with an emerging market, should promote the confidence of stakeholders if it aspires to attract more foreign equity (Ng, 2010). In this context, one of Bursa Malaysia's strategic objectives is to expand the Malaysian capital market globally. Aly et al. (2010), Alarussi (2021) argued that it is important for Malaysian companies to disclose information that is fair, efficient and transparent, in order to attract foreign shareholders.

Nowadays, with the many advantages of online reporting over traditional paper-based corporate reporting, it is believed that online reporting can provide a way for Malaysian companies to disseminate digital corporate information to attract a wider range of national and international investors. Although there is inconsistency in online reporting practices due to the lack of standardized online disclosure, some core economic sectors, such as trade, manufacturing, tourism, investment, and services can get the benefit of FDI besides the transfer of know-how to local small and medium enterprises (Mustapa, 2017). Thus, online financial disclosure is the tool that can attract local and foreign shareholders (Turmin et al., 2016). Since 1979, China has recognized the importance of foreign capital inflow; hence, the Chinese government has established special economic zones (SEZs) to facilitate the transfer of technology, gain foreign currency, and create employment opportunities. In 1984, China further opened up to the outside world by establishing Economic and Technological Development Zones (ETDZs) by maximizing the successful experiences of SEZs in the previous period. After 20 years of intense and rigorous efforts, the scale of absorbing foreign capital increasingly expanded, and the level was further upgraded when China's law and managerial system on foreign investment were gradually changed. These achievements have won the whole world's attention, which has also effectively promoted the continuous, fast, and healthy development of the national economy. However, the main concern of this study is that transparency must be the key to attracting foreign equity. In this regard, Xiao et al. (2004) examined the relationship between foreign ownership and internet disclosure by the companies in China, and the results are contrary to expectations. The authors have therefore suggested more studies to investigate this issue.

Taran et al. (2017) examined the association between foreign ownership and multinational companies and online financial disclosure of listed companies in Central and Eastern European countries. A fixed-effects panel was used to analyze the data encompassing the period between 2005 and 2015. The results show that the impact of foreign ownership on the extent of disclosure is negative, which is contrary to hypothesized expectations. This result raises questions about the aim of online financial reporting. The authors have suggested further research on reporting practices of companies with foreign ownership. Al_arussi & Shamkh (2016) found there is no association between foreign shareholders and the level of internet reporting disclosure by Malaysian companies.

A few other studies have examined the impact of foreign shareholders on the level of paper-based corporate reporting (Wong et al., 2008; Beuselinck et al., 2017; Bokpin et al., 2009; Fang et al., 2015; Hansen et al., 2015; Jankensgård, 2018; Mangena & Tauringana, 2007). The results of these studies show a significantly positive association between foreign ownership and the level of corporate reporting. Beuselinck et al. (2017) empirically examined whether or not the quality of financial reporting improves with the existence of foreign shareholders. By using the data of companies from four South-European countries (Greece, Italy, Portugal, and Spain) for the period between 2002-2007, they found a significantly positive association between foreign ownership and the quality of financial reporting. In addition, they found that if the foreign ownership is related to institutional investors, improvements to the quality of financial reporting are more noticeable. Hansen et al. (2015) empirically examined whether or not companies can attract foreign equity capital by increasing their level of financial disclosure. The data was collected from firms across 51 countries outside the United States, and the results show that companies with higher transparency in their financial information can attract foreign equity only if those companies are located in countries with relatively high levels of investor protection. In countries with poor investor protection, unilaterally increasing firm-level transparency has no effect on foreign ownership. However, these results are not applicable for online reporting. Therefore, this study examines the role of foreign ownership in the level of internet reporting disclosure by companies in China and Malaysia.

2.2. Selected Variables and Hypotheses Development

The rapid growth of internet technology has created the ability for companies to directly and instantly disclose their financial and non-financial information to fulfill users' needs all over the world (Oyelere, Laswad, & Fisher, 2003; Marston & Polei, 2004). It has been stated that the investor relations department has come under pressure to fulfill the increased demands of the investors for online information (Sriram and Laksmana, 2006). This has made the internet to become the main platform for both companies and their information users. This platform can be used to send and receive the needed information, especially for current and potential users who are in different geographic areas from their companies. In other words, the disclosure of financial and non-financial information on companies' websites is very important to attract new foreign equity. Hence, this study empirically examines the association between foreign ownership and the extent of online financial reporting in two developing countries, i.e., Malaysia and China.

2.2.1. Foreign Shareholders

Giannetti and Koskinen (2010) argued that domestic resources are limited in firms of many countries for expansion purposes, and they should look to outside sources. In response to this, many capital markets have been liberalized (Li, 2003). Das and Das (2017) stated that foreign investors create cross-border diversification by investing in shares across countries. In this context, Bekaert et al. (2002) indicated that attracting foreign investors allows developing capital markets to access external sources of finance. Hoti (2004) stated that over the last three decades, foreign investments in developing countries have fluctuated significantly. Foreign investments help these countries to enhance the standard of living of the people (Calvo et al., 1996). Marandu, Mburu, & Amanze (2018) stated that African countries are trying to stabilize their economics by attracting foreign investments. In this sense, attracting foreign equity by companies will not be an easy task if they do not disclose information that is fair, efficient, and transparent (Aly et al., 2010). Gormley et al. (2012) argued that foreign investors demand more quality reporting from the firms that they are involved with, and firms may adjust their financial reporting quality due to these demands.

Previous studies have asserted that using the internet to disseminate corporate information is the best tool to reach users outside a country's borders (Poon, Li, & Yu, 2003; Silva & Alves, 2004). With online financial reporting, companies are able to promote themselves to local and foreign investors (Mohd Noor Azli et al., 2013; Turmin et al., 2016). Online reporting provides several advantages to firms and users, such as accessibility of information on a timely basis, wider dissemination of information, a platform for communication, and lower costs compared to paper-based reporting costs (Gowthorpe & Flynn, 2001; Marston & Polei, 2004; Neely, Adams, & Kennerley, 2002). It has been hypothesized that there should be a strong association between foreign shareholders and the extent of online financial reporting (Xiao et al., 2004; Al_arussi & Shamkh, 2016; Taran et al., 2017). Based on the signaling theory, firms with good performance intend to voluntarily disclose more information in order to distinguish themselves from those with poor performance (Craven and Marston, 1999; Marston and Polei, 2004, Al_arussi & Xiaoyu, 2021), in addition to avoiding any asymmetric information and providing signals to the market to attract potential local and foreign investors (Watts and Zimmerman, 1986). Prior studies have argued that due to the lower level of disclosure in developing countries, foreign shareholders avoid investing in these countries (Gibson, 2003; Johnson et al., 2000; Mangena and Tauringana, 2007).

The relationship between foreign shareholders and the extent of online reporting is not always in one direction, In their study Taran et al. (2017) a reverse relationship between foreign ownership and online financial disclosure of companies in Central and Eastern European countries. Xiao et al. (2004) empirically examined the association between the level of online financial disclosure and the existence of foreign ownership in listed companies in China and found that they are not related. Similar results were found by Al_arussi & Shamkh (2016) when they examined the relationship between foreign shareholders and the extent of financial disclosure on the internet by listed companies in Malaysia. Other studies have examined this relationship for paper-based financial reporting and have found a positive and significant relationship between foreign ownership and the extent of financial reporting (Wong et al., 2008; Beuselinck et al., 2017; Bokpin et al., 2009; Fang et al., 2015; Hansen et al., 2015; Jankensgård, 2018; Mangena & Tauringana, 2007). Gill de et al. (2017) found a negative association between foreign ownership and financial reporting quality when they tested this relationship at the subsidiary level in Spanish companies. This study aims to empirically examine the relationship between foreign shareholders and online financial disclosure by listed companies in Malaysia and China. This study measured foreign shareholders by the percentage of shares held by foreign investors; a similar measurement was used by Bekaert et al. (2002); Thanatawee et al. (2013); and Al_arussi & Shamkh (2016). Therefore, based on the above discussion, the first and second hypotheses are:

H_1: There is a positive association between foreign shareholders and online reporting by companies in Malaysia.

H_2: There is a positive association between foreign shareholders and online reporting by companies in China

2.3. Control Variables

2.3.1. Web Presentation

Marston and Shrives (1991) argued that the content dimension measures the type of information reported through the company's website; whereas the presentation dimension measures the usage of the latest display criteria in disseminating corporate information and the company's web design. Most of the online disclosure studies have considered website attributes when they described the extent of the disclosure (Ismail & Tayib, 2000; Khadaroo, 2005; Al_arussi et al., 2009; Mohamad et al., 2006; Ali Khan & Ismail, 2012; Fisher & Naylor, 2016; Dolinšek & Lutar-Skerbinjek, 2018). This is because they believed that there should be a connection between the website attributes and the extent of online disclosure by companies. Dolinsek et al. (2014) conducted a study to explore opinions regarding the best method for companies to present their information on their website. By examining the websites of 209 large Slovenian companies, they found that only about half of the companies (50.64 %) have online financial disclosure. About 40.2% of the users of company information evaluated the disclosed information based on four characteristics: reliability, credibility, usability, and adequacy. Based on the conceptual framework of financial reporting, the attributes of comparability, verifiability, timeliness, and clarity are the characteristics of disclosing financial information. Widari et al. (2018) argued that if a company uses website technology well, this would help the users of the information to benefit from the disclosed information. The website of a company is a manifestation of its corporate transparency. In this study, web presentation is a control variable and in order to measure it, 20 items in the website attribute index were used, similar to previous studies. Type of industry

It has been argued that the type of industry plays a significant role in the level of financial disclosure (Teoh et al., 2003). Cooke (1992) studied the online disclosure by Japanese companies and found that manufacturing companies disclose more information than non-manufacturing companies. Other studies have found similar results in other countries (Wildstrom, 1997; Tariq, 2001; Joshi and Jawaher, 2003). Silva and Lira (2004) argued that information disclosure on the internet creates greater market value and this is directly influenced by the industrial sector and size of the companies, regardless of the country in which they operate. The agency theory argues that industrial pressures could push companies to disseminate their financial information (Inchausti, 1997). Due to this reason, it is normal to observe that companies in the same industry adopt the same level of the disclosure; otherwise, it may tarnish their reputation because of hiding bad news (Craven and Marston, 1999). However, empirical evidence on industries that have adopted internet reporting shows mixed results. For example, Joshi and Jawaher (2003) concluded that the type of industry is one of the most important factors that influence voluntary disclosure on the internet by the listed companies in Bahrain and Kuwait. This is supported by Wildstrom (1997) and Tariq (2001) who found a significant relationship between industry type and voluntary disclosure on the internet, suggesting that there is an industrial effect on internet financial disclosure.

In the Malaysian context, Hassan et al. (1999) found that industry type influences the decision of Malaysian companies to whether or not to have a corporate website. The significance of this relationship is due to the fact that each industry has different characteristics in terms of competition, growth, and risks, and these may influence the disclosure policy in these industries (Dye and Sridhar, 1995). Lymer (1997) found that the banking, financial services, and insurance sector provides limited financial information compared to the chemicals and pharmaceuticals sector. In addition, different types of industries have different proprietary costs, which could result in companies in the same industry disclosing more or less information than other industries (Verrechia, 1983).

Prior studies have used different dimensions to measure the industry type variable; some studies have measured industry type by using major industries for a number of years. Others have divided industry types into manufacturing and non-manufacturing companies (Firth, 1984; Cooke, 1992; Lymer, 1997). Type of industry is a control variable in this study and to define it, six categories are chosen, namely, industry products, plantation, property & construction, technology, trading & services, and consumer products, these six categories are chosen because they represent the majority of companies in Malaysia and China.

3. METHODOLOGY AND DATA COLLECTION

3.1. Data, Sample and Model Specification

This study utilized secondary data which was manually collected from the websites of non-financial companies listed on Bursa Malaysia and the China Stock Exchange. Due to the time limitation, the data only included 300 companies (150 companies from each country); stratified random sampling was used to select 150 companies from each of the six types of industries, i.e., industry products, plantation, property & construction, technology, trading & services, and consumer products, as they represent the majority of companies in both countries. The data was collected from the companies' websites and the information in the annual reports of 2018 was used, which was the latest available on the companies' websites at the time of conducting this study. The study employed one independent variable, i.e., foreign ownership, and one dependent variable, i.e., online reporting. Two control variables, i.e., website presentation and type of industry, were included in this study.

3.1.1. Variables Measurement

Table 1 explains the above-mentioned variables and their measurements, For the dependent variable, this study used an online disclosure index which consists of 87 items, 67 items are financial items; the index includes the most common items and has been used by studies, such as Khan and Ismail (2011). Foreign shareholders' variable was measured by the percentage of the total shares held by foreign shareholders of the total outstanding shares in a company; a similar measurement has been used by previous studies, such as Haniffa and Cooke (2002); Xiao, Yang, and Chow (2004); and Al_arussi & Shamkhi, (2016). Web presentation, as a control variable, as measured by the web attributes index which consists of 20 items extracted from previous studies, such as Al_arussi et al. (2009); Marston and Polei (2004); Xiao, Yang, Chow (2004); and Khan and Ismail (2011). Finally, for the type of industry, six types of industry were selected as they represented the majority of listed companies in both countries (Malaysia and China), i.e., industry products, plantation, property & construction, technology, trading & services, and consumer products (Al_arussi et al., 2009; Xiao, Yang, and Chow, 2004).

Table 1: Variables Measurements.

No	Variable	Measurement	Supporting Studies
1	Online Financial Reporting	Online disclosure index, consisting of 87 items	Khadaroo (2005); Khan & Ismail (2011); Kelton & Yang (2008); Al_arussi et al. (2009); Aly et al. (2010)
2	Foreign shareholders	Percentage of foreign shares to the total outstanding shares	Haniffa and Cooke (2002); Xiao, Yang, and Chow (2004); Al_arussi & Shamkhi (2016)
3	Web Presentation	Website Index, consisting of 20 items	Marston and Polei (2004); Xiao, Yang, Chow (2004); Khan & Ismail (2011)
4	Type of Industry	Six types of Industry	Ahmad, Hassan, and Mohammad (2003); Haniffa and Cooke (2002); Wong et al. (2001)

This study uses the unweighted index with the presumption that all index items are equally important (Meek, Roberts, & Gray, 1995). A number of studies have used this method as it is more appropriate (Chavent, Ding, Fu, Stolowy, & Wang, 2006; Hossain, Perera, & Rahman, 1995; Chau & Gray, 2002). This study followed this method since it does not focus on the importance of the item to the users, but rather, the extent of financial disclosure on the internet. In addition, unweighted index measurement could avoid the element of subjectivity, and the measurement would not be biased towards any information user (Raffournier, 1995). This enhances the strength of the empirical disclosure index, which includes a weighted and unweighted index and leads to almost the same result (Chow & Woren-Boren, 1987; Adhikari & Tondkar, 1992; Wallace & Naser, 1995; Xiao et al., 2004). Different approaches have been used to construct the scoring scheme to determine the standard index (Curuk, 2008). In this study, items in the index were measured by using a score of 0 or 1, where 0 was given for non-disclosure and a score of 1 was given if an item in the index was disclosed. Then, the extent of financial disclosure was measured by the total score of the index checklist that evaluates the contents of the company's website. A similar method has been used by previous studies (Debreceny et al.,2002; Marston and Polei, 2004; Xiao et al., 2004; Kelton and Yang, 2008; Aly et al.,2010). The maximum score for financial disclosure that could be obtained by each company is 87 points (the disclosure checklist is provided in Appendix 1). The score for the disclosure index was calculated based on the exact total of the items reported compared to the total maximum index items (Bonson & Escobar, 2006; Hashim & Jaffar, 2006; Mohd Ghazali & Weetman, 2006; Jaffar, Jamaludin & Rahman, 2007; Lopes & Rodrigues, 2007; Curuk, 2008; Kelton & Yang, 2008; Al_arussi et al., 2009; Aly et al., 2010; Al_arussi & AL_dhamari , 2017).

3.2. Data Description

Table 2 on Frequency shows that there is a huge gap between the extent of online disclosure between companies in Malaysia and companies in China. Based on Table 1, no company in China disclosed less than 57 items (65.5% of the disclosure index); however, 66 companies in Malaysia disclosed less than 57 items. The majority of companies in China, i.e., 105 companies (72%), disclosed between 65 to 71 items on their websites; while 27 companies (18%) in Malaysia disclosed the same number of items. Two companies (0.13%) in China disclosed between 81-85 items (95.29%-97.7%); however, no company in Malaysia disclosed more than 72 items (82.7%) of the disclosure index. It is clear that the level of online disclosure in Malaysia is almost half of the level of disclosure in China.

Table 2: Frequency of online disclosure.

Country	<57	Min. 57	Majority 65-71	Max. 81-85
China	0	3	105	2
	0%	0.02%	72%	0.013%
Malaysia	66	1	27	0
	44%	0.0067%	18%	0%

In updating the level of disclosure in Malaysia, almost all Malaysian companies have at least 10 items (11.76%) from the disclosure index on their websites. however, in China, all selected companies have at least 57 items (65.5%) from the disclosure index on their websites. This is interesting as it shows the current level of disclosure in both countries. The last study on internet reporting in Chinese companies was by Xiao et al. (2004) almost 16 years ago and with the changes in the economic environment, it is important to have information about the current state of internet reporting in Chinese companies.

Table 3: Descriptive analysis.

Variable	Mean	Median	Minimum	Maximum	SD
Malaysia					
OFR	51.86667	60.00	10.00	72.00	17.3896
FS (t-1)	6.3212	2.010	.00	63.23	8.76495
WP	12.4067	12.0000	4.00	17.00	1.63476
China					
OFR	68.00	70.00	57.00	85.00	4.31838
FS (t-1)	4.9995	0.0000	0.00	77.87	12.23004
WP	15.1200	15.0000	7.00	33.00	2.38260

Note: OFR is Online Financial Reporting, FS is Foreign Shareholder, WP is Web presentation.

Table 3 displays the descriptive analysis for the sample. It shows that in Malaysia, the mean (median) of absolute value for OFR is 51.86667 (60.00); FS(t-1) is 6.3212 (2.010), and Web Presentation is 12.4067(12.000). In China, OFR is 68.00 (70.00); FS is 4.9995 (.0000); and WP is 15.1200 (15.0000). In addition, it is noted that the maximum number of disclosure items is 72 items by companies in Malaysia; while in China, it is 85 items. Similarly, FS(t-1) in companies in Malaysia and China is 63.23 % and 77.87 %, respectively.

Table 4: Correlation analysis.

	VD	FOS	WP	INDPT	PLNT	PPT	TCHG	TRSE	CNSM
Malaysia									
OFR	1.000								
FS (t-1)	0.1729**	1.000							
WP	0.4240***	0.033	1.000						
INDPT	-0.0326	0.014	0.127	1.000					
PLNT	0.0564	-0.038	-0.094	-0.133	1.000				
PPT	0.0523	-0.070	-0.028	-0.2761***	-0.1013	1.000			
TCHG	0.113	-0.009	-0.038	-0.216***	-0.079	-0.164**	1.000		
TRSR	-0.026	-0.055	0.075	-0.308***	-0.113	-0.234***	-0.182**	1.000	
CNSM	0.107	0.136*	-0.112	-0.295***	-0.108	-0.224**	-0.175*	-0.250**	1.000
China									
OFR	1.000								
FS (t-1)	0.26***	1.000							
WP	0.4006***	-0.018	1.000						
INDPT	0.2368**	-0.020	0.237**	1.000					
PLNT	-0.192**	-0.049	-0.05	-0.12334	1.000				
PPT &CON	-0.2029	0.117	-0.156*	-0.2761**	-0.101	1.000			
TCHG	-0.0661	-0.028	0.1595*	-0.2156***	-0.079	-0.164**	1.000		
TR&SR	0.073	0.022	-0.1119	-0.3015***	-0.111	-0.229***	-0.179**	1.000	
CNM PR	0.0109	-0.062	-0.103	-0.302**	-0.111	-0.229***	-0.179**	-0.250***	1.000

Note: * Correlation is significant at the 0.05 level (2-tailed).,**. Correlation is significant at the 0.05 level (2-tailed).,***. Correlation is significant at the 0.01 level (2-tailed).
OFR is Online Financial Reporting, FS is Foreign Shareholder, WP is Web presentation, INDPT is industry products, PLNT is plantation, PPT &CON is property & construction, TCHG is technology, TR&SR is trading & services and CNM_PR is consumer products.

Table 4 displays the correlation between the independent variable, control variables, and dependent variable in this study. Based on this Table, in Malaysia, foreign shareholders and web presentation show a positive correlation with voluntary disclosure; however, in China, foreign shareholders, web presentation, and industrial products companies are positively correlated to voluntary disclosure. Similar results are found by Al_arussi et al. (2009).

Before proceeding with regression analysis, it is important to solve or reduce the impact of endogeneity in this study. Endogeneity is a potential concern since it can be questioned whether better FS leads to higher OFR or firms with more transparency (higher online disclosure) leads to attracting more foreign investors. In order to reduce the problem of endogeneity, this study follows the methodology of previous studies (Hillman and Keim, 2001; Su et al, 2013) and lag by one year the dependent variable of OFR. In line with the previous research (Inoue et al, 2010; Su et al, 2013), so the FS (t-1) is an indicator of the foreign shareholders for the year 2017. The Ordinary Least Squares (OLS) method is used to conduct the analysis and robust regression is included to ensure the solidness and strength of the model. The analysis also conducts the Variance Inflation Factors (VIF) test to ensure that there is no multicollinearity problem. Thus the model of the study that explains the level of online financial reporting is as follows:

$$OFR = \alpha + \beta 1\ FS(t\text{-}1) + \beta 2\ WP + \beta 3\ TIND + \varepsilon.$$

Where:

The dependent variable is Level of Online Financial Reporting (OFR); α and β1-β3 are coefficients; Foreign

Shareholders is (FS), Web presentation (WP), TIND refers to Type of Industry and ε is the residual error term.

For any further analysis, it is important to figure out any econometric problem related to serial correlation. For multicollinearity, it can be seen that among the factors, the maximum correlation is 0.308, which is between trading & service companies and industrial products companies, which is far below the threshold of nine. However, if there is any case that faces this problem, it is very important to treat it before going further for regression analysis. Furthermore, it is argued that a variance inflation factor (VIF) value of greater than 10 is a concern (Myers, 1990). In this study, the VIF values are well below 10, i.e., at 3.23, which means multicollinearity is not a problematic issue or concern, and linear regression analysis can be run.

Table 5: Regression analysis.

		Malaysia			China		
Variable	**Expected Sign**	**Coefficient**	**t-Statistics**	**Robust results**	**Coefficient**	**t-Statistics**	**Robust results**
FS (t-1)	+	0.3095	2.383 **	4.40***	0.10023	3.97 ***	3.86***
WP	+	4.656	5.90 ***	7.01***	0.8723	5.23 ***	5.41***
INDPT	+	10.795	1.69*	1.75*	4.18143	2.79 ***	2.12 **
PPT & CON	?	-5.2536	-0.80	-0.85	1.45643	0.94	0.73
TCHG	+	-.1.797	-0.26	-0.28	1.67200	1.02	0.83
TR&SR	+	-9.809	-1.51	-1.55	4.04179	2.65 ***	1.92**
CNSM_PR		11.069	1.69*	1.71*	3.67791	2.41 **	1.83*
Constant	0.050			0.06		18.55***	16.27***
Std.Error	10.92648			10.13108		2.792497	3.182641
Root MSE	15.443			15.443		3.6283	3.6283
Mean VIF	3.23			3.23		3.23	3.23
F Value	6.71			9.53		9.70	11.99
Sig. F	0.000			0.0000		0.000	0.000
R Square	0.2484			0.2484		0.3234	0.32.34
Adju R Square	0.2114					0.2901	

Note: *Correlation is significant at the 0.05 level (2-tailed),**. Correlation is significant at the 0.05 level (2-tailed).***. Correlation is significant at the 0.01 level (2-tailed).

OFR is Online Financial Reporting, FS is Foreign Shareholder, WP is Web presentation, INDPT is industry products, PLNT is plantation, PPT &CON is property & construction, TCHG is technology, TR&SR is trading & services and CNM_PR is consumer products.

Table 5 shows the results of the relationship between the dependent variable and independent variable and control variables. The results show that in Malaysia, there is a positive and significant relationship between foreign shareholders and web presentation and online financial disclosure; the coefficient is 0.3095 and 4.656 at the 5% and 1% significance level respectively. Similarly, in China, foreign shareholders and web presentation have a positive and significant relationship with the level of online financial disclosure; the coefficient is 0.10023 and 0.8723 at the 1% significance level. However, in Malaysia, industrial product companies and consumer product companies show a positive and fairly significant relationship with the level of online disclosure, the coefficient is 10.795 and 11.069 at the 10% significance level. In China, companies such as industrial products, trading & service, and consumer product show significant and positive relationships with the extent of online financial disclosure; the coefficients are 4.181, 4.042, and 3.678 respectively at the 1% and 5 % significance level. The R-squared and adjusted R-squared values are 0.248 and 0.211, respectively in Malaysia; and 0.323 and 0.290, respectively in China. Since this study examines the impact of foreign shareholders on the level of online financial reporting and other variables are control variables (Web-presentation and Type of industry), the change in adjusted R-squared for foreign shareholders is only 0.211 in Malaysia but 0.290 in China. The robust regression was also conducted in this study and reported in Table 5, it can be noticed that the results are almost identical and there are only fairly differences between the two results, which indicates the robustness and strength of regular regression. This confirms the connection between foreign shareholders and online financial reporting is higher in companies in China compared to companies in Malaysia.

4. DISCUSSION OF RESULTS

This study examined the impact of foreign shareholders on the level of online financial disclosure in two developing countries, Malaysia and China. Web presentation and type of industry, which consists of these types of industry namely industry products, plantation, property & construction, technology, trading & services, and consumer products, are served as control variables. The results are elaborated on as follows:

4.1. Foreign Shareholders

The results of the regression analysis show that in Malaysia, there is a positive and significant association between foreign shareholders (measured by the percentage of shares held by foreigners) and the level of online financial disclosure. The coefficient t-value = 2.383 and $p < 0.05$, indicating this positive and significant relationship. Although one of Bursa Malaysia's strategic objectives is to expand the Malaysian capital market globally (Aly et al., 2010), there is still inconsistency of online reporting practices due to the lack of standardized online disclosure practices (Mustapa, 2017). On the other hand, in China, the results show a very strong relationship between foreign shareholders and online financial disclosure with the coefficient t-value = 3.97 and $p < 0.01$ level of significance. These results indicate that companies in China strongly connect their online disclosure to the needs of foreign shareholders. The interpretation of these results is China continuously works to attract and absorb foreign capital by adopting numerous ways, including instituting law and upgrading the managerial system on foreign investment. Part of the changes is also to provide more transparent online information by companies, as transparency is the key to attracting foreign equity. In other words, companies that have foreign shareholders tend to be more transparent. Xiao et al. (2004) found that foreign ownership is positively related to Chinese companies having an English medium website. These results help regulators to focus more in companies that have foreign shareholder to be more disclosed companies in order to achieve international recognition and growth. However, companies that do not have foreign investors, should also be pushed by regulators authorities to disclose more information in order to help economy in the country to boost. Based on the above results, the first and second hypotheses cannot be rejected.

4.2. Website Presentation

Marson and Shrives (1991) argued that the content and presentation are different dimensions in online reporting; content dimension measures the type of disclosed information in company's websites whereas presentation dimension measures how the disclosed information is presented including the company's web design. Table 5 shows that in Malaysia, website presentation is strongly related to the level of online financial disclosure with coefficient t-value = 5.90 and $p < 0.01$, indicating this positive and significant association with online financial disclosure. It has been argued that a good disclosure practice should provide both dimensions, contents, and presentation (Marston and Shrives, 1991). The results show that in China, web presentation is also related to online financial disclosure with coefficient t-value = 5.23 and $p < 0.01$, indicating this positive and significant association. These results can be explained that web presentation characteristics are important to present a wide range of data online, and this is what companies in both countries are doing.

4.3. Industry Type

The type of industry is one of the control variables in this study; six types of industry were chosen as they represent the majority of companies in both Malaysia and China. Table 5 shows that in Malaysia, there are positive and fairly significant relationships between industrial and consumer companies and online disclosure with the coefficient t-value = 1.691 and 1.690 and $p < 0.10$ respectively, which means these types of companies disclose more information than other types of companies. These are expected results because, these companies present the majority of companies types in Malaysia (Zandi and Abdullah, 2019), so they are under the public eye, especially since both of these types of companies have a connection with environmental concerns due to their production process. Similar results were found by Turmin et al. (2016). Alarussi & Thamer (2023). In China, industrial, trading & services, and consumer products companies disclose more online information compared to the other types of industries. The coefficient t-values are 2.79, 2.65, and 2.41, respectively and the $p< 0.001$ level of significance indicates these positive and significant relationships. These results mean that industrial, trading & services, and consumer products companies disclose more voluntary information than other types of companies. The reasons are similar to those in Malaysian companies besides the competition between companies is higher to attract both investors and customers. Owsus-Ansah (1998) argued that some industries are highly regulated because of their overall contribution to a country's national income; so their level of disclosure is affected by more rigorous control over these types of industries. In addition, the level of disclosure is related to the scope of business operations. In this context, multi-production firms disclose more information than single production firms. Finally, the signaling theory plays a role here, in that some companies attempt to distinguish themselves over other companies and so disclose more information that may lead other firms to "follow the leader" (Belkaoui & Kahl, 1978), by adopting the same level of disclosure (Wallace & Naser, 1995).

5. CONCLUSION, LIMITATIONS AND APPLICATION

With the COVID-19 pandemic and the heavy dependence on internet technology by companies to communicate their information to their current and potential shareholders who are not in their geographic area, this study empirically examines whether or not the level of online financial disclosure changes with the existence of foreign shareholders in companies. The study chose 300 listed companies from two developing countries, i.e., Malaysia and China as a comparative study. Cross-sectional data were collected from companies' websites based on the online disclosure (measured by index of 87 items). The existence of foreign shareholders is measured by the percentage of shares held by foreigners. In addition, this study has two control variables, i.e., website presentation based on an index of 20 items and type of industry, comprising six types of industries, namely industry products, plantation, property & construction, technology, trading & services, and consumer products. STATA (OLS regression) was used to run the data, and the results show that although there is an improvement in the extent of online financial disclosure by Malaysian companies, there is still a gap between the extent of online disclosure between companies in Malaysia and companies in China. In fact, the level of online disclosure in Malaysia is almost half of the level of disclosure in China. The results also show that in both Malaysia and China, there is a positive and significant relationship between foreign shareholders and online financial disclosure; however, companies in China significantly connect their level of online financial disclosure to the needs of foreign shareholders compared to Malaysian companies, this explains why foreign shareholders are more in China. Web presentation and industrial products and consumer products companies are significantly and positively related to online voluntary disclosure in both countries as it is common nowadays to have high-quality website presentations by companies. Industrial products, consumer products, and trading and services companies show a higher extent of online disclosure in China compared to Malaysian companies, where these types of companies disclose more online reporting. This study is interesting as it provides current information on the level of online financial disclosure by companies in Malaysia and China. It also offers empirical evidence that supports the agency and signaling theories. The results benefit information users in both countries, regulators, companies, and stock markets to enhance their level of online disclosure as it might become a must after the COVID-19 pandemic. It is recommended that future studies include more factors, such as corporate governance as a moderating variable and the impact of online disclosure on stock price and firm value. This study can be duplicated with different periods, and by conducting a comparative study between different countries. Cost advantage is another aspect that companies consider when they make their decisions regarding online disclosure, thus future studies may consider the cost benefits between online mode of financial reporting versus Offline (Hard copy).

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