

# Analysis of the Quality of Corporate Information Disclosure: Relevance, Credibility, and Readability in the Digital Disclosure Environment (A Critical Study on the Implementation of POJK No. 8 and 31 of 2015)

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**Abstract.** This study aims to investigate individual investors' perceptions of the quality of corporate information disclosure, namely relevance, credibility, and readability. This study uses a Multidimensional Quality Model (MQM) approach by [1]. This study uses an online survey approach to 96 individual investors in Indonesia. The results of this study indicate that individual investors' assessments of relevance, credibility, and readability measures are in line with the concept of information quality in MQM. In addition, this study also shows that the disclosure of corporate information presented on the company's website (according to POJK No. 8 of 2015 and POJK No. 31 of 2015 has varying levels of relevance, credibility, and readability. Investors assess financial highlights which have highly relevance (37%) and readability (85%). Meanwhile, they chose annual financial report as the highest credibility (89%) of corporate information disclosure. This study gives both academic and practice contribution. Academically, it broadens our understanding of information disclosure quality (relevance, credibility, and readability) and provides opportunities for new avenues of research. In practice, it gives suggestions for both management and regulator in designing firm disclosure strategy.

**Keywords:** corporate disclosure, relevance, credibility, readability, information quality.

## 1 Introduction

The change in the disclosure environment from conventional to digital has significantly increased the needs of users (investors) of relevant, credible, and readable information for making an optimal investment decisions [2].

In the conventional disclosure environment, corporate information disclosure focuses more on the aspects of relevance and reliability. Information is said to be relevant if the substance of the information can be used by users in making decisions. Information is said to be reliable if the information can be verified. In a digital disclosure environment characterized by the availability of a variety of information (corporate and non-corporate information), high speed of access to information (real time access), and the availability of various digital platforms (website, facebook, twitter, instagram, youtube, and others) as media Information disclosure has changed the focus of information disclosure towards disclosure of relevant, credible, and readable information.

Empirically, many previous studies show that the relevance of accounting information disclosure decreases [3], [4]; the credibility of corporate information disclosure in the digital disclosure environment is beginning to be doubted [2], [5]; and the readability of corporate information disclosures that are increasingly difficult to understand [6], [7]. Furthermore, recent studies show that changes in digital information technology have an impact on users (investors) in acquiring and processing information in making investment decisions [2]. Advances in digital information technology have facilitated the availability of various information from both internal and external companies with varying relevance, credibility, and readability. Under these conditions, users need to be more careful in assessing relevant, credible, and readable information before making

investment decisions. The inaccuracy of investors in finding, acquiring, and processing information can have a negative impact on making investment decisions.

In general, this study aims to investigate investor perceptions of (1) the quality of corporate information disclosure available on the company's website; and (2) the effectiveness of using digital platforms as a medium for information disclosure. Specifically, research question was formulated as follows:

1. How does the investor's perception of relevance, credible, and readability?
2. How does the investor's perception of the relevance of disclosure of information for investors on the company's website?
3. How does the investor's perception of the credibility of information disclosure for investors on the company's website?
4. How does the investor's perception of the readability of information disclosure for investor on the company's website?

This study is provide significant contributions, namely: first, it can enrich the literature on corporate information disclosure, especially regarding the relevance, credibility, and readability of information disclosure. Second, the contribution of best practice for the company is to provide insight in designing an effective corporate disclosure strategy. Third, the contribution of policies to regulators, namely OJK-RI, as an evaluation material for the effectiveness of the implementation of POJK No. 8 of 2015 and POJK No. 31 of 2015.

## **2 Literature Review**

### **2.1 Disclosure of Information in the Digital Disclosure Environment**

The change in the disclosure environment from conventional to digital has a significant impact on information makers (companies) and users (investors). Conceptually, the complexity of the digital disclosure environment is illustrated in Figure 1.

The volume and variety of available and easily accessible external information has a significant impact on investors and information makers. In a complex digital disclosure environment, investors' need for relevant, credible, and readable information is getting higher [2]. Therefore, companies are required to be more adaptive to user responses to the quality of information disclosure.

### **2.2 Regulation of Disclosure of Digital Information in Indonesia**

The development of technology and social media has a significant impact not only on information providers in disclosing information, but also for users (investors, creditors, government, and the public) in finding and processing the information to make decisions. Internet-based technology has facilitated companies to disclose information through web-based financial reporting. The Financial Services Authority of the Republic of Indonesia (OJK RI) responded to the rapid advances in technology by formulating POJK No. 8 of 2015 concerning the disclosure of corporate information on the company's website and POJK No. 31 of 2015 concerning the disclosure of material facts of the company to the public.

Issuance of POJK No. 8 of 2015 aims to increase transparency and access for shareholders and other stakeholders to the latest company information. Through this regulation, issuers are required to have a company website as a medium for disclosing general information on issuers, information for investors/investors, information on corporate governance, and information on corporate responsibility. In accordance with the initial purpose of this study, this research is more focused on investors' perceptions of information disclosure for financiers/investors. The mandatory information that must be disclosed to investors/investors includes: public offering prospectus, annual financial reports, semi-annual financial reports, and summary of important financial data, each for the last five financial years period, stock information, and corporate action information.

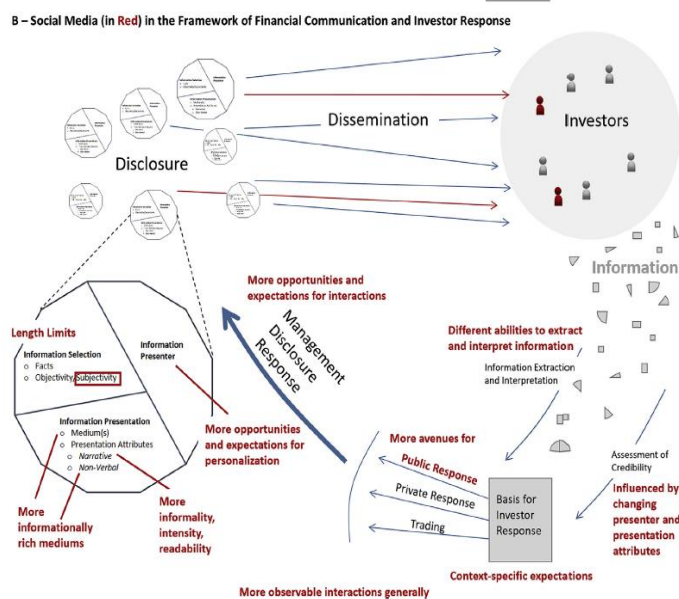


Fig. 1. A – framework of firm financial communication and investor response. B – social media (in red) in the framework of financial communication and investor response. (For interpretation of the references to colour in this figure legend, the reader is referred to the Web version of this article.)

**Fig. 1.** Communication flows in a digital disclosure environment (source: [8]).

In addition, OJK RI also issued POJK No. 31 of 2015 which aims to improve the quality of openness of issuers regarding information on corporate actions and material facts of the company. The information that must be disclosed at a minimum includes: the date of the incident, the type of information or material fact, a description of the material information, and the impact of the incident on the information. Information on disclosure of material facts must be disclosed on the company's website no later than the second day after the information is received.

### 2.3 Quality of Information Disclosure

The main output of the company's accounting activities is to produce quality accounting information, namely information that can be used as a basis for consideration in making decisions and can provide an optimal rate of return on investment for the company. Conceptually, the quality of accounting information disclosure has been formulated by the Financial Accounting Standard Board (FASB) in the Statement of Financial Accounting Concept (SFAC No. 2) or by the Indonesian Institute of Accountants presented in the Conceptual Framework for the Statement of Financial Accounting Standards on the qualitative characteristics of financial reporting that focuses on on relevance and reliability. Accounting information is said to be relevant if the use of that information has an impact on decision making. Information is said to be reliable if the information can be verified. In the conventional disclosure environment, the two qualitative characteristics of information disclosure are still relevant, but not in the digital disclosure environment.

An alternative model of contemporary information disclosure quality, namely the Multidimensional Quality Model (MQM) [1] states that the quality of corporate information disclosure is determined by three things, namely the relevance of information content, credibility, and communication (readability) of information disclosure. The relevance of information content includes the substantive content of the message to be conveyed (type of information, size, theme, and volume of information). Credibility of disclosure of information, namely the ability of an information to be trusted. Communication is a method or media used by companies to communicate information so that it can be more easily read (readable) and understood (understandability). Previous studies on measuring the quality of disclosure of information focused more on the conventional disclosure environment. Previous researchers did not consider the presence of other (non-corporate) information that also influences the decision-making process.

## **2.4 Relevance of Disclosure of Information**

[9] provides a definition of value relevance of information as the ability to explain (explanatory power) of accounting information in relation to firm value. Accounting information is said to be relevant when the availability of other (non-accounting) information is not more influential in decision making. Relevance is referred to as the capability “of making a difference in the decisions made by users in their capacity as capital providers”. Drawing on prior literature, relevance is operationalized using four items referring to predictive value, confirmatory value, timeliness.

Many researchers have operationalized predictive value as the ability of past earnings to predict future earnings [1]. Predictive value explicitly refers to information on the firm’s ability to generate future cash flows: “information about an economic phenomenon has predictive value if it has value as an input to predictive processes used by capital providers to form their own expectations about the future” [10]. We consider predictive value as most important indicator of relevance in terms of decision usefulness and measure predictive value using three items. The first item measures the extent to which annual reports provide forward-looking statements. The forward-looking statement usually describes management’s expectations for future years of the company.

## **2.5 Credibility of Disclosure of Information**

In a digital disclosure environment, the availability of external information as either complementary or substitute information can influence individuals in making decisions. This phenomenon is explained and predicted by the Media Agenda-Setting Theory (MAST). This theory explains that mass media (online media: web site, blog site, social media: twitter, face book) as an information provider platform has the power to influence and even shape the mindset of investors who are exposed to information exposure [11]. Therefore, the credibility of information disclosure is one aspect that investors consider in making decisions.

The concept of credibility of information disclosure has been formulated in previous research [12] [13] [14][15]. Conceptually, credibility implies believability, trust, accuracy, and objectivity [16]. Credibility of information disclosure is defined as an individual's perception of the ability of an information to be trusted. Although the level of credibility of information disclosure varies between individuals, studies show that investors are very sensitive to variations in credibility [14].

The results of meta-analysis [17] [12] [15] show that information is said to be credible if the three aspects are: the source of information (source), information content (message), and the media used contains an element of credibility. The credibility of the source of information is measured by assessing that the individual or organization that issued the information is that the individual/organization has competence (expertise) and has a reliable track record, as issued by an authorized individual/organization, submitted on the official website of the individual/organization. The credibility of the information message can be demonstrated by the relevance and accuracy of the information conveyed. Media design credibility focuses more on the structural attributes inherent in web pages, such as information design.

In this research, the credibility of information disclosure is measured using the credibility of the information source [1], [17]. Disclosure of stock analyst information is said to have high credibility if the information comes from a competent (expert) source (individual or organization), has a good track record, and is published on the official website of the individual/analyst organization. On the other hand, disclosure of stock analyst information is said to have low credibility if the information comes from an incompetent (expert) source (individual or organization), has a poor track record, and is not published on the official website of the individual/analyst organization.

## **2.6 Readability of Information Disclosure**

Conceptually, readability of information disclosure is defined as the ease with which individuals/users can process and understand comprehensive narrative/text disclosures [18]. Another concept defines readability as the ability of an information to be more easily read and understood by users [19].

Readability of information disclosure is one of the determinants in measuring the quality of disclosure [20][21]. The issue of financial statement readability has long been a topic of discussion

among financial statement preparers, regulators, and users of financial information in the United States. Furthermore, they expressed concern over the disclosure of corporate financial reporting which is considered to be not timely, excessive, difficult to read, difficult to understand, less specific, and more boilerplate from time to time [22], [23]. This phenomenon was successfully confirmed by [20][24] that in the last two decades the level of readability of financial information disclosures is very low and difficult to understand.

The level of readability of web-based financial reporting is measured using the readability characteristics according to SEC's A Plain English Handbook year of 2010. The readability characteristics measured included semantic and visual aspects. Semantic characteristics with high readability were measured based on: the use of short sentences, passive voice, no redundant words, writing in positive simple synonyms, and easy-to-read sentence layout. Visual characteristics with high readability are measured based on: clear title hierarchy, selection of easy-to-read typography, graphic design for quantitative data, and choosing color combinations that are easy to read by the eye. Semantic and visual characteristics at low readability were measured otherwise. In detail, the readability measure according to SEC's A Plain English Handbook.

### 3 Methodology and Data Analysis

#### 3.1 Types of Research

This research is an exploratory study of investors' perceptions of the quality of information (relevance, credibility, and readability) of corporate information disclosure. Researchers used an online-based survey method using google form and whatsapp group media. Research respondents are individual investors. The questionnaire instrument was developed from research [1][25] [26].

#### 3.2 Research Respondents

The respondents of this research are individual investors who are members of the Whats App Group community of the Republic of Investors (142 people) and the Telegram Stock Zone (4347 people with 92 active members).

#### 3.3 Research Variables

The variable of this research is the quality of information disclosure (relevance, credibility, and readability). The research instrument was developed from [1], [17].

#### 3.4 Analysis Tools

To answer the research questions, this study used a descriptive statistical approach SPSS 13. Previously, this study measured the level of validity and reliability of the data using Cronbach Alpha.

## 4 Research Result and Discussion

### 4.1 Demographics of Respondents

This study succeeded in obtaining a response rate of 41% or 96 people from 234 individual investors who were sent an online survey. Table 4.1 shows the descriptive statistics of demography respondents based on gender, age, educational background, and an investment experience.

**Table 4.1.** Descriptive Statistics of Participants

Demography Characteristics	Frequencies	%
Gender:		
- Male	63	66%
- Female	33	34%
Age:		
- 20 -30	18	20%
- 31 – 40	38	39%
- > 41	40	41%
Investment Experience:		
- < 2 years	50	53%
- > 2 years	46	47%
N observation	96	100%

Based on validity and reliability test of information disclosure quality instruments, this research instrument are valid and reliable. Using factor analysis, it shows that the instrument has good validity with factor loading values > 0.7; relevance (>0.81), credible (0.77), and readability (0.72). While reliability test using Cronbach alpha shows that three variables are reliable: 0.936 (relevance), 0.872 (credible), and 0.755 (readability).

Based on the results of an online survey that was responded to by 96 individual investors, the following results were obtained as follow.

#### 4.2 Investors' perception of the quality of corporate information disclosure

Investors were asked to identify the characteristics of the quality of corporate information disclosure. It consist of relevance, credible, and readability of the information disclosure. The characteristic used by individual investor in Indonesia are displayed in Table 4.2.

**Table 4.2.** Investor Perception on the Quality of Corporate Information Disclosure

No	Investor Perception	Percentage of Response
1	<b>Relevance</b>	
	a. Predictive value	92%
	b. Confirmatory value	77%
	c. Timeliness	87%
2	<b>Credibility</b>	
	a. Competency source of information	90%
	b. Issued by authorized individual/organization	70%
	c. Display on official website of firms	81%
3	<b>Readability</b>	
	a. the use of short sentences	88%
	b. No redundant words	53%
	c. Easy-to-read sentence layout	60%
	d. Clear title hierarchy	79%
	e. Easy to read typography	62%
	f. Graphic design for quantitative data	90%
	g. Color combination	68%

As shown in Table 2, investors give an assessment of three measures of the quality of information disclosure. Investors agree that the relevance of information disclosure can be measured by three indicators, namely predictive value, confirmatory value, and timeliness. Of the three measures, the ability of information to predict future values has a higher weight, which is 92% compared to the other two criteria, timeliness (87%) and confirmatory value (77%).

Furthermore, investors assess that the credibility of information disclosure can be measured by three indicators, namely the source of information, authorized individual/organization issuers, and it is on the official website of firms. The survey results show that disclosure of corporate information published by individuals/organizations that have good competence or track record gets a higher weight, namely 90%.

Individual investors also consider that the readability of information disclosure is reflected by six semantic and visual aspects. For the semantic aspect, investors give the highest weight to the use of graphs for quantitative data, followed by concise sentences (88%), clear title hierarchy (79%), color combination (68%), easy to read typography (62%), and the last no redundant words (53%).

#### 4.3 Investors' perception of the relevance of corporate information disclosure

Investors were asked to identify how relevant the information presented on the company's website is for making investment decisions. The corporate information disclosure rating deemed relevant by investors is presented in Table 4.3.

**Table 4.3.** The Relevance of Corporate Information Disclosure

Rank	Information Type	Percentage of Response
1	<b>Financial Highlight</b>	<b>37%</b>
2	Semi-Annual Financial Statement	21%
3	Stock Information	15%
4	Corporate Action Information	11%
5	Annual Financial Report	8%
6	General Meeting of Shareholders Information	5%
7	Public Offering Prospectus	3%

According to Table 4.3, it shows that investors give higher weight to quantitative information than to qualitative information. Financial highlights are assessed as quantitative information that has the highest relevance (37%) compared to semi-annual financial statements (21%), and annual financial reports (11%). Meanwhile, the relevance of qualitative information includes stock information (15%), corporate action information (8%), general meeting of shareholders (5%), and public offering prospectus (3%).

#### 4.4 Investors' perception of the credibility of information disclosure for investors

Investors were asked to identify how credible the information presented on the company's website is for making investment decisions.

**Table 4.4.** The Credibility of Corporate Information Disclosure

No	Information Type	Percentage of Response
1	Financial Highlight	75%
2	<b>Semi-Annual Financial Statement</b>	<b>87%</b>
3	Stock Information	57%
4	Corporate Action Information	63%
5	<b>Annual Financial Report</b>	<b>89%</b>
6	General Meeting of Shareholders Information	77%
7	Public Offering Prospectus	65%

As shown on Table 4.4, the information which published on the firm official website is rated as credible by investors. Investors consider that the disclosure of financial information audited by the auditor is more credible than the disclosure of non-financial information, namely 89% for annual financial statements and 87% for semi-annual financial statements. Meanwhile, the disclosure of financial highlight information that is not audited by the auditor is assessed at 75%.

Furthermore, Investors were asked to identify how credible the media of information disclosure presented on the company's social media. As shown on Table 4.4 the disclosure of corporate information through the official firm website has the highest credibility value of 81%. The second and third positions are followed by official firm youtube (80%) and whats app group from stock analyst (77%). Meanwhile, the information that publishes on other social media such as Instagram, Facebook, and online media is considered to have lower credibility, namely 66%, 62%, and 60%.

**Table 4.4.** Frequently Used of Disclosure Media

Rank	Information Type	Percentage of Response
1	<b>Official Firm Website</b>	<b>81%</b>
2	<b>Official Firm You Tube</b>	<b>80%</b>
3	<b>Stock Analyst Whats App Group</b>	<b>77%</b>
4	Twitter	73%
5	Stock Analyst Telegram	71%
6	Instagram	66%
7	Official Firm Facebook	62%
8	Online Media	60%

#### 4.5 Investors' perception of the readability of information disclosure for investors

Finally, investors were asked to identify how readability the information presented on the company's website is for making investment decisions.

**Table 4.5.** The Readability of Corporate Information Disclosure

No	Information Type	Percentage of Response
1	<b>Financial Highlight</b>	<b>85%</b>
2	Semi-Annual Financial Statement	74%
3	Stock Information	55%
4	Corporate Action Information	68%
5	Annual Financial Report	58%
6	General Meeting of Shareholders Information	62%
7	Public Offering Prospectus	54%

As shown on Table 4.5, it knows that the present of financial highlight has a higher level of readability (85%) than semi-annual financial statements (74%) and annual financial reports (58%). This is because the presentation of financial highlights fulfills the semantic and visual aspects that are easy to read and understand by investors.

## 5 Implication and Suggestion for Future Research

The results of this study indicate that this assessment confirms [1] through a Multidimensional Quality Model (MQM) that the quality of corporate information disclosure can be measured by relevance, credibility, and readability. This has implications for companies as providers of corporate information to consider aspects of relevance, credibility, and readability in disclosing corporate information.

Furthermore, the results of this research also show that the implementation of POJK No. 8 of 2015 and POJK No. 31 of 2015 is able to reflect the quality of disclosure and transparency of corporate information disclosure, especially information for investors. However, there are several things that need to be paid attention to by the government, in this case OJK RI, namely: (1) focusing on presenting information that has a high relevance value for decision making purposes, (2) developing technical guidelines for corporate disclosure by considering the relevance, credibility and readability of information.

This study has limitations, namely the assessment given by investors may be subjective. Therefore, it needs to be developed in further research, namely measuring aspects of the quality of information disclosure: relevance, credibility, and readability in corporate information disclosure on the company's website using a quantitative approach, such as content analysis.

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