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The Internet: Changing the Way Corporations Tell Their Story

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The Internet: Changing the way corporations tell their story.

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An acceptable substitute for a hard copy annual report?

The electronic age has already affected the way that financial information is disseminated. Many corporations disclose quarterly and annual report data on the Internet. The authors discuss this and the potential of the Internet to change the way decision makers can use this readily available information.

Annual reports continue to be one of the primary sources of communication between corporations and users of financial information. While annual reports routinely include quality photographs and extensive graphic representations, the electronic age has launched a new era for informing stockholders. Several corporations have even included CD ROM disks with hard copies of their annual report. Corporations are beginning to use the Internet to provide information about themselves. To remain competitive, managers must be aware of how customers, stockholders, lenders, and regulators expect to receive information about their corporation.

How the Internet Disseminates Information

The Internet is a collection of information stored on electronically connected computers all over the world. A computer that is capable of storing Internet-accessible information is known as a server. Most computer users in the industrialized areas of the world may observe, or browse, data stored on the Internet at a relatively low cost. While the Internet is criticized for being vast, disorganized, and confusing, it provides excellent opportunities in education, commerce, and entertainment.

Information on the Internet is typically stored in a web site maintained on a server. The home page of a web site is the primary screen of a web site that usually provides guidance to other information provided in the web site. Each page in a web site is identified by a unique address known as a uniform resource locator (URL) that contains three parts (see Exhibit 1). The first part identifies the interpretive language--most corporate home pages use Hyper Text Transfer

Protocol (HTTP). The second part of the URL identifies the server that stores the information. The file on the server in which the data is contained is identified in the last part of the URL.

Most information on the Internet is displayed in a series of screens with expressive lettering and color known as hypertext. By clicking certain words or graphics on the screen known as links, access is gained to other screens in the hypertext format. In financial accounting applications on the Internet, hypertext has been used to break down annual reports into usable segments. For example, (see Exhibit 2) Ford Motors' web site (<http://www.ford.com>) presents a summarized annual report separated into eight linked topics. These segments are accessed by clicking on the appropriate topic or link.

Hypermedia enhances hypertext by adding video, sound, animation, and graphics. Computer languages, such as Java(TM), are specifically designed to accommodate hypermedia on the Internet. As more users begin to utilize these languages, hypermedia is likely to become widespread on the Internet. Hypermedia is appealing for displaying annual reports because it presents information with sound and movement. Several companies have already incorporated hypermedia in their Web sites. For example, Southern Co. (<http://www.southernco.com>) contains an audio clip of a short speech by the CEO concerning corporate goals and accomplishments. A word of caution is in order. Depending on your equipment, it may take up to five minutes to bring the speech into memory which, when activated, results in an audio message that lasts for about 50 seconds.

Hypermedia also has the ability to perform interactively with the user. Interactivity is currently limited to the ability to search an annual report for specific data. However, the potential for interactivity with the financial statement user is exciting. Software developers are currently attempting to make their applications compatible with the Internet. For example. Internet users will soon be able to easily download Internet data into spreadsheet and word processing applications. The Internet of the future will probably be able to analyze the solvency or profitability of a corporation by making a few keystrokes or mouse clicks.

What Has Technology Done to Annual Reports?

Most financial information currently contained on the Internet simply duplicates the hard copy or portions of the hard copy in hypertext form. Because many corporations utilize their web sites primarily for other purposes, such as product promotion or customer service, financial information may be difficult to locate. On

the home page of a corporation, the annual report and quarterly financial data is usually located under topics such as Corporate Overview, Stockholder Information, or Financial Information. For example, from Mobil Corporation's home page (<http://www.mobil.com>) (see Exhibit 3), the financial data is accessed by clicking on "The Company" and then clicking on "1995 Annual Report." Earnings and dividend announcements are obtained by clicking on "News & Views."

Of the top 150 corporations in the Fortune 500, approximately 23% include virtually all the information typically shown in an annual report hard copy. About 13% include summarized portions of the hard copy annual report. (See Exhibit 4)

Some corporations provide links to other web sites that provide additional information to the user. For example, 10% of the top 150 corporations provide a link to the Security, and Exchange Commission's EDGAR database which contains the 10-K filings of the corporation, rather than include an actual annual report in their web site. Bristol-Myers Squibb (<http://www.bms.com>) provides links to their 10-K and 10-Q filings in the SEC's EDGAR Internet site. In addition, the company provides current stock prices and the latest annual report to Internet users (see Exhibit 5).

Internet disclosures would not be useful if they did not provide some advantages over a hard copy annual report. Clearly, one advantage is the reduced production and distribution costs associated with hard copy annual reports. Some corporations estimate production costs to be \$5 to \$7 dollars per copy, and approximately \$2.50 to send copies of annual reports to users.

The Internet is powerful because of its ability to provide specific information quickly. Presentation on the Internet will certainly reduce incidental requests from nonstockholder financial statement users. If a financial statement user needs a limited amount of data from an annual report, it may be more practical to obtain that data from the Internet rather than request a hard copy from the corporation.

Most benefits, however, are realized through the unique way data is presented on the Internet. Many web sites provide the ability to search the contents of the web site using key words or phrases. For example, an information user concerned with "leases" may enter that word into a search tool and be referred to all places in the web site that contain the word, leases.

Unlike hard copy annual reports, a web site usually includes much more than financial data (see Exhibit 6).

The ability to access real-time nonfinancial data is an immediate advantage not provided by hard copy annual reports. Many web sites contain recent corporate news, quarterly earnings releases, employment information, product or service information, social concerns, and current stock price data. Several corporations provide links to services that provide current stock prices or track corporate data over a period of time. Wal-Mart (<http://www.wal-mart.com>), for example, provides a link to StockMaster (<http://www.stockmaster.com>), which charts stock price performance for several corporations (see Exhibit 7).

What's in the Future

The future of financial disclosure on the Internet will, no doubt, extend beyond reproduction of a hard copy annual report. Internet disclosures of the future are likely to provide advantages over hard copy annual reports by improving timeliness, expanding scope, and permitting a high degree of interactivity. Corporations often wait several weeks before printers convert financial data to hard copy annual reports. Several corporations have made financial data available to the public as soon as possible by disclosing annual report data on the Internet before it is available in hard copy. The Internet also provides the potential to continually update data. For example, we may come to expect annual data on a rolling basis, updated monthly.

The future might also hold an increase in the scope of corporate information disclosed to the public. Corporate web sites currently disclose much more than financial data. This information has a significant effect on investment, credit, social, and regulatory decisions associated with the corporation. Business decision makers of the future are not likely to distinguish between the limited information presented in a traditional annual report and other corporate information. This phenomenon has implications on the role of the accountant in the corporation and the scope of the auditor's involvement with financial information.

The Internet also has the ability to teach its users. Web sites could potentially include help functions that are similar to those contained in word processing applications such as Word and Word Perfect. If an Internet user wanted to know how a projected benefit obligation of a pension was determined, that user might only need to click on that area of the screen to obtain an explanation.

Certainly, the use of sound and movement will potentially increase the understanding of information. However, ability to act interactively with corporate information has profound implications concerning the way business decisions will

be made. Internet developers are currently creating small software applications, known as applets, that perform very specific tasks on the internet. These programs may be downloaded directly from the Internet. Applets may potentially be used to perform ratio analysis or content analysis on specific corporate web sites. In addition they may be used to search or analyze large databases of corporate information contained on the Internet.

At this point, innovation in corporate information through the Internet has occurred through those with an expertise in corporate public relations or technology. The accounting profession--preparers, attestors, or regulators -- has yet to acknowledge the role of the Internet in disclosing corporate information. The accounting profession will inevitably be faced with the following questions concerning the Internet:

- Does Internet disclosure enhance the understanding of corporate financial information?
- Should generally accepted accounting principles be extended to accommodate electronic disclosure?
- Will an Internet disclosure be an acceptable substitute for a hard copy annual report?

PHOTO (COLOR): EXHIBIT 1. MOTOROLA URL

PHOTO (COLOR): EXHIBIT 2. FORD MOTOR'S WEBSITE

PHOTO (COLOR): EXHIBIT 3. MOBIL CORPORATION'S HOME PAGE

EXHIBIT 4 HOW THE FINANCIAL STATEMENTS ARE DISCLOSED ON THE INTERNET

| Financial Disclosure | Number | Percentage |
|---------------------------------------|--------|------------|
| Complete annual report or 10-K report | 35 | 23.3% |
| Portions or summary of annual report | 20 | 13.3 |
| Web site but no financial information | 42 | 28.0 |
| No web site | 53 | 35.3 |
| Total | 150 | 100% |

Table data as of March 1, 1996

PHOTO (COLOR): EXHIBIT 5. BRISTOL-MEYERS SQUIBB LINK TO 10K & 10Q

EXHIBIT 6 WHAT LARGE CORPORATIONS PUT IN THEIR WEB SITES

Legend for Chart:

A - Information Contained in The Web Site
B - Number of Corporations With this Information
C - Percentage of Corporations With this Information[a]

| A | B | C |
|--------------------------------|----|-------|
| Product or service information | 67 | 69.1% |
| Recent corporate news | 65 | 67.0 |
| Quarter earnings releases | 45 | 46.4 |
| Site search | 29 | 29.9 |
| Employment information | 25 | 25.8 |
| Current stock-price link | 22 | 22.7 |
| Social concerns | 19 | 19.6 |
| Link to SEC's EDGAR | 15 | 15.5 |

a Of the top 150 corporations, 97 had web sites.

PHOTO (COLOR): EXHIBIT 7. WAL-MART STOCK MARKET PERFORMANCE

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