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How do corporate websites contribute to the information environment? Evidence from the U.S. and Taiwan

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ABSTRACT

We study corporate website disclosures in the U.S. and Taiwan, two countries with different regulatory and market environments, to provide insights into the uniformity of website content and its contribution to the information environment. We observe significant variation in content both within and between the two countries. U.S. firms with higher analyst following tend to create more transparent financial information environments and provide disclosures that are complementary to analysts' analyses through their corporate websites. They also tend to provide easier access to investor relations (IR) services if analyst coverage is light or nonexistent. However, neither effect is true in Taiwan where the securities analysis industry is less mature. Individual investors have greater ownership share in U.S. firms with more information about IR services on their websites; however, their ownership share drops as financial disclosure on the firm's website increases, consistent with institutions diluting individual ownership in firms with more transparency in financial reporting. In Taiwan, however, institutions dilute individual ownership share in firms with *less* financial information and *more* trading information on their websites. These results are consistent with Barber et al.'s (2009) findings that institutions find Taiwan firms that attract the aggressive, speculative trading of individuals to be extremely profitable investments. Website disclosures in both countries have some effect on the stock-price response to mandatory earnings releases, but their impact is greater in the U.S. Our findings indicate that

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website disclosures contribute to the information environment and are related to the degree of interest in the firm by sophisticated market participants. Thus, they provide insights to regulators of both countries as they seek to improve disclosure and "level the information playing field."

1. Introduction

In its "Commission Guidance on the Use of Company Web Sites," dated August 1, 2008, the U.S. Securities and Exchange Commission (SEC) states that "... a company's website can be a valuable channel of distribution for information about a company, its business, financial conditions and operations" (p. 18). However, in the same document, the SEC also notes that despite the general increase in both the amount of disclosure and access by tech-savvy investors from around the world, the effectiveness of corporate websites as an information channel depends, in part, on the design of the website and the content and complexity of the information posted there. This suggests that even in recent years, corporate website content is far from uniform and that it likely differentially affects investor response to other news across firms. In addition, because of the development of stock markets and regulation in emerging and frontier markets, the content, usefulness and impact of corporate website disclosures is likely to vary in significant ways across markets around the world.[1]

In this paper, we provide insights into these issues by examining the extent and type of corporate website disclosures in two countries with regulatory environments at different stages of development and with different cultures and trading environments: the U.S. and Taiwan. We also examine how corporate website content fits into the information environment of firms in the two countries by asking whether and how that content varies with analyst following and individual investor versus institutional interest in the firm. Finally, in order to understand whether and how website disclosures affect investor responses to mandatory financial reports, we use event-study regressions to study the impact of particular types of corporate website disclosures on the stock price response to quarterly earnings announcements in the two countries.

As just noted, the U.S. and Taiwan have very different regulatory and trading environments and therefore provide settings in which the features and impact of website disclosures are likely to differ. In particular, the U.S. has well developed disclosure regulation and mature securities markets operating in a similarly mature regulatory environment. The U.S. securities analysis industry is also well established and highly regulated. In Taiwan, however, disclosure and securities market regulation is evolving, the securities analysis industry is relatively new, and firm ownership is relatively complex (Yeh et al., 2001).[2] In addition, while the U.S. stock markets are quite liquid, turnover on the Taiwan Stock Exchange is extremely high and prices are volatile (Barber et al., 2009; Bekaert and Harvey, 1997). Individual investors in Taiwan tend to incur large losses from their trading activities and tend to be aggressive in their trading while institutions, especially foreign institutions, tend to make large profits (Barber et al., 2009). This suggests that website content is likely to differ in systematic ways between U.S. and Taiwan firms, and that as a result, specific types of content may have different effects on the stock price reaction to earnings news in the two countries.

Our cross-sectional analysis of the website disclosures of 300 publicly trading U.S. firms and 594 publicly traded Taiwan firms, gathered in 2008 and 2009, respectively, indicates that this is the case and yields the following major results. First, despite the growth in corporate websites and Internet usage worldwide and the mature regulatory environment in the U.S. in particular, firms in both the

[1] See http://www.mscibarra.com/products/indices/international_equity_indices/ for MSCI Barra's list of (what it refers to as) developed, emerging and frontier markets.

[2] As noted by Yeh et al. (2001), it is not uncommon for other corporations and legal entities that are affiliated companies or nominal investment companies associated with a controlling family to own shares in firms in Taiwan. See also Piesse et al. (2007) and Filatotchev et al. (2005) for a discussion of corporate governance issues in publicly traded, family-controlled firms in Taiwan.