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Financial Reporting Quality of Audiovisual Services Companies in Albania during the Digitalization Process

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Abstract

The digitalization process brought a series of challenges for Albanian audiovisual services companies, one of them is the financial reporting quality. Financial statements, apart from being key to the market evaluation of a company, serve to communicate with the interested public, hence their quality takes on a first-hand importance in an environment that is competitive and simultaneously rapidly changing. This study focuses on the challenges related to the existing financial reporting methodology of Albanian audiovisual companies in the conditions of the transformation of the television industry. The research questions intended to be answered are: Has the financial reporting methodology of audiovisual companies changed as a result of digital transformation? Are there unreported items in the financial statements, and if so, which are they? How does the exclusion of specific items affect the analysis of the financial performance of companies? How is financial reporting conducted through company websites? In order to conduct the study, we relied on the analysis of the financial statements content of five private national audiovisual entities and the public operator (RTSH/Albanian Radio Television) for a period of 6 years (2017-2022); qualitative empirical data obtained from in-depth interviews with accounting experts, legal auditors as well as on previous studies. The study findings show that the existing financial reporting methodology of audiovisual companies does not meet the needs and expectations established by transformations in the television industry enhanced by technological developments.

Keywords: financial reporting quality, methods, audiovisual companies, digitalization, website.

Introduction

Companies communicate in different ways with stakeholders, one of which is through financial reporting. Since financial statements are key to the evaluation of companies, their continuous improvement appears as a necessity to adapt to the rapid developments in the market. Previous researchers have shown the importance of the quality of financial statements, regardless of the type of industry in which companies/corporations operate (Elbannan, 2009; Beest et al., 2009; Cheung et al., 2010; Hope et al., 2011; Choi & Pae, 2011; Tang et al, 2012; Gajevszky, 2015; Kanthi & Albarqi, 2017). According to CFA Institute (2023), "High-quality financial reporting provides information that is useful to analysts in assessing a company's performance and prospects. Low-quality financial reporting contains inaccurate, misleading, or incomplete information". Furthermore, as Kanthi & Albarqi (p.1, 2017) explain "the higher the quality of financial reporting, the more significant are the benefits to be gained by investors and users of the financial reports."

While there are some studies that highlight the importance of the financial reporting, in Albania, there is a lack of scientific research that specifically sheds light on the quality and methods of financial reporting companies. The aim of the study is to provide detailed information related to the quality of financial reporting of audiovisual companies, and how the methodology of financial reporting reflects the changes dictated by the digitalization process.

Literature Review

The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity (2018, IASB). Nowadays, providing the right method for evaluating the quality of financial reports seems to be a challenge in itself. Referring to the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Accounting Standard Board in the United Kingdom (ASB) [UK], and the Australia Accounting Standard Board (AASB), for the authors Kanthi & Albarqi (p.2, 2017) financial reporting quality represents "financial statements that provide accurate and fair information about the underlying financial position and economic performance of an entity". Moreover, the authors suggest that financial reporting quality is "a broad concept that does not just refer to financial information; it also includes other non-financial information that is useful for making decisions".

What are the elements that must contain the financial statements to be considered as qualitative? According to Conceptual Framework for Financial Reporting of the FASB

and the IASB (2018), there are six qualitative characteristics of useful financial information: 1. fundamental qualitative characteristics which include relevance and faithful representation; 2. Enhancing qualitative characteristics which include comparability, verifiability, timeliness and understandability. Lekovic & Arsenovic (p.93, 2013) states that “relevancy and credibility are the two main qualitative characteristics of useful financial information, while enhanced information benefit is reached if information is also comparable, verifiable, timely and comprehensible”. Meanwhile, in the study carried out in 2017 by International Accounting Standards Board there are three main issues in relation to financial statements: “not enough relevant information; too much irrelevant information and information communicated ineffectively.” (Hoogervorst, p. 4, 2017).

In addition to the form and content of financial statements, the manner in which financial information is distributed is important as well. The Internet, especially the Web, has fundamentally changed the distribution of information on the financial performance of corporations. In the article on financial reporting websites, Debreceny et al., (2001) explain how the web is an important tool for disseminating information through which corporations communicate with stakeholders. The Web changes corporate communication with stakeholders in three main ways. Firstly, the web enables the corporation to package information cost-effectively for stakeholders from sources inside and outside the corporation and at various levels of aggregation and disaggregation; secondly, the web allows users to interact with corporate databases in an interactive way, and thirdly, the information available is now synchronous and global. According to the authors, web offers an opportunity for “mass-customization” of information in a way that is impossible with printed documents. For instance, the inclusion of hypertext in web-based financial reports enables document users to create an unlimited number of contexts or independent perspectives on the same hypertext network, each built for a different category of users.

Despite the advantages, studies show that there are several factors that affect the financial reporting of companies on the Internet. According to Dolinšek et al (2014), company size, concentration of ownership, legal form and sector of operation are the main factors influencing online financial reporting. Larger companies, companies with lower concentration of ownership, public limited companies and financial sector companies publish financial information to a greater extent compared to other companies.

Methodology

This study is based on qualitative method of scientific research, specifically, on the analysis of three main components: 1) Financial Reports and Annual Reports of audiovisual companies deposited in the National Business Center (NBC); 2) in-depth interviews with accounting experts, legal auditors; and (3) Strategy and Action Plan

for Improving Financial Reporting of Companies in Albania, 2021 – 2024 and Albania's digital agenda 2015--2020.

Research context

In Albania, digital transmissions began in July 2004 whereas the digitalization process was completed by December 30, 2020 (AMA, 2021) realizing and fulfilling in this way an international and national obligation carried over the years. The transition to digital television broadcasting has been a long road and faced with a number of challenges for the regulator (AMA), audiovisual operators and viewers. It is precisely these changes in the television industry from the structural point of view of the market, managerial, financial, professional aspects, etc. which have dictated the need to improve the financial reporting of audiovisual companies by increasing the quality of information in financial statements.

Research questions

This paper aims to answer the following research questions regarding the financial reporting methodology of audiovisual companies during the digitization process:

1. What is the quality of financial reporting of audiovisual companies?
2. Has the financial reporting methodology of audiovisual companies changed as a result of digital transformation?
3. Are there unreported items in the financial statements, and if so, what are they?
4. How does not including specific items affect the analysis of financial performance of companies?
5. How is financial reporting done via the web?

Instruments

In order to realize study, was collected a total of 36 Annual Reports (including financial statements) of five national private audiovisual companies as well as of the only public operator, RTSH, deposited in the National Business Center for a six-year period, 2017-2022, which correspond to the digitization process, were collected and analyzed. The qualitative analysis is based on the elements that compose the financial statements e.g., assets, liabilities, net assets/equity, revenues and expenses. Specifically, items that are included or not in the category of annual income have been analyzed in detail, such as: income from YouTube ads, income from the TNT broadcasting system; revenue from the sale of the software package (if any); network rental income; revenue from sms service; income from the monetization of web content, income from the sale of archive materials, etc.

Likewise, we collected qualitative data obtained from in-depth interviews conducted with accounting experts, legal auditors operating in the country. In addition, in-depth interviews were conducted; experts were asked questions related to the following:

- Financial items/elements of financial statements during the period 2017-2022;
- The need to include new items in the financial statements dictated by technological developments and digitization in the media industry;
- The importance of the quality of financial reporting as one of the forms of communication between companies and the public/interested parties;
- Perceptions related to the quality of financial statements and annual reports, etc.

In addition to the analysis of the elements of the financial statements, we have monitored for a period of 1 year, August 1, 2022 - August 1, 2023, all the websites of the audiovisual companies included in the study regarding the publication or not of the Annual Report, the quality of the content, etc.

Data analysis

The collected data were analyzed based on the Conceptual Framework for Financial Reporting of the FASB and the IASB (2018), taking into consideration qualitative characteristics of useful financial information: relevance, faithful representation, understandability, comparability, verifiability, and timeliness. The results were interpreted in line with the research aims and questions raised in this study.

Research Results and Findings

Methodology and content indicators of financial statements

Based on the analysis of the content of the Profit and loss (P&L) statements of the television companies part of the study for the period 2017-2022, it results that the methodology of reporting the items of the indicators of the financial statements has remained unchanged, which translates into incomplete information and ineffectively communicated. Specifically, in the category "Annual income" there is no details on the type of income, details which reflect the changes in the industry as a result of the transition from linear television to advanced digital television. There are several types of income that are not included in the financial statements, such as: income from the TNT broadcasting system; revenue from the sale of the software package (if any); network rental income; revenue from sms service; income from the monetization of web content, income from the sale of archive materials; etc.

In financial statements no detailed information is provided on the volume of revenue from YouTube, Internet advertising, revenue from placing products in programs, etc., as these items/indicators are missing, that is, they are not included in the table of

contents. In addition to the lack of specific items related to the type of income, there is a tendency to include several items in one, that is, the total value is presented. For example, in the 2019, 2020 and 2021 P&L statements of the national television Top Channel, the item "Advertising income" includes "Advertising income, broadcasting rights and various services". In such a situation, the users of financial statements, the stakeholders have confusion regarding the source of television's income. There is also uncertainty about the advertising market in the country, since if the items of the indicators in the financial statements were detailed, we would understand (by crossing the data) how much or what weight the advertising expenses for the products in the Albanian market are, etc.

Even in other indicators such as Annual Expenses or Investments, there is a lack of information. For example, in the statement of expenses we cannot detail or understand how much the expenses are for staff training. Regarding Investments, no details are given for the total movements of long-term material assets (Investments), they are reflected in a table but nothing is described regarding the type of investments.

As far as the public operator RTSH (Albanian Radio Television) is concerned, although it has a different financing model than private operators in the market, since advertising is not the main source of income, the analysis of the financial statements shows that there are no specific indicators related to income, expenses, investments, etc.

Based on the examination of financial statements, it is evident that audiovisual companies do not use adequate, sophisticated financial reporting systems by applying the manual preparation of financial statements. The automation of the financial reporting process is still an unknown practice for Albanian companies in general, and audiovisual operators in particular.

Financial reporting via the web

Based in a period of 1 year monitoring of the websites of the audiovisual companies included in the study, it results that none of them publishes any kind of financial information on the Internet. Audiovisual media with national licenses do not even fulfill the legal obligation to report the Annual Report at the end of each year, which must be made public on their websites for stakeholders. Currently, the only way to obtain financial information for television companies is through the website of the National Business Center (<https://www.qkb.gov.al/>).

Likewise, it is evident that some of the audiovisual operators do not even submit the Management Report to the National Business Center (NBC), which is a legal obligation. The few companies that present it do not pay attention to the quality of the information, the content, which in some cases turns out to be simply a part detached from the financial statements. In most cases, the information contained in the Management Report is general, undetailed or incomplete.

Discussion and Conclusions

Increasing the awareness of companies (companies) to achieve improved financial reporting is one of the three main pillars of the Strategy for Improving the Financial Reporting of Companies in Albania. Referring to this strategic document (2020), the benefits from improving the financial reporting of companies would be multiple such as, for instance, it would affect the increase of confidence in the financial information available in the market, it would increase the public's demand for transparency, it would reduce the risk of major fraud as well as deepen local knowledge of financial reporting, increasing the potential investor base in Albania.

In Albania, the published financial information is very limited. The current requirements for registration and publication of financial statements are not in line with the best international practices in this field. Based on the findings of the study, it turns out that there are a number of problems in the financial reporting of audiovisual companies, both in terms of content and in the publication of information. Deficiencies in the reporting of specific items in financial statements related to the type of income, expenses and investments do not enable the creation of a clear overview of their financial performance. The quality of financial statements is poor and as such they do not meet the various needs of users for information. Audiovisual operators do not report any kind of financial information via the web to interested parties. The existing financial reporting methodology does not respond to the needs and expectations that have created the transformations in the television industry driven mainly by technological developments.

Based on the findings of the study, we come to the conclusion that Albanian television companies are backward compared to international financial reporting models and practices. The expert M. Caslli (2019) is of the opinion that societies (companies) need to use more sophisticated financial systems, moving from the manual preparation of financial statements to the automation of the reporting process. According to him, the need for Albanian companies to invest in the field of financial reporting computer systems is quite predicted.

Legal auditor F. Alliu (2022) explains that the lack of complete and relevant information in financial statements is reflected in the lack of transparency, especially regarding the source of income. She emphasizes that specific indicators are digitized but are not reflected in the reporting financial statements. Moreover, it is often the shareholders of the television companies, the owners who are not interested in providing more detailed information in the financial statements, which reflects in some way the business culture in the country. In this context, the improvement of financial communication through financial statements of audiovisual companies cannot be realized without the support at the managerial level of the companies as well as close cooperation between departments such as programming, marketing, finance, etc.

Institutions and regulators such as: AMA, NBC, etc., should insist on improving the quality of financial reporting by including new items in the indicators of financial statements such as: revenues from the TNT broadcasting system; revenue from the sale of the software package (if any); network rental income; revenue from sms service; income from the monetization of web content, income from the sale of archive materials, income from advertising on YouTube, on the Internet, etc., not only as responses to the changes brought about by the digitization process, but also within the framework of alignment with International Financial Reporting Standards (IFRS). The adoption and improvement of financial statements would also serve as an effective tool for increasing uniformity and comparability between audiovisual companies.

In addition to the necessity of publishing Annual Reports on company websites, it is recommended to adapt financial information in an interactive way for interested parties. As suggested by Debreceeny et al., (2001) the inclusion of interactive technologies (i.e., hypertext) in financial reports would serve both the preparers of financial statements and their users by enabling the creation of an unlimited number of independent perspectives. on the same website.

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