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Segment Reporting Quality in Nigeria

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***Abstract*— The need for better disclosures of financial and non-financial information has led to a move of segment reporting from just risks and returns measures to a 'clearer lens' approach referred to as the management approach. This approach has been advocated to increase the reliability and representative faithfulness of information since segment reporting is consistent with internal reporting. The study measured segment reporting quality by the extent of adoption of the extant standard, IFRS 8 in listed Nigerian public companies. The major part of the empirical research examined whether firm characteristics influence the quality of segment reporting. The independent variable, firm characteristics were decomposed into size and sector membership. Secondary data were collected from annual reports of 2013 to 2015 financial years of sampled companies and were subjected to Pearson's correlational analysis. Results revealed that size and sector membership had positive significant relationship with adequate segment reporting. It was recommended that appropriate authorities should ensure that firms disclose necessary segment information to foster transparency and accountability to investors and other stakeholders.**

***Keywords*— Operating segments, Segment reporting quality, Firm size, Sector membership, IFRS 8.**

I. Introduction

The development of economic groups, due to diversification and internationalisation strategies from the Industrial revolution of mid eighteenth century till date has led to an increasing complexity of firms' activities with a strong effect on financial information provided to analysts, investors [1] and other users. Possible reasons to explain the increased complexity of firms' operations include differences in cultures, growth opportunities, competition, governmental regulations, labour relations, tax laws, business practices, and market conditions across countries ([2], [3]). Published annual reports are required to provide these users - shareholders, employees, suppliers, creditors, financial analysts, stockbrokers, management, and government agencies – with timely and reliable information useful for making prudent, effective and efficient decisions.

The objective of preparing and disseminating financial information in the financial statements is to provide users of such information with relevant and reliable information in making investment decision [4]. These users of financial information are interested in the performance and potential of one particular part of the company's operations or the other, rather than the company as a whole [5]. It is pertinent to know that certain company-specific characteristics have been found to affect the level of firms' segment disclosures [4]. At tributes such as firm size, profitability, leverage, industry, ownership diffusion and size of audit firm are found to be significantly associated with segment reporting [6]. Reference [7] supposed that large firms will disclose more segment information than small ones.

IFRS 8 titled 'Operating Segments' was approved in December 2006 and replaced IAS 14 revised in 1997 titled 'Segment Reporting' in the international scene and SAS 24 in Nigeria. SAS 24 accorded substantially with the requirements of IAS 14. The main differences between these standards arise from the approaches used as basis for identifying segment reporting structure and items to be mandatorily disclosed. SAS 24 was based on the 'Risks & Returns Approach' where the analysis to the dominant source and nature of firms' risks and returns should determine if primary and secondary format of segmentation would correspond to business segments or geographical segments as defined in Section 26 of revised IAS 14 while IFRS 8 adopts a 'through the eyes of management approach', which means that the operating segments for accounting purposes should be the same as those used for internal management purposes.

A. Statement of Problem

Previous literature had studied segment reporting quality in other countries of the world. Reference [6] studied the relationship between firms' characteristics and segment reporting quality on Belgian companies. Reference [8] studied the effects of adoption of IFRS 8 in Finnish firms. In Nigeria, [4] studied segment disclosures of Nigerian firms in the IFRS pre-adoption period. However, the researcher found no existing literature on firms' characteristics and segment reporting in Nigeria in the present adoption period. This study seeks to fill a gap in literature by investigating the effects of size and sector membership on segment reporting in Nigerian firms in the present IFRS adoption period.

B. Objective of the Study

The broad objective of this study it to provide empirical evidence on how much peculiar characteristics of firms affect the quality of segment reporting (measured by extent of IFRS 8 adoption) of public listed companies in Nigeria.

The specific objectives of this study are:

1. To ascertain the effect of size of firms on segment reporting quality of such firms.
2. To ascertain the effect of sector membership on segment reporting quality of firms.

C. Research Questions

1. To what extent does size of firms affect segment reporting quality?
2. To what extent does sector membership of firms affect segment reporting quality?

D. Research Hypotheses

In the course of this research, the following alternate hypotheses were developed and tested.

1. There is a positive relationship between size of firms and segment reporting quality.
2. There is a positive relationship between sector membership of firms and segment reporting quality.

II. LITERATURE REVIEW

An Operating segments are components of an enterprise that: engage in business activities earning revenues and incurring expenses; are regularly reviewed by management and; for which discrete financial information is available [9]. The basis of segmentation could be products and services, geographic area, legal entity, customer type, or another basis as long as it is consistent with the internal structure of the firm [10]. Segments could be business or geographic segments. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments while a geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environment [11].

Reference [12] identified four steps to identify operating segments. They are: (a) identify the Chief Operating Decision Maker (CODM); (b) identify their business activities (which may not necessarily earn revenue or incur expenses); (c) determine whether discrete financial information is available for the business activities; (d) determine whether that information is regularly reviewed by the CODM. Reference [10] stated that when disclosing operating segments, managers decide on how to aggregate operating segments what accounting items to disclose per segment and how many. Operating segments can be aggregated if they have similar economic characteristics and are similar in terms of products, customers, distribution, production, and regulation applicable [9].

Segment reporting can be defined as separately reporting financial figures of the divisions, subsidiaries, or other segments of a company [6]. It is separating the consolidated financial reports into segments. Segment reporting gives a decomposition of a firm's financial statements. Segment reporting should reveal companies' diversification strategies and its transfers of resources across its segments [13]. In a nutshell, useful segment reporting reveals dissimilarities inside the company to its investors [14]. As a response to analysts' requests for more detailed segment information, the International Accounting Standards Board (IASB) published International Financial Reporting Standard 8 (IFRS 8) Operating Segments on 30 November 2006. This superseded IAS 14 Segment Reporting on the international front and SAS 24, also Segment Reporting in Nigeria. The publishing of Exposure Draft 8 that metamorphosed to IFRS 8 in 2006 started a heated discussion on the possible benefits and disadvantages of the management approach. Section 1 of the standard establishes as fundamental principle that, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operate. The principle behind it is to enable users to interpret company's financial position and performance based on internal reports that are regularly reviewed by the CODM [4]. Users of financial information seek proper disclosures to understand management's approach and aid their perception of the company which in turn influences their decisions. Reference [15] stated in their work that the formation of segments as accounting areas of responsibilities depends on: the management style of the top managers and the company surrounding and the formulated company strategy, the size, organizational structure and the business activities of the company and the ability of management to correctly identify appropriate areas of responsibility in the observed organizational structure. Reference [5] posit that management approach adopted in this standard will serve as a channel that will ensure the sustenance of free flow of segregated information leading to mitigating information asymmetry that may arise as a result of agency conflicts.

Any company complying with IFRS 8 is to disclose the following for each reportable segment except the items are inconsistent with internal reporting: (a)Segment Revenues; (b) Segment Result, usually the net profit or loss; (c) Total carrying amount of segment assets; (d) Total amount of segment liabilities; (e) Total cost incurred during the period to acquire segment assets that are expected to be used in more than one period i.e. segment capital expenditure during the period; (f) Depreciation and Amortisation expense included in Segment Results; and (g) Other non-cash expense included in Segment Results [16].

E. *Theoretical Framework*

The Agency theory underpinned this study. It is concerned with resolving these problems that occur in agency relationships [17]. Reference [17] acknowledged that agency problem is common to all organizations (private organizations, public organizations, and governmental bodies such as the federal, state and local government) and it exists in all corporative efforts at each level of management in firms. From a company's point of view, the motive to disclose segment information derives from this agency theory perspective, and its primary aim is to facilitate investors' earnings predictions [18] through annual reports [19] especially for shareholders who cannot incur large expenditures in order to ascertain managers' opportunistic behaviours [20].

F. *Empirical Review*

Reference [21] in their research carried out on companies from the U.S., U.K. and Continental European multinational corporations suggest with their findings that low leveraged firms disclose more voluntary information. They find a significant relationship between size and disclosure. They also found that sector membership seems to be influential on voluntary disclosure in some cases in their research. Reference [22] analysed data on segment reporting and firm sizes [based on total sales] from 217 European Union firms using linear regression analysis and found that firm size is positively related to the quality of segment reporting provided by firms. Reference [7] found that there was an insignificant increase in segment disclosure with increased firm size. Reference [23] found negative relations segment reporting and industry membership. Reference [1] found that size had a positive relationship with segment reporting practices of Spanish listed firms. Reference [24] found no correlation between segment disclosure and firm size while [4] found positive relationship between size and voluntary segment disclosures in Nigeria.

III. METHODOLOGY

All Data were extracted via content analysis which seeks to retrieve and study data from documents which in this case are financial statements. The scope of the study was delimited to public companies listed on the Nigerian Stock Exchange Floor. Public listed companies were chosen because they have a rather large size. The present standard for segment reporting, IFRS 8 was used for the purpose of this study. It covered 229 annual reports from 2013 to 2015 of 77 public companies listed on the NSE floor.

1) *Segment Reporting Quality:* Segment reporting quality was measured comprising disclosures stated in IFRS 8. The number of IFRS- recognized segment items disclosed in annual reports was used as a proxy used to measure this variable was the number of IFRS- recognized items disclosed in individual annual reports. For example, if a firm has three segments and discloses the following accounting items: segment revenue, profit, assets, liabilities, and depreciation for each of the four segments, then the segment reporting quality is equal to five.

2) *Size:* The natural logarithm values of total assets were used to measure size in this study.

3) *Sector Membership:* The sampled companies have been divided into two sectors following the grouping used by [4]. They were divided into the financial and non-financial sector. The financial sector was measured using dummy variable 2 while the other was given dummy variable 1.

Pearson's correlation analysis was used to measure the nature and significance of the relationship between the variables using the Statistical Package for Social Sciences (SPSS) Version 23.

IV. RESULTS AND CONCLUSION

The data were analysed thus:

TABLE I
DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
SGRPT	2.46	2.317	229
SIZE	10.24338	1.0371906	229
SECT	1.25	.436	229

The mean value of segment disclosures in Table 4.1 was 2.46 out of 7 obligatory items used as the total proxy for complete segment reporting. This indicates 35% level of segment reporting by listed Nigerian public companies.

TABLE II
CORRELATIONS

		SGRPT	SIZE	SECT
SGRPT	Pearson Correlation	1		
	Sig.			
	N	229		
SIZE	Pearson Correlation	.587**	1	
	Sig	.000		

	N	229	229	
SECT	Pearson Correlation	.262**	.424**	1
	Sig	.000	.000	
	N	229	229	229

**. Correlation is significant at the 0.01 level (2-tailed).

Pearson's correlations in Table 4.4 revealed a significant relationship of 0.587 between the variables at 0.01 significant level ($p<0.01$). Therefore, we reject the null hypothesis and accept the alternate hypothesis. Thus, there is a positive relationship between size and segment reporting quality. Size was seen to have a positive relationship with segment reporting quality. As size increase, segment disclosures increase. In other words, bigger firms disclose more segment information than smaller ones. This is consistent with the results obtained by [21]-[23], [7], [1] and [4] after testing data with the multivariate regression analysis and Pearson Correlation technique. However, [24] found no correlation between segment disclosures and size.

TABLE IIII
DESCRIPTIVE STATISTICS OF SECTOR MEMBERSHIP

Sector	Number of firms	Average No of items disclosed (7)	Percentage disclosure (%)
Financial	34	4.09	58
Non-financial	43	2.19	31

Firms in the financial sector had 58% disclosure while firms in the other sectors had 31% disclosure as shown in Table 4.7. This shows that firms in the financial sector disclosed more segment information than those in the non-financial sector with 58% disclosure. Pearson correlations in Table 4.4 showed coefficient of 0.262 revealing a significant relationship between the variables at 0.01 significant level ($p<0.01$). Therefore, we reject the null hypothesis and accept the alternate hypothesis. We therefore conclude that there is a positive relationship between sector membership and segment reporting quality. This is consistent with [21] and [4]. Reference [7] found a significant relationship. Reference [22] however found that industry membership is not significant in explaining the quality of segment disclosure.

G. Conclusion

This study extended the existing literature about segment reporting by investigating the segment reporting practices of public listed companies in Nigeria in the adoption period by means of the annual financial reports of 2013 to 2015 financial years. From the descriptive analysis, we can conclude that there are still a lot of companies that do not report segment information. 35% level of segment reporting in Nigerian public companies show less than average level of segment reporting. Bigger firms tend to adhere more to IFRS 8, which is the extant standard on segment reporting. Firms in the financial sector were also discovered to disclose more segment information than their counterparts. The study is significant to government, investors, business management, regulatory bodies, educators, researchers, accountants, auditors and scholars particularly in the field of accounting. This research seeks to make theoretical and practical contributions to the field of accounting in the area of accounting disclosures of segment reporting. It should be noted that the study only investigated segment reporting practices of public companies listed on the Nigerian Stock exchange and thus, generalizing these findings for all companies that report according to the segment reporting standard of the IASB should be done with the requisite prudence.

H. Recommendations

From the findings, it was recommended that:
The Federal Reporting Council of Nigeria, Securities and Exchange Commission and the Nigerian Stock Exchange have a part to play in increasing the level of segment reporting quality since prospective and existing investors need this to make decisions. These bodies should also join the FRCN in the enforcement of segment reporting. Non-financial firms should also disclose necessary segment information to foster transparency and accountability to stakeholders like their financial counterparts.

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