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RESEARCH PAPER

SEGMENT INFORMATION DISCLOSURE PRACTICES OF SELECT INDIAN LISTED COMPANIES

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Abstract

This article addresses the subject of segment wise information disclosure practices of select Indian Companies falling under various Industries. The segment information is often been analyzed from the voluntary disclosure theories, whether the segmental reporting may be considered as a tool to reduce the information asymmetry in accordance with the proprietary cost theory. Companies from major industries are chosen for this study due to the fact of their contribution towards the growth of the country's economy, potentially making the findings applicable to other developing economies. The liberalisation in India has paved way to the entry of numerous domestic and multinational companies. The consequent increase in competition has made the segment information disclosure a key factor for the companies attempting to improve their market and profit positions and further to improve the quality in presentation of the financial reports.

Keywords: **Segment Reporting, Information Disclosure, Accounting Standard, Business Segments, Geographic Segments.**

1. Introduction

There is a great concern that the companies and the regulatory bodies are fully involved in not just about the information made publicly available to the investors and other users of the financial statements, but also the form in which it is revealed. The Institute of Chartered Accountants of India have also had several discussions on the information items that are to be disclosed as whether information items should be recognized as part of earnings, or merely disclosed as a footnote. Another important issue is the amount of prominence to be given for disclosing the different kinds of information in the financial statements.

Financial reporting by a company is very much needed in nature and action oriented. The reporting is to provide factual information on the performance of the company and to induce the users into rational economic decision-making activity. The increase in quantum and/or quality of financial disclosures helps the investors to appraise a company more critically and reduce the risk perception/premium. Several studies on the effect of financial disclosures have found a relation between the improved disclosures and the company's cost of capital.

Reportable segments are identified either into business or geographical segments which are further classified into primary and secondary segments. For each of the segment, information relating to segment assets, liabilities, revenue, expenses and profits are reported. This action leaves a more valuable and useful information in the hands of investors for appraising each individual parts and identifies the segments which add or negate value of the company. Segment reporting gives the company an opportunity to add value to the information they disclose about their industry and geographic operations. Segment reporting is one of the major aspects of financial reporting for investors and other users of the financial statements.

Recognizing the critical role of segmental information in helping investors make economic decisions, the International Accounting Standards Board (IASB) established the International Accounting Standard (IAS) 14 (Segment Reporting). The objective of IAS 14 is to establish principles for reporting financial information according to a company's line of business and geographical area to help users of financial statements better understand a company's past performance; this allows a better assessment of a company's risks and returns; and provides users with sufficient information to make informed judgments about a company as whole (IASB, 2008). US statement of financial accounting standards issued

SFAS 131 “Disclosures about Segments of an Enterprise and Related Information” similar to IAS 14.

Previous research has highlighted a number of problem areas on segment reporting, however, particularly in managerial discretion in segment-information disclosure (Street, D. L., & Bryant, S. M. (2000)). Prather-Kinsey and Meek (2004) argue that companies respond to segment-reporting disclosure but do not wholly embrace it, which results in substantial noncompliance. Birt et al. (2007) argue that the corporate failures involving the loss of hundreds of millions of dollars in Australia, the United States, and elsewhere that captured the world’s attention in the early twenty-first century highlighted the vital role of disclosure and compliance. However, users of financial statements have long voiced concern about compliance with segment-reporting disclosures.

Realizing the significance of the segmental information, the Institute of Chartered Accountants of India [ICAI] issued AS 17 on “Segment Reporting” with effect from April 1, 2001. The Indian Accounting Standard 17 classifies reportable segments into business and geographic segments.

While the literature investigates segment-reporting practice in developed markets, little attention has been given to emerging markets where the quality of accounting standards and their enforcement are questionable. Motivated by the lack of research on segment-reporting disclosures in India, a study on the segment disclosure practice of Indian Companies listed on the Bombay Stock Exchange (BSE) is considered and the results are depicted in this article.

1. Financial Reporting Requirements in India

The well-defined accounting standards covering all areas of accounting, the applicability of AS-17 in particular and the requirements of segment reporting according to the pronouncement of the Institute of Chartered Accountants of India is promulgated in this section.

Accounting Standard 17, Segment Reporting is issued by the Council of the Institute of Chartered Accountants of India. This Standard comes into effect in respect of accounting periods commencing on or after 1.4.2001 and is mandatory in nature, from that date, in respect of the following:

i. Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the Board of Directors' resolution in this regard.

ii. All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

This Accounting Standard is not mandatory for Small and Medium Sized Companies, as defined in the Notification. Such companies are however encouraged to comply with the Standard.

2. Theoretical Framework

The influential work of Grossman (1981) delineates possible incentives for companies to provide full disclosure to investors (Grossman, S. (1981)). The author argues that, in the absence of disclosure, investors must obtain and analyze data from other sources, and they incur costs while doing so.

Due to a lack of information, investors lower the price they are willing to pay for a company’s stock. Companies are then motivated to disclose all relevant information to mitigate undervaluation. Thus, companies find it more beneficial to disclose additional information to investors.

3. Extant Literature

Mishari M. Alfaraih and Faisal S. Alanezi (2011) evaluated both the segment disclosure practice of companies listed on the Kuwait Stock Exchange (KSE) and the factors that influence their level of segment disclosures. **Vakhrushina M A (2011)** examined that in the modern unstable economic environment, the competitiveness arising in the individual economy branches and the financial crisis make the commercial organisations to approach new management technologies. **Cho, Joong-Seok (2010)** empirically investigates the effect of implementation of SFAS No. 131 on companies’ information environments by assessing the effect of interim period financial reports. **Samuel Jebaraj Benjamin et.al., (2010)** revealed that in the increasing complexity of business enterprises and the growing popularity of conglomerate type businesses, it has become clear that consolidated financial statement reporting, while obviously necessary, may not necessarily provide users with sufficient insights for the making of informed decisions. **Mohammed Talha et.al., (2009)** investigated whether competitive disadvantage is experienced by Malaysian Companies as they disclose segmental information under the new accounting standard known as FRS 114, Segment Reporting. **Kanogporn Narktabtee and Manatip Chankitisakul (2007)** examined segment reporting practices of the listed company during 1994-2005 by using the TAS No. 24 segment reporting as a benchmark. **Sanjiv Agarwal (2007)** indicates that the most of the public sector banks have been following the RBI directions on clarification of business segments while a few private sector banks have been reporting as per the Accounting Standard-17. **Allen I Schiff et.al., (2006)** analyses the disclosure and reporting requirements of FASB Statement of Financial Accounting Standards No. 131 (SFAS 131). This study summarizes the history of segment reporting and compares SFAS 131 with international accounting guidance on segment reporting. **David Harper (2006)** in the study insist that Large-cap companies are thought to be safer while it comes to segment disclosures than less-capitalized companies, because they are more diversified and liquid than smaller companies. **Palanisamy Saravanan et.al (2004)** states in their study that the ultimate objective of the financial statement is to give reliable information, which is to be relevant and therefore useful in economic decision making. **Larry P Seese and Timothy S Doupnik (2003)** have indicated in their study that SFAS 131 (1997) substantially changed geographic segment reporting in the US by required disclosures to be made by individual foreign country when operations in an individual country are material. **Nancy B Nichols et. al., (2000)** say that the promulgation by the FASB of SFAS 131, Disclosures about Segments of an Enterprise and Related Information, in 1997 (FASB, 1997) (effective 1998) heralded a new era of segment reporting in the United States.

4. Research Design and Method

Since 2001, Accounting Standard - 17 has been implemented among enterprises in India having their securities traded publicly and other economically significant entities, including subsidiaries. According to the Accounting Standard - 17: Segment reporting, an entity should report its segmental information classified by business and (or) geographical areas. Accordingly, the research is being carried out by conducting a thorough study on the annual reports of Select Indian Listed Companies.

5.1 Sampling Design

The population for the study comprises of India’s Top 500 companies, published by the

Economics Times, “ET 500 List, 2010”, as such the population size is 500 and the clustering sampling technique was used for choosing the sample size of the study. These companies are the listed companies in the Bombay Stock Exchange or the National Stock Exchange of India during 2001 -2002 to 2011 -2012. This study requires financial statement information, in particular the notes to financial statements, which is found in the annual reports of the companies. The annual reports of these companies are extracted from the company’s web site under the investor relations column and the PROWESS data base provided by CMIE (Centre for Monitoring Indian Economy).

The sample excludes the listed companies in the finance and insurance industry because these Companies’ operations are unique and they are subject to specific rules and regulations. Thus, the Listed Companies excluding the Banking and Finance sector came to 432 companies. Out of the above sample size, the industries having less than 10 companies have been excluded. The number of companies thus excluded is 189. The remaining sample size was 243 companies falling under 13 industries. On analyzing the annual reports of all the companies falling under the said 13 industries, the complete data for the period from 2001-2001 to 2011-2012 was available only in the major 6 industries. 118 companies for which the data was not available fully is excluded from the sample. Thus, the sample size for the study was 125 companies falling under the major 6 industries which is given as follows :

Table 1

Sample of the Selected Indian Listed Companies falling into the major six Industries

S. No.	INDUSTRY	No. Of Companies
1	Automobile	22
2	Cement	13
3	Chemicals	10
4	Computers	24
5	Construction	30
6	Pharmaceuticals	26
	Total Sample Size	**125**

5.2 Analytical Design

To investigate the segment information disclosure practices among the select Indian Companies, Descriptive Statistics and Simple Percentage analysis were used by the researcher. Descriptive statistics provides simple summaries about the sample and about the observations that have been made. Such summaries may be either quantitative, i.e. summary statistics, or visual, i.e. simple-to-understand graphs. These summaries may either form the basis of the initial description of the data as part of a more extensive statistical analysis, or they may be sufficient in and of themselves for a particular investigation. Simple Percentage Analysis is helpful in determining the number of companies disclosing the information on segments and to know precisely the percentage of items that are disclosed by the various companies selected for the study.

5.3 Measuring the extent of Segment Disclosure

The disclosure index is developed using the indicators selected based on the mandatory disclosure requirements issued by The Institute of Chartered Accountants of India. The annual reports of the selected companies for a period of eleven years starting from 2001-2002 to 2011-2012 was examined and an item-based approach using a dichotomous procedure in which an item scores one if it is disclosed and zero otherwise was followed. In the most common approach, the concept of 'disclosure index' was first used by Buzby (Buzby, S. L. (1975)) and Stanga (Stanga, K.G. (1976)) and formalized by Cooke (Cooke, T. E. (1989a); Cooke, T. E. (1989b)).

The researcher summarizes the determination of the index as follows:

Index = Actual disclosure/Total possible disclosure = $\sum_{i=1}^{m} d_i / \sum_{i=1}^{n} d_i$

Where d = 1 if item d_i is disclosed and 0 if item d_i is not disclosed, m = number of items disclosed and n = maximum number of disclosure items possible. The index is a ratio comparing the actual level of disclosure and the possible level (thus not penalizing the company for non-disclosure of irrelevant items).

5. Results of the Study

Segmental information disclosed by companies are considered if it is disclosed in a topic of "a summary of significant accounting policy", a topic of "segment information", a topic of "disclosure of sectoral operation", a topic of "data by division", or a topic that have similar meanings in the notes of financial statements. The "multi-segment Companies" group consists of companies that report their operations having more than one segment, namely, business segment and geographical segment and have to disclose financial information (such as sales, segment results, or segment assets employed). The "single segment companies" group consists of companies that reveal their operation having only one segment. Companies that do not disclose segment information as a topic in the notes to the financial statements are considered separately for the purpose of this study.

6.1 Descriptive Statistics

Table 2 presents descriptive statistics for Segment Disclosure Index (SDI). The table shows that the mean for the SDI of a sample of Indian Listed Companies during the year 2011-12 was 0.66, with a minimum score of 0.25 and a maximum of 0.92. These results suggest that disclosure levels among the 125 sample companies were widely distributed. A notable variation in firms' level of segment disclosure is observed in the study sample.

Table 2

Descriptive Statistics for the Segment Disclosure Index (SDI)

Dependent Variable	N	Mean	Min	Max	Standard Deviation
SDI	125	0.66	0.25	0.92	0.15
SDI = Segment Disclosure Index					

6.2 Information Disclosure Practice of Indian Listed Companies

Table 3, reveals the number of listed companies reporting segment information as topic in the financial statements during the period starting from 2001-2002 to 2011-2012. The results show that the number of companies disclosing segmental information has grown remarkably after introduction of AS-17 by the Institute of Chartered Accountants of India in 2001.

Table 3
RESULTS ON INFORMATION DISCLOSURE PRACTICES OF INDIAN LISTED COMPANIES

Data Set in Year	Segmental Information[1]						Companies that Do not disclose any Segmental Information[2]		Totals	
	Multi-Segment Companies[3]		Single Segment Companies[4]		Totals					
	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies
2001-2002	21	16.80	42	33.60	63	50.40	62	49.60	125	100.00
2002-2003	22	17.60	47	37.60	69	55.20	56	44.80	125	100.00
2003-2004	22	17.60	51	40.80	73	58.40	52	41.60	125	100.00
2004-2005	24	19.20	58	46.40	82	65.60	43	34.40	125	100.00
2005-2006	25	20.00	64	51.20	89	71.20	36	28.80	125	100.00
2006-2007	32	25.60	61	48.80	93	74.40	32	25.60	125	100.00
2007-2008	37	29.60	64	51.20	101	80.80	24	19.20	125	100.00
2008-2009	41	32.80	67	53.60	108	86.40	17	13.60	125	100.00
2009-2010	45	36.00	70	56.00	115	92.00	10	08.00	125	100.00
2010-2011	46	36.80	73	58.40	119	95.20	6	04.80	125	100.00
2011-2012	50	40.00	75	60.00	125	100.00	0	0.00	125	100.00
Totals	365	26.55	672	48.87	1037	75.42	338	24.58	1375	100.00

[1] Firm reports segment information in a topic of "a summary of significant accounting policy", a topic of "segment information", a topic of "disclosure of sectoral operation", a topic of "data by division", or a topic that have similar meanings in the notes of financial statement.

[2] Firm does not report segment information as a topic in the notes of financial statement.

[3] The "multi-segment Companies" group consists of companies that report their operations having more than one segment (e.g., both business and geographical segments) and have to disclose financial information (such as sales, segment results, or segment assets employed).

[4] The "single segment Companies" group consists of companies that reveal their operations having only one segment.

The proportion of companies that disclose segmental information has increased from 50.40 per cent in 2001-2002 to 100 per cent in 2011-2012. During the year 2011-2012, out of 125 companies 50 companies disclosed multi-segment information, 75 Companies disclosed single segment information and none of the companies fall under the category "Do not disclose any segmental information". It is further inferred that the level of disclosure on multi-segment information was 16.80 per cent from 2001-2002 which has gone up to 40.00 per cent in 2011-2012. This shows that during 2011-2012, the disclosure level on multi-segment information has gone up tremendously by the Indian Listed Companies. On further observation, it is noted that during the year 2001-2002, 33.60 per cent of the companies have disclosed single information disclosure which is more than the multi-disclosure companies. The companies disclosing single information seems to increase tremendously and gone up to 60.00 per cent during 2011-2012. The companies that do not disclose any segmental information has almost vanished during the year 2011-2012 by the Indian Listed Companies.

6.3 The nature of Segmental Disclosure Practice of Multi-Segment Companies in India:

On further investigation on multi-segment companies, the researcher finds that those companies identify their segments using various formats, such as industry (or line of business format), geographical format, and both industry and geographical format. Table 4 reveals that the proportion of companies disclosing segment reporting as business segments, geographical segments, and both the dimensions are quite stable across the years.

Table 4
RESULTS ON THE NATURE OF SEGMENTAL DISCLOSURE OF MULTI-SEGMENT COMPANIES IN INDIA

Data Set in Year	Industry/Line-of-business Format (Companies)		Geographical Format (Companies)		Both Industry and Geographic Format (Companies)		Total (Companies)	
	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies	No. of Companies	Percentage of Companies
2001-2002	40	63.49	2	3.17	21	33.34	63	100.00
2002-2003	45	65.22	2	2.90	22	31.88	69	100.00
2003-2004	49	67.12	2	2.74	22	30.14	73	100.00
2004-2005	56	68.29	2	2.44	24	29.27	82	100.00
2005-2006	61	68.54	3	3.37	25	28.09	89	100.00
2006-2007	58	62.37	3	3.23	32	34.40	93	100.00
2007-2008	61	60.40	3	2.97	37	36.63	101	100.00
2008-2009	63	58.33	4	3.70	41	37.97	108	100.00
2009-2010	66	57.39	4	3.48	45	39.13	115	100.00
2010-2011	68	57.14	5	4.20	46	38.66	119	100.00
2011-2012	70	56.00	5	4.00	50	40.00	125	100.00
Totals	637	61.40	35	3.38	365	35.19	1037	100.00

During the year 2001-02, 40 companies identify their segments using only the industry/line of business format. The results from the Table 4 shows that during the year 2011-12, 70 companies identify their segments using only the industry/line of business format. It is further observed that during the year 2001-02, 2 companies identify their segments using only the geographical format and in the year 2011-12, 5 companies identify their segments using only the geographical format in disclosing the segmental information. During the year 2001-02, 21 Companies identify their segments using both industry and geographic formats and in the year 2011-12, 50 companies identify their segments using both industry and geographic formats. The results from the Table 4 further infers that during 2001-02, 63.49 per cent of the companies identify their segments using only industry/line of business format, 3.17 per cent of the companies identify their segments using only geographical format and 33.34 per cent of the companies identify their segments using both industry and geographic format. And during the year 2011-12, 56 per cent of the companies identify their segments using only industry/line of business format, 4.00 per cent of the companies identify their segments using only geographic format and 40.00 per cent of the companies identify their segments using both industry and geographic format. It is further inferred that the companies identifying only industry/business format has considerably come down during the periods 2001-02 to 2011-12 and the companies identifying both industry and geographic format has significantly gone up during the periods 2001-02 to 2011-12.

6.4 The Nature of Geographic Reportable Segments of Indian Listed Companies:

Table 5 reports that during the year 2011-2012, 83.63 per cent of the companies define their geographical segments broadly as "Domestic (In Foreign countries)" rather than reporting details of countries or specifications. A few listed companies (or 16.36 per cent approximately) identify their segments as individual countries or groups of countries within particular geographic areas.

Table 5

RESULTS ON THE NATURE OF GEOGRAPHIC REPORTABLE SEGMENTS OF INDIAN LISTED COMPANIES

Data Set in Year	Domestic/In Foreign Countries	Specific Geographic Countries	Specific City in India (Bombay/ and other Cities)	Totals
2001-2002	22	1	-	23
2002-2003	22	2	-	24
2003-2004	22	2	-	24
2004-2005	23	3	-	26
2005-2006	24	4	-	28
2006-2007	31	4	-	35
2007-2008	34	6	-	40
2008-2009	39	6	-	45
2009-2010	41	8	-	49
2010-2011	43	8	-	51
2011-2012	46	9	-	55
Totals	347	53	-	400

None of the companies from 2001-2002 to 2011-2012 have reported segments based on specific city in India. It is possible that the operation in each specific country is not considered “material” because the size of business is less than the ten per cent threshold. Thus, it is observed that the sample companies selected for the study disclose geographical information as “Domestic” or “In Foreign Countries” than in any other format.

6. Conclusion and Discussion

The objective of the study is to evaluate the segment disclosure practice of Select Indian Listed Companies and the extent of disclosure among the various industries in India. The researcher has taken an approach to address the issue of how information is disclosed segment wise in the annual reports published by the companies. The existing theoretical literature on disclosure has used several theories such as capital need theory, agency theory, and signalling theory to provide possible motives for firms’ financial reporting disclosure and to explain any variations in the level of financial reporting disclosure across firms. In general, these studies show that firms might benefit from giving investors additional accounting information on a segment wise basis to exploit the disclosure benefits that exceed disclosure costs, such as lower capital or debt cost.

The literature pertinent to disclosure highlights the level of segment disclosure based on single segment firms and multi-segment firms. To investigate the level of segment disclosure, this study examines single segment, multi-segment and geographical reporting segments among the Select Indian Listed Companies falling under six major industries. Consistent with prior disclosure research, the level of segment disclosure is examined using a disclosure index based on the mandatory requirements of the Accounting Standard – 17 issued by The Institute of Chartered Accountants of India.

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