



## **COMPETITIVE HARM AND BUSINESS SEGMENT REPORTING UNDER IFRS 8 BY LISTED FIRMS IN NIGERIA**

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### **ABSTRACT**

The ultimate purpose of financial reporting is to provide users with relevant information in making investment decision. In line with the International Financial Reporting Standard 8 (IFRS) Operating Segments, entities are expected to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. The information is to provide a better understanding of the concept and overall performance of the entities' operations. However, this sensitive information would also be available for competitors leading to competitive harm. This potential competitive harm may be a disincentive for firms to withhold segment information. This study examines the influence of competitive harm on the level of segment disclosures under IFRS 8, using data of fifty-one (51) listed companies across various economic sectors in Nigeria, which were obtained from the annual reports and accounts for 2019. The study examines the effect of three competitive harm proxies; Firm size, profitability and barrier to entry. Findings from the study show that firm size and barriers to entry significantly influence business segment disclosure of listed firms in Nigeria. However, profitability as a proxy for competitive harm does not significantly influence business segment disclosures among listed firms in Nigeria. Given the significant influence of two out of the three variables which are used as proxies for competitive harm, the study concludes that competitive harm based on the selected proxies (FSIZE, BARENTRY and PROFIT) has a significant effect on business segment information disclosure. The study recommends that certain disclosures should be considered mandatory irrespective of the leeway provided by the Standards.



**Keywords:** Barrier to entry, Firms size, IFRS 8, Operating Segments, Profitability

## 1. INTRODUCTION

The ultimate objective of financial reporting is to provide users with relevant information in making investment decisions. The quest to achieve this objective led to the adoption of the International Financial Reporting Standards (“IFRS”) in Nigeria in 2012. One of the Standards adopted is IFRS 8 – Operating Segments which requires classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. The IFRS 8 was aligned with North American Statement of Financial Accounting Standard (SFAS) 131 on *Disclosures about Segments of an Enterprise and Related Information*, and adopted the management approach, which states that external segment reporting should follow the same structure of the internal report reviewed periodically by the Chief Operating Decision Maker (CODM). Although, the standard helps external users to analyse firms’ performance through the eyes of management, its adoption was not without controversy.

Critics raised concerns about the content of IFRS 8, which include the movement to the pure management approach, leading to a potential decrease in geographic segment disclosures, and elimination of the requirement to disclose segment liabilities (Crawford et al, 2012; Nicholas et al., 2012). Furthermore, the European Union’s (EU) endorsement of IFRS 8 was subject to debate as some constituents, including members of the European Parliament, viewed IFRS 8 as adopting the “alien” American standard. This notwithstanding, several studies also documented the importance of segment reporting in improving earnings prediction, risk assessment and general analysts’ forecasts (e.g. Ajinkya, 1980; Baldwin, 1984; Hope et al., 2008, Ibrahim, 2014).

However, if segment reporting permits an improved inside view to how firms’ activities contribute to overall performance, these entities also face a higher exposure to competitors. Concerns of competitive harm, from the disclosure of segment data were frequent responses to segment standards in the past and are still documented nowadays (International Accounting Standard Board (“IASB”), 2013b). Therefore, the disclosure of proprietary information could likely influence loss of competitiveness.



The IASB considers a ‘competitive harm’ exemption inappropriate because it would provide a means for broad non-compliance with IFRS. It was argued that entities are unlikely to suffer competitive harm from the required disclosures since most competitors have sources of detailed information about an entity other than its financial statements. For this reason, the effect of competitive harm on segment disclosure has been on the front burner since the first requirements of segment reporting, and is considered a main issue within the proprietary cost theory (Hayes & Lundholm, 1996; Harris, 1998).

While IFRS 8 is to enable users to interpret company’s financial position and performance, as well as assess the different sources of business risk, it appears that listed companies in Nigeria have suppressed or withheld segment information due to competitive harm, thus undermining the financial reporting objectives and the very essence of the adoption of the standard. Like the previous studies on the influence of competitive harm on segment disclosure in other clime, the main objective of this study is to examine the influence of competitive harm on business segment disclosure under IFRS 8 in Nigeria.

The rest of this paper proceeds as follows. Section 2 provides a brief review of literature, theoretical framework and hypotheses development. Section 3 captures the research method for the study while section 4 presents the analysis and results. Section 5 provides the discussion and conclusion of the study.

## **2. LITERATURE REVIEW, THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT**

### **IFRS 8 Operating Segment and the Disclosure Requirements**

The need for segment reporting was noted first during the 1960s, when more and more companies became parts of a larger group of companies. Thus, it became evident that the consolidated financial reporting alone was not sufficient to cover the growing information needs of equity investors, as important information was lost in the consolidation process. (Epstein & Jermakowicz 2008). To tackle this problem, the international accounting standard setters; FASB and IASB, created segment reporting, which aims to “*provide information about the different types of business activities in which an enterprise engages in and the different economic environments in which it operates*” (FASB 1997).



IFRS 8, Operating Segments requires classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information. IFRS 8 applies to annual periods beginning on or after 1 January 2009. The concept behind segment reporting is to enable users to interpret company's financial position and performance based on internal reports that are regularly reviewed by the management (Ibrahim, 2014). Segment reporting requirements (SASF 14) were first introduced to U.S. GAAP in 1976, followed by IAS 14 in 1981. However, these standards failed to satisfy the financial statement user's needs, as the vast majority of companies claimed to operate in only one segment, even though this probably was not the case.

To encourage more transparent reporting, FASB and IASC (now IASB) therefore revised these standards to SFAS 131 and IAS 14R respectively in 1997. In September 2002, IASB undertook a joint short-term convergence project with FASB for the purpose of reducing the difference between IFRSs and US GAAP that are capable of resolution in a relatively short time and can be addressed outside major projects. It was identified that requirements of SFAS 131 are based on the way that management regards an entity, focusing on information about the components of the business that management uses to make decisions about operating matters.

According to IFRS 8, an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are reviewed regularly by the entity's CODM. The purpose is to make decision about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Based on IFRS 8, Operating segments, required disclosures are as contained in Appendix 1.

### **Benefits of Segment Reporting Information**

Fundamentally, segment reporting standards are an important element of financial reporting for public companies and require that a company's segment disclosures be consistent with that of management's internal reporting structure (Cereola & Dynowska, 2022). Several market participants as well as stakeholders can be interested in the disclosure of information about a firm's operating segments.



According to the IASB, segment information is necessary to help users of financial statements to better understand the entity's past performance, to access more easily the entity's risks and returns and to make more informed judgments about the entity. It is argued that users of financial statements (investors, analysts, market makers, employees, governments) may be interested in the performance and prospects of one part of the enterprise rather than the enterprise. For example, governments will be interested in information on country level. On the other hand, Shareholders will be more interested in the performance of the company, since their investments concern the whole enterprise.

Nevertheless, since a group is made up of its constituent parts, in order to estimate fully the performance of the whole enterprise one has to take into consideration the separate performances and prospects of each sector. It is also argued that different segments may have very different profit potentials, growth opportunities, capital needs, and degrees and types of risk. Therefore, the past performance of a company and its prospects can usually only be understood if the user also has information about each segment of business. It will be thus more accurate to say that all the users will need disaggregated and consolidated information. Given the fact that large companies can have very complex and heterogeneous structures, segment information seems to be essential to users to understand a firm's performance and risks and analysis of the firm's strategies and future potentials.

### **Arguments against the disclosure of segment information**

Although the disclosure of more detailed segmental information is considered in general to contribute positively to a company's value, several objections have been made about the actual usefulness of segmental information. One of these arguments is the proprietary costs that may occur when companies make additional information available to the public. Stamatina (2013) argued that companies will often choose not to disclose information that is not mandated by any regulation, in order to avoid proprietary costs that may occur. An increase in disclosure requirements may subsequently often lead a company to disclose less useful information. Another argument is competitive harm, which is an important cost associated with segment disclosures. Competitive harm was one of the most popular arguments during the introduction of IFRS 8. Opponents have argued that important proprietary information might be deduced from the additional segment disclosures that IFRS 8 made mandatory.



## **Competitive Harm**

Operating segment disclosures give details about the company's earnings, profitability margins, return on assets and growth rate in its different lines of business. These may reveal to competitors and other parties (like customers) the existence of weaknesses or opportunities to be exploited to their own advantage. On the concept of competitive harm, FASB (2001) listed three factors for determining if information may lead to competitive disadvantages: the type of information, the level of detail, and the timing of the disclosure. This should be the case of external disclosure of segment data, which introduces in firms' financial statements detailed proprietary information of their activities.

Therefore, if segment reporting gives vital and more detailed financial information on firms' activities and of their key accounting and financial items, proprietary costs may likely arise from such disclosures. These proprietary costs are mainly related to competitive harm. For example, the exposure of key financial information to competitors could result in competitive disadvantages, putting the firm at a disadvantage in negotiations with costumers or suppliers (including labor suppliers) or in other conflicting situations, and consequently in additional proprietary costs. Despite several criticisms, the IASB considers a 'competitive harm' exemption inappropriate as this could lead to broad non-compliance with the standards. Attributes such as firm size, profitability and barriers to entry are associated with competitive advantages and voluntary operating segment disclosures. Thus, these variables are used as proxies to determine the extent of segment disclosure in the Nigerian corporate atmosphere.

## **Firm Size and Business Segment Disclosure**

Size is considered one of the major competitive advantages and most empirical studies support the notion that firm size influences corporate disclosure. Adelopo (2011) finds a significant positive relationship between voluntary disclosure and firm size, measured as the natural logarithm of total asset. Several research works have reported that huge corporations have incentives of disclosing more segmental information. Also, in the post-implementation review of IFRS 8 (IASB, 2013b), it was recognized that smaller listed firms operating in smaller markets face increase competitive harm. In general, larger firms have more resources, and are less exposed



to competitive disadvantages and face more agency costs due to information asymmetry, which are all incentives to disclose segment data.

### **Profitability and Business Segment Disclosure**

Firm's abnormal profitability is a proxy for higher exposition to competitive harm. This is because firms with abnormal profit tends to be more associated with non-disclosure and to potentially hide their profitable activities. Abnormal profitability is also known as profitability adjusted to industry and represents the difference between firms' profitability and the industry mean for the same measure. Several studies demonstrated that abnormal profitability is a factor influencing manager to practice discretionary disclosure on firms' segment reporting (Ibrahim, 2014). It is actually logical to reason that companies' managements disclose more information to support the continuation of their own positions and, of course to support claims for greater remuneration. Similarly, managers who have 'good profit' will disclose more information than companies with reported losses, to create a clear, favourable perception of the value of their companies' shares.

### **Barriers to Entry and Business Segment Disclosure**

Barriers to entry is an economics and business term describing factors that can prevent or impede newcomers into a market or industry sector, and so limit competition. These can include high start-up costs (or capital outlay/intensity), regulatory hurdles, or other obstacles that prevent new competitors from easily entering a business sector. Firms with higher entry barriers tend to be less exposed from potential entrants. Thus, when entry barriers are higher, firms are likely to withhold segment information. This is measured by capital intensity in this study.

### **Theoretical Framework**

Proprietary Costs Theory (Wagenhofer, 1990) states that companies limit voluntary disclosure of information to the financial market because of the existence of disclosure related costs (proprietary costs). These costs include not only the costs of preparing and disseminating information but also the cost derived from disclosing information which may be used by competitors and other parties in a way which is harmful for the reporting company. Therefore, the higher the proprietary costs associated to the disclosure, the less negatively investors react to the withholding of relevant information, thus the less probably companies voluntarily disclose



information. Similarly, proprietary cost has been utilized in study like Roberts & About (2018), which found that proprietary costs are a particularly relevant reason for providing lower segment disclosure quality post-IFRS 8.

Another theory considered in this study is information asymmetry, which can be generally defined as a situation in which one party of a transaction possess superior/private information than the counterparty that has access only to public information. This situation can be considered as dangerous when the party which holds the superior information takes advantage of the other party's lack of knowledge. Information asymmetry problems can appear in many circumstances. In relation to this study, it can be a situation whereby a company's manager decides to withhold from users of the financial statements (investors, analysts, governments) pieces of information about the firm's status that could be useful to them. The possession of private information can thus create an *adverse selection* problem in the market, as the investors will not be able to precisely estimate the fair value of a firm due to incomplete information available and the uncertainty that is caused by this situation. Accounting research suggests that financial reporting reduces information asymmetry between managers and investors by disclosing relevant and timely information (Healy & Palepu, 2001; Suharsono, Nirwanto & Zuhroh, 2020).

### **Prior Empirical Studies**

Following the adoption of a segment reporting standard, several researches have focused on the quantity analysis of segment disclosures and to the magnitude of changes. Studies like Hermann and Thomas (2000), Berger and Hann (2003) documented changes on segment reporting with the introduction of SFAS 131 "management approach". Results showed a significant increase on the average number of reported segments, with a decline on single-segment firms. Most studies also documented an upgrade in the number of key items but revealed concerns on the increase differences in the disclosed profit measures. Studying the implementation of IAS 14, similar results were detected by Street and Nichols (2002) and Prather-Kinsey and Meek (2004) for the increase in the number of reported segments and in the number of disclosed items. These papers identified that, a significant part of the firms, still presented an important level of non-compliance. Recently the focus of research was centered on the implementation of IFRS 8 and findings on the effect of the new standard are discussed later on. After some maturity in standards adoption, researchers focus attention to achieve evidence on the economic effects of the new





segment disclosures, which is normally identified as a different stream of research. Most literature covered the effect of segmenting reporting standards in the US and found that the new segment information improve analysts' predictions (e.g. Nichols, 1995; Behn et al., 2002; Hope et al., 2008; Hope et al. 2009). Empirical models confirmed that new segment reporting produced changes in analysts and market expectations (Berger and Hann, 2003; Ettredge et al., 2005).

The adoption of IFRS 8 has raised so many concerns by stakeholders (Crawford, Helliard and Power, 2010b). These concerns include the adoption of management approach, the risk of lower quality disclosures, concerns on who the CODM is/are, incomparable information, the lack of consistency in reporting formats for operating segments, the potential for companies to restrict their disclosures on geographical segments, users suspicion that preparer could choose not to include information that it does not require and liabilities to be analysed on a segmental basis, among others. Confirming these concerns, Nichols et al. (2012) found a significant decrease on the average number of reported items on the primary format of report. The majority of required items faced a decrease on their number, with a statistical significant decline on the disclosure of segment liabilities, equity method income and equity method investment, and also capital expenditures. In contrast, new items mentioned in IFRS 8, like interest revenue and interest expense showed an increase, which was however less significant. Similar results are provided by Crawford et al. (2012) on UK listed firms. On the other hand, Kang and Gray (2013) and Pisano and Landriani (2012) documented an increase on average number of items per segment. Globally, the evidence is mixed, with many studies showing a decrease on a relevant part of required items. For example, working papers like Bugeja et al. (2012) and Weissenberger and Franzen (2012) showed that under IFRS 8 the Australian and German firms reported fewer line items. These results seem to highlight the concerns on the potential decline in segment key items, which may have an effect of reducing the usefulness of segment reporting (Crawford et al., 2012; Nichols et al, 2013). In the attempt to address these concerns, the IASB and other research groups embarked on the post-implementation reviews and research into IFRS 8.

In July 2013, the IASB published a report and feedback statement of its post-implementation review to IFRS 8. This report included the results from an extensive review of academic research and similar literature to date. Nichols et al. (2012) paper was pointed as the most relevant cross-country published study and examined IFRS 8 adoption on blue chip firms from 14 European countries (335 firms). The others



published papers were based on a single country analysis. Crawford et al. (2012) examined IFRS 8 adoption on UK firms, Kang and Gray (2013) on the Australian firms, Mardini et al. (2012) on the Jordanian firms and finally Pisano and Landriani (2012) examined segment reporting on Italian firms. Relevant working papers were also analyzed and may find studies with significant larger samples, as in the case of Bugeja et al. (2012), which analyzes changes on segment reporting of 1.617 Australian firms. IASB, (2013a) also try to link the new segment disclosures and to their effect on capital markets (e.g. information asymmetry, value relevance or analysts forecast accuracy).

Empirical research on the effect of proprietary costs in segment disclosures was, at first, essentially based on evidence from US listed Firms. Following the assumptions of Hayes and Lundholm (1996), Harris (1998) developed an empirical model to validate competition effect on segment reporting choices, i.e. on managers' decision to disclose firms' operations as business segments. Harris (1998) argues that, managers may seem reluctant to provide segment disclosures from operations in less competitive industries (highly concentrated industries) when firms present high abnormal earnings (performance superior to industry mean). Results showed that, in less competitive industries, measured by industry concentration and speed of profit adjustment, firms' operations are less likely to be reported as segments. The transition from SFAS 14 to SFAS 131 was an important field for testing the previously influence of competitive harm on lower segment disclosures. Botosan and Stanford (2005) research had the main objective of achieving evidence on manager's motivation to withhold segment information, using a sample of single-segment firms under SFAS 14, which started to disaggregate segment data under SFAS 131. Empirical results suggested that hidden segments of "change firms" operated in less competitive industries than their primary industries, which is line with previous papers. On the other hand, the "change firms" group showed, in average, profitable hidden segments, but at a firm-level those firms were less profitable. This result suggested that these firms masked their abnormal profitability in order to avoid competitive harm.

In a similar study conducted by Pardal, Morais & Curto (2015) based on European listed firms, segment data were collected from Worldscope database and a sample of 1997 non-financial listed firms from 13 countries were used. The study used a multinomial regression model (change model) to check if firms that changed their levels of business segmentation, were those likely under the previous negative



influence of competitive harm. Results of t-tests for mean comparison evidenced a significant increase in the number of reportable segments, with a general decline in single-segment firms. Evidence on the disclosure of key items was mixed and a significant decline was documented in the average number of items, disclosed by each multi-segment firms. Most sample firms did not change their level of business segment disclosure. The estimation of the competitive harm model revealed an overall negative relationship between all competitive harm proxies and the level of business segment disclosure on both periods of analysis.

In general, the result suggests that, under IFRS 8, EU firms performing better than industry mean, acting in more concentrated industries or subject to a higher pressure from labor suppliers, are still withholding important segment information to investors and other users, especially due to concerns on competitive harm. The results, for the multinomial regression model analyzing how the different categories of change are associated to previous nondisclosure due to competitive harm, showed that firms, where the number of business segments grew, were significantly less related to abnormal profitability and labor power, than firms that did not change. The study also documented a significant association to abnormal profitability growth on firms that declined their level of business items per segment. Overall, evidence suggests that IFRS 8 adoption had insignificant effect in reducing such relation, while on the other hand, comments to the post- implementation review of IFRS 8 are concerned on the persistence of segment aggregation.

Leaning on the above background and the previously highlighted competitive harm proxies, the study hypotheses that:

- H<sub>01</sub>:*** *Firm size does not significantly influence the level of business segment disclosure under IFRS 8.*
- H<sub>02</sub>:*** *Barriers to entry does not significantly influence the level of business segment disclosure under IFRS 8.*
- H<sub>03</sub>:*** *Abnormal profit does not significantly influence the level of business segment disclosure under IFRS 8.*



### **3 RESEARCH METHODOLOGY**

#### **Data**

The study utilized data for fifty-one (51) companies listed on the Nigeria Stock Exchange through content analysis of the annual reports and accounts for 2019. The use of a single year is determined by the nature of the study.

#### **Model Specification**

The aim of this study is to examine the influence of competitive harm on the level of business segment disclosures under IFRS 8 using a sample of listed companies in Nigeria. To test the study hypotheses, a multiple regression model was adopted to determine which competitive harm proxies influenced business segment disclosure. Thus, the following regression model was fitted to the data.

$$DISCL = \beta_0 + \beta_1 (FZIZE) + \beta_3 (PROFIT) + \beta_4 (ENTBAR) + \varepsilon$$

#### **Measurement of Variables**

The dependent variable is the extent of operating segment disclosures. The disclosure level was constructed by performing a content analysis, comparing the disclosure requirements under IFRS 8 (See Appendix 1) against the information disclosed in the annual reports of each company for 2019. The independent variables include size of the firm, abnormal profit and barriers to entry, which represent the competitive harm proxies. The description and the measurement of these variables are as shown in Table 1.



**Table 1**  
**Variables' definition, measurements, and sources**

S/N	Variables	Measurements	Proxy code
1	Extent of operating segment disclosures	Measured as an index that indicates the level of company's voluntary compliance	DISCL
2	Size of the firm	Natural logarithm of total assets	FSIZE
4	Abnormal Profitability	Firm ROA-Industry ROA, where ROA=Firm Operating Income/Total Assets	PROFIT
5	Barrier to entry	Firm Net Value of PPE/Firm Total Assets	BARENTRY

Sources: Adelopo (2011); (Ibrahim, 2014).

Descriptive and inferential statistics were employed in the analysis of data for the study with the aid of E-Views version 9.0. Specifically, the regression result in Table 3 was used to test the hypotheses of the study.

## 4. RESULTS AND DISCUSSION

### Descriptive statistics

**Table 2**  
**Descriptive Statistics**

	DISCL	BARENTRY	FSIZE	PROFIT
Mean	73.75887	39.49032	25.47429	8.472042
Median	100.0000	44.00000	25.46599	8.320935
Maximum	100.0000	93.00000	29.79201	12.24934
Minimum	0.000000	1.800000	21.46853	3.496508
Std. Dev.	36.07304	30.12789	2.307449	2.316630
Skewness	-0.976813	0.133803	0.191762	0.047893
Kurtosis	2.489401	1.672132	2.016831	2.129405
Jarque-Bera	7.984845	3.593241	2.181020	1.502258
Probability	0.018455	0.165858	0.336045	0.471834
Sum	3466.667	1856.045	1197.292	398.1860
Sum Sq. Dev.	59858.16	41753.72	244.9188	246.8715
Observations	51	51	51	51

Source: Authors' computation using E-views 9.0 (2021)

From Table 2, the mean of DISCL, BARENTRY, FSIZE and PROFIT are 73.76, 39.49, 0.32, 25.47 and 8.47 respectively. With the exception of BARENTRY, all



other variables are closer to the maximum scores. For instance, for DISCL, it is an indication of high disclosure level between the IFRS 8 requirements and the content disclosed in the annual reports of sampled companies. Similar observation holds for FSIZE and PROFIT. In addition, only BARENTRY shows a significant deviation from mean.

### **Inferential Statistics**

**Table 3**  
**Least Square Result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BARENTRY	-0.442426	0.259761	-1.703207	0.0959
FSIZE	9.154969	4.721903	1.938830	0.0593
PROFIT	-2.302996	4.524058	-0.509055	0.6134
C	-117.6174	86.78762	-1.355233	0.1826
R-squared	0.299555	Mean dependent var		73.75887
Adjusted R-squared	0.232846	S.D. dependent var		36.07304
S.E. of regression	31.59541	Akaike info criterion		9.844189
Sum squared resid	41927.34	Schwarz criterion		10.04101
Log likelihood	-226.3384	Hannan-Quinn criteria		9.918255
F-statistic	4.490474	Durbin-Watson stat		2.115571
Prob(F-statistic)	0.004127			

Source: Authors' computation using E-views 9.0 (2021)

The result in Table 3 indicates that BARENTRY has a negative significant influence on the level of business segment disclosure. Similarly, FSIZE has a positive significant influence on the level of business segment disclosure, which indicates that bigger firms make more business segment disclosure in line with IFRS 8. This supports a prior study by Adelojo (2011). However, the result shows that PROFIT has a negative insignificant influence on the level of business segment disclosure, which indicates that a decrease in abnormal profit would result in an increase in the level of business segment disclosure in line with IFRS 8. The adjusted R-Squared is 23.28% indicating that the variables under investigation in this study explains about 23.28% of the variations in the level of business segment. Overall, the model is significant as indicated by the F-stat (4.490) at 5% level of significance.



## **Test of Hypotheses**

Based on the result in Table 3, the study failed to accept hypotheses 1 and 2. Thus, the study concludes that FSIZE and BARENTRY significantly influence the level of business segment disclosure of listed firms in Nigeria in line with IFRS 8. Hypothesis 3 is hereby accepted thereby concluding that PROFIT does not significantly influence the level of business segment disclosure of listed firms in Nigeria in line with IFRS 8.

## **5. CONCLUSION AND RECOMMENDATIONS**

The fact that the level of business segment reporting is high among listed firms in Nigeria is an indication of potential competitive harm because operating segment disclosures give details about the company's earnings, profitability margins, return on assets and growth rate in its different lines of business. These may reveal to competitors and other parties (like customers) the existence of weaknesses or opportunities to be exploited to their own advantage. However, the current study provides evidence that firm size contributes significantly to business segment disclosure. While larger firms have more resources and with more incentives for disclosing more segmental information, they are less exposed to competitive disadvantages like smaller firms which are operating in smaller markets and face increase competitive harm. The study provides additional evidence that industry barriers to new entrants significantly influence business segment disclosures. To support this claim, it was observed that entity in highly regulated market segments (e.g. Banks and Insurance Companies) which despite having high level of disclosures relative to other financial services companies, still withhold segment information from its own competitor, in order to reduce competitive harm. However, even though studies have shown that managers who have 'good profit' will disclose more information than companies with reported losses, to create a clear, favourable perception of the value of their companies' shares thereby leading to competitive harm, this current study did not find that profitability can significantly influence the level of business segment reporting. Given the significant influence of two out of the three variables which are used as proxies for competitive harm, the study concludes that competitive harm based on the selected proxies (FSIZE, BARENTRY and PROFIT) has a significant effect on business segment information disclosure.



Recommendations emanating from the findings of this study are that the IASB as a Standard setter should continue to direct its current disclosure initiative effort to ensuring that investors are provided with the right balance of information. While IFRS 8 has adopted a management approach to segment reporting, there should be investigation by Standard setters' bodies into what is claimed to be the structure of the internal report reviewed periodically by the CODM, and what is actually being reviewed. Furthermore, based on the findings, it was observed that the highly regulated institutions like the banks and insurance companies have high disclosures level when compared with the less regulated entities. Certain disclosures should be considered mandatory irrespective of the leeway provided by the Standards.

The study is limited to listed firm in Nigeria, which portrayed that the unlisted firms are not considered as competitors. Further research could consider the unlisted firms if information are available. Based on the model evaluation, it was discovered that there are other independent variables that have effect on the level of business segment disclosure in line with IFRS 8 which are not covered by this study. Variables like ownership structure and listing age could be included in further studies.

Further research could center only on a particular sector of the economy to better measure and understand the industry dynamics and competitive advantages that influence business segment disclosures.

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### **Appendix: Checklist for operating segment disclosure**

- ✓ General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;
- ✓ Judgments made by management in applying the aggregation criteria to allow two or more operating segments to be aggregated;
- ✓ Information about the profit or loss for each reportable segment, including certain specified revenues and expenses such as revenue from external customers and from transactions with other segments, interest revenue and expense, depreciation and amortization, income tax expense or income and material non-cash items;
- ✓ A measure of total assets and total liabilities for each reportable segment, and the amount of investments in associates and joint ventures and the amounts of additions to certain non-current assets;
- ✓ An explanation of the measurements of segment profit or loss, segment assets and segment liabilities, including certain minimum disclosures e.g. how transactions between segments are measured, the nature of measurement differences between segment information and other information included in the financial statements, and asymmetrical allocations to reportable segments;
- ✓ Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements;
- ✓ Some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services;
- ✓ Analyses of revenues and certain non-current assets by geographical area; and
- ✓ Information about transactions with major customers.