

A Study Of Segment Reporting Practices: A Malaysian Perspective

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ABSTRACT

With 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. Segment reporting¹ is therefore fundamentally indispensable and integral to investment analysis process (AIMR, 1993, pg 39; Berg 1990). This study highlights evidence on a fraction of Malaysian companies that do not provide any segment reports at all in contrast to their direct competitors who comply. Additionally it was found that the proprietary costs motive theory seem to hold true for the selected companies, where companies which experience high profit margin are the ones who choose not to disclose segment information. The consequences of non-disclosure of FRS 114² by Malaysian companies has far reaching impacts, right from valuation of shares, to corporate governance and control mechanism (Burger and Hann, 2003; 2007). The adoption of suggestions recommended by this study is expected to solve this reporting problem to a certain extent, if not completely. The eventual outcomes of the effectiveness of the new FRS 8 in solving the problem mentioned above would be of great interest to financial analysts and general users. This could well be the direction of future research in this domain.

Keywords: segment reporting, FRS 114, non-disclosure, profitability, proprietary costs

INTRODUCTION

When a large company conducts its operations through a number of diversified operations that represent distinct products or markets segments, it becomes increasingly difficult to analyze the effect of these activities on past performance and their likely effect on future performance of the company. The segments may vary significantly in terms of profitability, risks and returns (Herrmann and Thomas, 1996). Consolidated financial statements may conceal profitability, contributions to cash flows, growth capabilities and risks relating to the different operations. It is recognized that the performance of the business as a whole is a combination of the performance of its individual elements. Without information concerning the individual elements, financial analysts would find it impossible to assess the future prospects of the business. A 1999 survey by Investor Relations Magazine revealed that 86% of the Association for Investment Management and Research (AIMR) members rated enhanced segment reporting of SFAS 131 compared to SFAS 14 as the second most important disclosure. Accordingly it would therefore be difficult, if not impossible for users of financial reports to identify differences in individual elements of businesses without supplementary disclosures provided by segment disclosures. It is true that information relating to the individual companies that make up a group is usually available, but this is not the same as the provision of the segmental information. It is incorrect to assume that each segment of a business is a separate entity, an individual subsidiary may itself conduct its business in several market sectors and more than one subsidiary may be involved in the same sector (Lazar et al. 2006)

¹ Segment reporting refers to the provision of additional disclosure in the audited annual reports

² <http://www.masb.org.my>

By disclosing segmental assets, this not only allows the profit (or loss) margins of the reportable segments to be assessed, but also their profitability to be compared. Comparing profits in absolute terms may be misleading, for example one segment may achieve twice the profit of another segment, but if it has a net asset base that is more than twice the size of the other segment than its performance is relatively poorer. A similar argument would apply to the comparison of a segment of one company to a similar segment from a different company. Regardless of how diversified a company is, if one company in a particular industry or group disclose segmental report while another direct competitor does not disclose segmental report, the whole purpose of financial analysis in the context of segment disclosures is defeated. This is because financial analyst would not be able to make much good use from the segmental report of the disclosing company. Any ratio analysis computed on the disclosing company would be less meaningful without a corresponding ratio from other competitors for comparability and evaluation purposes.

LITERATURE REVIEW

Segment reporting is fundamentally indispensable and integral to investment analysis process (Association for Investment Management and Research, 1992). Epstein and Palepu (1999) found segment performance data as the most important data for investment decisions from a survey of 140 financial analysts. Berg (1990) finds that market announcements results in more significant stock price changes when segments are indentified. Hope et al. (2004) suggests that the pricing of foreign earnings is associated with important aspects of the firm's information environment in terms of segmental disclosure. Corporate collapses involving the loss of hundreds of million of dollars in Australia, United States and elsewhere in the world in the early years of the twentieth century have highlighted the important role of disclosure and compliance. However users of financial statements have long been expressing their concerns on segmental reporting. In this regard the practice of a number of Malaysian companies in refusing to provide segmental disclosures is yet to be empirically ascertained. Additionally the difficulty and inconvenience this practice could cause the financial analyst community at large is also yet to be known.

The 'FRS 114 – Segment Reporting' issued by the Malaysian Accounting Standards Board (MASB) clearly enlightens the applicability of the standard concerned to all enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets. The guidance of the standard clearly denotes that it is compulsory and not an option for companies to comply with. Accordingly the 'Financial Reporting Standard 114 – Segment Reporting' (FRS114) was therefore adopted by Malaysian Accounting Standards Boards (MASB) in line with the spirit of the International Accounting Standards Board (IASB) and MASB's Conceptual Framework's Qualitative Characteristics of Financial Reports requirements of *relevance, reliability, comparability and understandability*. The newly issued 'IFRS 8 – Operating Segment' by IASB and the resultant similar standard in Malaysia numbered as FRS 8 came about as a result of the convergence effort between IFRS and U.S. GAAP. The new FRS 8, which is similar to SFAS 131 in the U.S. supersedes FRS 114 and has becomes effective in Malaysia since January 2009.

The quality of segment disclosures is expected to differ across countries (Herrmann & Thomas, 1996). One of the reasons of this phenomenon identified by prior research is the general business environment in differing countries (Gray et. al 1990; 1994). Managers are found to perceive the net costs and benefits of segmental disclosures differently in U.K. and U.S., leading to differing level of disclosure in those two countries. In this regard, the quality of reporting of a developing country like Malaysia could be different from more developed countries like the U.K and U.S. Differences in national reporting requirements have also been found to influence the quality of segmental disclosures. At the individual company level, research by Porter (1998), Hayes and Lunholm (1996) and Harris (1998) found companies in competitive industries will exploit opportunities to aggregate different business into one segment. SFAS 14 which was similar to IAS 14 and FRS 114 provided this opportunity through the vagueness in the definitions of segments. U.S. adopted the SFAS 131 which superseded SFAS 14 way back in 1997. Companies are found to aggregate segment data with the intention of hiding valuable business information from suppliers, customers and competitors (Porter, 1998; Hayes and Lunholm, 1996; Harris, 1998).

The motives for aggregating different business segment includes arguments by managers that segment disclosures would cause competitors to use the finer, more informative segment reporting information provided to identify competitive opportunities in a disclosing firm's most profitable business segments, or that suppliers would use them to identify opportunities to extract higher prices from the firm, Michael et al. 2002; Harris, 1998. The

proprietary costs motive theory (Burger and Hann, 2007) explains that segment profitability is the most important piece of information managers may wish to withhold from competitors and investors. This is because revelation of abnormal profits would attract unnecessary attention and hence in future reduce the abnormal profits of segments. Whereas the agency cost motive theory (Burger and Hann, 2007) explains that revelation of a segment that earns low abnormal profit would expose unresolved agency problems and lead to heightened external monitoring. The abnormal profits are measured comparatively against the industry average by way of a segment's rate of return relative to that of its industry. Burger and Hann, (2002) also find companies hide their diversification strategies by aggregating financial information instead of providing segmental reports.

The practice of non-disclosure of segment reporting by Malaysian companies, especially when certain companies choose not to provide their segment report when corresponding competitors provide them, raise serious questions on the quality of financial reporting and its related implications thereof. Additionally, the question of whether proprietary costs motive or agency cost motive dominate the practices of non-disclosure of segmental reporting is yet to be answered. The nature of this paper is thus exploratory and also intends to provide results that could be an-eye opener for all parties and stakeholders of Malaysian companies to realize the importance of this issue.

In light of the above backdrop, the following research questions emerge:

- a) Do Malaysian companies avoid providing segmental reporting in their financial statements?
- b) Does the proprietary costs motive or agency cost motive dominate the practices of non-disclosure of segmental reporting by Malaysian companies. In other words do companies which do not provide segment reporting experience high or low profits?
- c) What could the authorities and stakeholders do to improve the segment reporting practices by Malaysian companies?

In order to seek the answer to the research questions above, the following are the objectives of this research.

- a) To determine whether Malaysian companies avoid providing segmental reporting.
- b) To determine whether proprietary costs motive or agency cost motive dominate the practice of non-disclosure of segmental reporting by Malaysian companies.
- c) To determine the practical measures that the authorities and stakeholders should initiate to improve the segment reporting practices by Malaysian companies.

RESEARCH DESIGN & METHODOLOGY

The data for this study was retrieved from the Bursa Malaysia website (The Malaysian Stock Exchange) which contains the financial statements of the sample companies. The convenience sampling method was used as the study specifically intends to determine the cases of non-disclosure of segment reporting by certain companies in contrast to their competitors who comply. The time period span the data for this study was obtained was from 2006 to 2009. Pair wise and group wise comparison between similar companies in an industry is made and qualitative analysis is carried out. The qualitative analysis determines whether selected companies disclose segment reporting or not and scrutiny of the narrative explanation given by the companies that have been implicated with non-disclosure.

The exact extract of the segment reports of selected companies are presented and analyzed to evaluate their justification for providing or omitting segment reports. In order to determine whether companies which do not provide segment disclosure experience high or low profits, the percentage of profit before tax as a fraction of sales (PBT/Sales X 100), (here after referred to as PBT ratio), is compared between the complying company and companies without disclosure. The percentage of above is used instead of absolute profits figures to normalize for the effect of company size. The pair wise or group wise (for more than two companies) comparison was carried out for two or more companies in each sector chosen for this study. The sectors chosen are mobile telecommunications, beverage, print media (newspaper), utility and electronic media (television).

FINDINGS AND ANALYSIS

Table 1: Descriptive Analysis of Companies Chosen

Company	Disclosure of Segment Report	Sales (RM'000)		PBT/Sales Ratio	
		2008	2007	2008	2007
Industry					
Mobile Telecommunications					
1. Digi.Com Bhd	No	4,814,475	4,362,635	32.13	33.13
2. Maxis Communication Bhd* (2006&2005)	Yes	7,706,693	6,370,805	36.20	38.47
Beverage					
3. Carlsberg Brewery Malaysia Bhd	No	960,207	897,530	10.55	10.89
4. Guinness Anchor Bhd	No	1,194,602	1,072,112	14.14	14.19
5. Yeoh Hiap Seng Bhd	Partial	568,836	476,579	0.81	(4.22)
6. Fraser & Neave Holdings Bhd	Yes	3,591,204	2,865,068	6.67	7.71
Print media (Newspaper)					
7. Star Publications Malaysia Bhd	No	831,040	805,865	24.24	27.72
8. Nan Yang Press Holdings Bhd* (2006&2005)	No	313,526	324,347	(2.21)	4.17
8. The News Straits Times Press Bhd	Yes	575,621	547,666	8.94	9.71
Electronic Media (TV)					
9. Media Prima Bhd	Partial	781,290	691,339	20.38	21.57
10 Astro All Asia Networks Plc	Yes	2,601,698	2,224,302	5.25	12.61
Utility					
11.Tenaga Nasional Bhd	No	25,750,000	23,320,400	11.75	20.44
12 Telekom Malaysia Bhd	Yes	8,674,900	8,296,000	4.08	11.07
13 Pos Malaysia Bhd	Yes	921,666	859,329	(0.06)	1.81

Note: a) Data for Maxis Communications Bhd relates to the financial year 2006 and 2005. This is because Maxis was delisted from Bursa Malaysia and the last available published annual report is for the year 2006. Similarly the last available published annual reports for Nan Yang Press Holdings Bhd are for the years 2006 and 2005.
b) PBT/Sales Ratio denotes profit before tax divided by sales and multiplied by hundred.
c) RM denotes Ringgit Malaysia (Malaysia's currency) and the prevailing exchange rate between the U.S. dollars and RM at the time this study was carried out in 2008 was US \$ 1 = RM 3.83

Table 1 above shows the companies chosen in the mobile telecommunication sector are Digi.Com Bhd and Maxis Communication Bhd. Maxis' 2007 and 2008 data for segment reporting could not be obtained because Maxis was delisted in 2007. Therefore the latest financial statement data available for Maxis for the year 2006 was used in this study. There are only three mobile telecommunication service providers in Malaysia. The third service provider Celcom has been delisted from its original parent company years back and absorbed by a large general telecommunication provider, Telekom Malaysia Berhad. In the Beverage industry, Carlsberg Brewery Malaysia Bhd, Guinness Anchor Bhd, Yeoh Hiap Seng Bhd and Fraser & Neave Holdings Bhd are chosen for this study. Carlsberg Brewery Malaysia Bhd and Guinness Anchor Bhd primarily produce alcoholic drinks for consumption while Fraser & Neave Holdings Bhd and Yeoh Hiap Seng Bhd primarily produce a variety of soft drinks for consumption. Companies chosen in the print media (newspaper) are Star Publications Malaysia Bhd, Nan Yang Press Holdings Bhd and The News Straits Times Press. Both Star Publications Malaysia Bhd's, and The News Straits Times Press Bhd's major business is the publication of major dailies in the English language while Nan Yang Press Holdings publishes dailies in the Chinese language. In the electronic media (television), Media Prima Bhd and Astro All Asia Networks Plc are chosen and they are the only two television stations which are quoted on the Bursa Malaysia. The other television channels available in Malaysia are fully owned by the government and therefore are not quoted. In the utility sector, the companies chosen are Tenaga Nasional Bhd, Telekom Malaysia Bhd and Pos Malaysia Bhd. Tenaga Nasional Bhd is the national electricity provider, Telekom Malaysia Bhd is the national fixed line-based telecommunication service provider and Pos Malaysia Bhd is the national postal service company. All three companies were formerly government departments were privatized in the 1980s.

Since the amount of sales and PBT ratio for Maxis Communication Bhd relate to the years 2006 and 2005 while for Digi.Com Bhd it relates to the years 2008 and 2007, meaningful observation could not be made. Similar limitations hold true for Nan Yang Press Holdings Bhd because its sales and PBT ratio relate to the years 2006 and 2005 while the other two competitors’ corresponding figures are for the year 2008 and 2007. The descriptive analysis above shows which companies provide segmental report in their annual published financial statements and which companies that omit altogether from providing any segment report. The second important observable trend from Table 1 above is high PBT ratio among all non-compliant companies, either fully or partially (excluding Maxis Communication Bhd and Nan Yang Press Holdings Bhd). Carlsberg Brewery Malaysia Bhd, Guinness Anchor Bhd, Star Publications Malaysia Bhd, Media Prima Bhd and Tenaga Nasional Bhd all have considerably larger PBT ratio than their counterparts who disclose segment report. This trend suggests the existence of the proprietary costs motive where the companies with the higher profit margin seem to avoid providing segment report to withhold segment profitability information from competitors and investors because it could attract unnecessary attention and reduce future segment profits.

In the mobile telecommunications industry, Maxis presents its segment report while Digi does not. Both these companies are engaged in almost same businesses. Digi could have always benchmarked itself against its competitor who provides report and followed suit. There is no doubt Digi too has mobile services, fixed services and others in its portfolio of services. The absence of segment reporting by one company makes comparison for analysis impossible.

Similarly in the beverage industry, Fraser and Neave Holdings Bhd (F&N) provide segment report while Yeoh Hiap Seng Bhd (YHS) provide only partial segment report in the form of secondary geographical segment. However Carlsberg Brewery Malaysia Bhd and Guinness Anchor Bhd do not provide any segment report at all. Generally it can be observed that the primarily alcohol-based companies experience bigger PBT ratio compared to their mainstream soft drinks competitors. The alcohol-based drinks producer in Malaysia could have chosen not to disclose their segment reports due to two reasons. Firstly, the competition in this industry is very high. Both Carlsberg and Guinness are the only two alcohol-based drinks companies that have a manufacturing presence in Malaysia, which has a predominantly Muslim population. The other alcoholic drink brands are imported and therefore more expensive than the locally produced drinks. Both companies are at constant competition with each other to be the leader and therefore divulging any segment profitability would reveal “too much” information.

Table 2 Extract of Segmental Reporting Disclosure – Mobile Telecommunications Industry

a) Maxis	
Compliance of Segment Reporting : Yes (Financial year ended 31 December 2006)	<p>Key description: The Group operates in three key segments, comprising the provision of mobile services which is a major contributor to the Group’s operations, fixed services and international gateway services. The group also provides other services which are currently not significant enough to be reported separately.</p> <p>Business segments reported by Maxis are :</p> <ul style="list-style-type: none"> - Mobile Services - Fixed Services - International Gateway Services - Other Operations <p>Geographical Segments:</p> <ul style="list-style-type: none"> - Malaysia - India - Other countries
b) Digi Bhd	
Compliance of Segment Reporting: No (Financial year ended 31 December 2008)	<p>Key description: Segment information is not presented as there are no material segments other than that for the provision of mobile communication services, and the Group’s operations are conducted predominantly in Malaysia.</p>

Table 3 Extract of Segmental Reporting Disclosure – Beverage Industry

a) Fraser & Neave Holdings Berhad (F&N Bhd)	
Compliance of Segment Reporting : Yes (Financial year ended 30 September 2008)	<p>Key description: The Group’s operating businesses are organized according to the nature of activities, namely soft drinks, dairy products, glass containers, property and others. The Group operates in four geographical areas namely Malaysia, Vietnam, Thailand, and China. Geographical segment revenue is based on geographical location of the Group’s customers. Geographical segment assets are based on geographical location of the Group’s assets. Inter-segment sales where applicable are based on terms determined on a commercial basis.</p> <p>Business segments reported by F&N Bhd are :</p> <ul style="list-style-type: none"> - Soft drinks - Dairy products - Glass containers - Property & Others <p>Geographical Segments:</p> <ul style="list-style-type: none"> - Malaysia - Vietnam - Thailand - China
b) Yeoh Hiap Seng Berhad	
Compliance of Segment Reporting : Partial (Financial year ended 31 December 2008)	<p>Key description: The Group is principally involved in one business segment which is the production, marketing and distribution of beverage and food products. As such, no information on the Group’s operations by business segments is provided.</p> <p>Geographical Segments:</p> <ul style="list-style-type: none"> - Malaysia - Singapore - Indonesia - Others
c) Guinness Anchor Berhad	
Compliance of Segment Reporting : No (Financial year ended 30 June 2008)	<p>Key description: The Group operates solely in the brewing industry involving production, packaging, marketing and distribution of its products, principally in Malaysia. Approximately 2% (2007 - 2%) of the total sales are exports, mainly to South East Asian countries based on location of customers.</p>
d) Carlsberg Brewery Malaysia Bhd	
Compliance of Segment Reporting : No (Financial year ended 31 December 2008)	<p>Key description: The Group principally operates in the brewing industry in Malaysia, in the production and sale of beer, stout, shandy and non-alcoholic beverages. The other segments are not significant. Accordingly, information analyzing geographical and industry segments is not presented.</p>

Table 4 Extract of Segmental Reporting Disclosure –Print media (Newspaper) Industry

a) The News Straits Times Press Bhd (NSTP)	
Compliance of Segment Reporting : Yes (Financial year ended 31 December 2008)	<p>Key description: During the current and previous financial years, the Group has only one main business segment: Newspaper publishing – publishing and sales of newspapers, advertising services, provision of internet based in-line services and outdoor media advertising. Other operations of the Group comprise mainly investment holding and provision of property management services, none of which are of a sufficient size to be reported separately.</p> <p>Business segments reported by NSTP are :</p> <ul style="list-style-type: none"> - Newspaper publishing - Others
b) Nan Yang Press Holdings Berhad (NYSP)	
Compliance of Segment Reporting: None (Financial year ended 30 June 2007)	<p>Key description: Segment information is not presented as the Group is principally engaged in the publication and selling of newspapers and magazines in Malaysia.</p>
c) The Star Publications	
Compliance of Segment Reporting : No (Financial year ended 31 December 2008)	<p>Key description: No segmental reporting has been prepared as the Group’s activities are predominantly in the publication, printing and distribution of newspapers and magazines within Malaysia.</p>

Table 5 Extract of Segmental Reporting Disclosure – Utility Industry

a) Pos Malaysia & Services Berhad (PMS)	
Compliance of Segment Reporting : Yes (Financial year ended 31 December 2006)	<p>Key description: (translated from Bahasa Malaysia) The group is divided into the two main business segment that is primarily located in Malaysia, which are investment holding and postal and related services. Business segments reported by PMS are :</p> <ul style="list-style-type: none"> - Investment holding - Postal and related services - Others <p>No geographical segment was given by PMS.</p>
b) TM Bhd	
Compliance of Segment Reporting : Yes (Financial year ended 31 December 2008)	<p>Key description: (a translation) The group’s segment has reviewed and changed its reporting structure and reportable segment to reflect the current business structure. Business segments reported by TM are :</p> <ul style="list-style-type: none"> - Retail business - Wholesale business - Global business - Shared services/Others <p>Geographical Segments:</p> <ul style="list-style-type: none"> - Malaysia <p>Other countries</p>
c) Tenaga Nasional Berhad (TNB)	
Compliance of Segment Reporting : No (Financial year ended 31 December 2008)	<p>Key description: (a translation) As the principal activities of the Group and the Company are the generation, transmission, distribution and sale of electricity, segmental reporting is deemed not necessary.</p>

Table 6 Extract of Segmental Reporting Disclosure – Electronic media (television) Industry

a) Astro All Asia Networks Bhd	
Compliance of Segment Reporting : Yes (Financial year ended 31 January 2008)	<p>Key description: (a translation) The group is organized into the following business segments: Malaysian multi channel television, radio, library licensing and distribution, television programming and others.</p> <p>Business segments reported by Astro are :</p> <ul style="list-style-type: none"> - Malaysian multi channel television - radio - Library licensing and distribution - Television programming - Others <p>Geographical segment:</p> <ul style="list-style-type: none"> - Malaysia - Hong Kong <p>Others</p>
b) Media Prima Bhd	
Compliance of Segment Reporting : Yes (Partial) (Financial year ended 31 January 2008)	<p>Key description: (a translation) The group operates primarily within one business segment, namely commercial television broadcasting and related services.</p> <p>Geographical segment:</p> <ul style="list-style-type: none"> - Malaysia - Republic of Ghana

Secondly, the government taxes on alcoholic drink have been rising exponentially over the last decade. However the profits of these alcohol-based companies are still high compared to other mainstream soft drinks companies. Revealing segment report could attract unnecessary attention and could propel certain parties to pressure the government for heavier taxes on these companies. It is interesting to take note of the narrative explanation given by Carlsberg for not providing the segment reports. Carlsberg’s statement that it “operates in the brewing industry in Malaysia, in the production and sale of beer, stout, shandy and non-alcoholic beverages” indicates the possible segment that it could have reported i.e beer, stout, shandy and non-alcoholic beverages.

In the print media (newspaper) industry The News Straits Times Press Bhd (NSTP) provides segment report while Star Publications Malaysia Bhd (Star) and Nan Yang Press Holdings Bhd does not. Again it is worth to take note of the fact that all three companies in this industry are engaged in almost similar nature of business activities but only one company chose to report its segment information. The non-reporting companies could have followed NSTP in at least giving segment report based on “Newspapers publishing and Others”. Alternatively Star’s narrative explanation gives clue on the possible segment report it could have provided under the headings of “newspapers”, “magazines” and “others”. In the utility industry Pos Malaysia and Telekom Malaysia Bhd provide segment report while Tenaga Nasional Berhad (TNB) does not. TNB being the national provider of electricity could have reported its segment information under the headings of “generation of power”, transmission of power” and “distribution of power” as reflected in its annual report of 2008. Alternatively, since TNB provides electricity to different segment of customers i.e. domestic homes and industrial establishments, its segment report could have been categorized similarly.

In the electronic media (television) industry Astro All Asia Networks Bhd provides segment report while Media Prima Bhd provides only partial segment report in the form of geographical segment. The geographical segment presented by Media Prima in its 2008 and 2007 annual report is classified as secondary segment as per the requirement of FRS 114. The requirements of secondary segment disclosures are fairly brief in its format and Media Prima thus provided only four line items (revenue, losses, and capital expenditure and total assets). Media Prima owns and operates a number of television and radio stations namely TV3, NTV7, Fly FM and Hot FM where these stations are individually subject to different risk and returns. Accordingly, in line with the requirements of FRS 114 which require distinct business segments which are subject to different risks and returns characteristics to be

reported separately, Media Prima could have reported its business segment by stations. Alternatively Media Prima could have adopted its competitor Astro All Asia Networks Bhd's classification of business segment.

The findings above highlight surprising results. The financial reporting practice of certain Malaysian companies in the realms of segmental reporting is lacking and raises many questions. The apparent reasons singled out by the non-disclosure companies are clearly questionable. As mentioned earlier, FRS 114 should be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets. The application of FRS 114 is therefore not optional but compulsory for the companies above. The non-disclosure on this area has serious consequences for the users of financial statements. Analyst could over-value a company's shares in the absence of segment reporting, (Burger and Hann 2007) leading to wrong or misleading acquisition or disposal of investment of shares by investors. Managers of companies are also known to hide abnormal segment profits by avoiding providing segment reports due to proprietary and agency cost motives, Burger and Hann, 2007. The issue of non-disclosure above therefore needs the attention and improvement efforts by all parties concerned.

RECOMMENDATION AND IMPLICATIONS

The introduction of the new IFRS 8 – Operating segment to be superseded by IAS 14 (effective 1 January 2009 for Malaysia) by the International Accounting Standards Board (IASB) and the eventual adoption by MASB for the Malaysian context of FRS 8 is therefore timely. This adoption, is however considered late comparatively with the U.S., who introduced the SFAS 131 (similar to IFRS 8) to replace their old SFAS 14 (similar to FRS 114) way back in 1997. Although the main intention of IASB in replacing IAS 14 with IFRS 8 was never to compel non-disclosure companies to comply eventually, this new standard could have that effect on Malaysian companies. It is envisaged to that no public listed companies would be able to avoid providing segment report based on the requirement of the new FRS 8. This is because the wording of the new FRS 8 is precisely worded in its intention and it is unlikely any company would be able to give creative excuses for not providing their segmental disclosures. The new FRS 8 adopts a 'management approach' to the identification of operating segments, which is to be based on internal reports that are regularly reviewed but the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. This differs from the approach under FRS 114, which required that a primary and secondary classification scheme be identified, with one being based on operations and other on geographic areas. For purposes of the new standard, an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As under the parallel US GAAP standard SFAS 131, the 'chief operating decision maker' designation does not necessarily refer to a single individual, but to a function within the reporting entity. The new standard requires that the amount of each operating segment item (revenue, assets, etc.) that is reported be the same measure that is reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. In this regard, it can be visualized that any company big enough to be public listed would unlikely prepare and analyze their performance on only at aggregated level. This 'management method' is less flexible and companies must report segments externally the same way they manage them internally (Michael et al. 2002). All public listed companies would have some sort of reporting structure that divides the overall company or group into distinct cost centers or segments for meaningful analysis and performance measurement. It is therefore observed by the authors of this paper that no public listed companies would be able to avoid providing segment report based on the requirement of the new FRS 8. In the United States the replacement of the old SFAS 14 (equivalent to the FRS 114) with the new SFAS 131 (equivalent to FRS8) has resulted in improved reporting practices by companies (Burger and Hann, 2007; Michael et al. 2002).

However whether will the introduction of the new FRS 8 result in improved segment reporting practices, especially resulting in companies currently not reporting on segment disclosures to eventually report is only to be seen for financial statements of the year 2009 and beyond. It would therefore be logical for future research to determine the effectiveness of FRS 8 in improving segmental reporting practices in Malaysia and all IAS member countries in general. So far, only evidence from U.S on the effectiveness of SFAS 131 as compared to SFAS 14 is available. For example Bruce et al. (2002) and Burger and Hann, (2003) found that after the introduction of SFAS

131, there was significant improvement in the predictive accuracy of geographic sales. Such evidence is yet to be available for testing in Malaysia.

However as how certain Malaysian companies “creatively” find excuses for not providing segment reporting, the similar creative attitude could find its way through FRS 8 as well. For example it was envisioned by Kevin, (2003) that companies may change their organizational structure to avoid segment reporting that may provide competitive insights. The authorities should never be complacent with standards alone to ensure proper compliance of reporting practices. In line with this, this study suggests the following measures to be undertaken by the relevant authorities and stakeholders, namely the Bursa Malaysia, Securities Commission of Malaysia, the Malaysian Institute of Accountants, Public Company Accounting Oversight Board, Malaysian Society of Financial Analysts and the Minority Shareholders Watchdog Group to:

- a) Amend existing guidelines clearly compelling public listed companies to provide segment reports
- b) Introduce corrective actions for non-disclosure companies in order to improve the reporting practices of Malaysian companies
- c) Engage in active dialogues and related activities to promote awareness on the importance of segment disclosures

CONCLUSION

Segment reporting practices of Malaysian companies needs further improvements. Continued non-disclosure by Malaysian companies would have serious negative consequences on the overall reporting practices quality and attractiveness of Malaysian companies compared to other countries. In the aftermath of the current global economic meltdown, there are calls at the international level, for a new paradigm in the international financial system and the introduction of more transparent reporting regime. Certainly the scrutiny by investors and users of financial statements will be heightened in these troubled time. Malaysian companies that do not comply on segment reporting will find themselves inevitably be the subject of criticism by related stakeholders and authorities. The eventual outcomes of the effectiveness of the new FRS 8 in solving the problem mentioned above would be of great interest to the financial analyst community and the general users and could the direction of future research in this domain. More importantly the adoption of suggestions recommended by this study is expected to solve this reporting problem to a certain extent, if not fully.

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