CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion and implications

This research has sought to provide empirical evidence on the extent of compliance of segment disclosures of Main Board companies in Bursa Malaysia immediately after the issue of MASB 22. It deals specifically with compliance with regard to the 75% ruling and primary segment disclosure unlike many previous studies, which deals with general compliance of segment disclosure. Previous Malaysian studies dealt with segment disclosure as per the old IAS 14 whereas this study examines the latest Malaysian accounting standard on segment reporting, MASB 22. Therefore, this current study adds to the existing local literature on segment reporting. Furthermore, this study examined the influence of three determinants on segment disclosure compliance, namely firm size, financial leverage and industry membership.

Table 2B shows that the primary segment disclosure compliance rate for Main Board companies for the years ending from 31 December 2002 until 30 November 2003 is 77.5%. This statistic can be compared with that by Chow (2001), which shows a compliance rate of 81.7%. Firstly it must be borne in mind that MASB 22 requires the disclosure of 9 items compared with only 4 items under the original IAS 14. Secondly, 338 out of 391 companies i.e. 86.4% disclosed more than 4 items of segment information in the notes to the accounts. This means that Main Board companies has disclosed more items of information under MASB 22 compared with the original IAS 14. This also indicates that MASB 22 has been successful in getting Main Board companies to disclose more items of information for segment reporting.

However the rate of non-compliance stands at 22.5% for Main Board companies. This should not be the case as segment reporting has been in existence in Malaysia for almost two decades albeit most of time via the original IAS 14. Furthermore, MASB 22 has given clear guidelines as to how the Standard should be applied. MASB 22 has even attached in its appendix, an example to illustrate the application of the requirement of the Standard. Preparers of financial statements who still require further clarification and guidance can contact the technical personnel of the Malaysian Accounting Standards Board, the Malaysian Institute of Accountants or the Malaysian Institute of Certified Public Accountants if need be.

Those who failed to comply with MASB 22 has in fact violated Section 166A of the Companies Act which require the accounts of a company to be made out in accordance with accounting standards issued and approved by the MASB. Choi, Frost and Meek, in their book 'International Accounting', have suggested that for investor-oriented equity markets, investors are protected through (i) disclosures and (ii) monitoring and enforcement. Legislation is important to address issues of non-compliance but there must also be enforcement by the authorities (e.g. the Securities Commission and The Registrar of Companies) to carry the message across.

Table 2A reveals that the rate of compliance for the 75% ruling of MASB 22 to be a very high 99.2%. This indicates that the MASB has been successful in influencing Main Board companies to disclose the external revenue of the majority of its segments.

The results of the study suggest that compliance of segment disclosure is not statistically related to firm size and financial leverage. They however indicate that compliance of segment disclosure and industry membership is significantly related.

As regards firm size, a greater percentage of smaller firms (72.5% in this study as compared with 67.2% in the study of Chow, 2001) have realized the benefits of segment disclosure can outweigh the costs of disclosure. Greater transparency does indeed result in a lower cost of capital.

With regard to industry membership, the findings indicate that firms from the properties/hotel sectors are the most likely to comply with primary segment disclosure and firms from the consumer product and industrial product categories are least likely to do so. Firms from the properties/hotel sectors are generally less diversified and therefore would incur less cost gathering and modifying their management data for segment disclosure. Companies in the customer product and industrial sectors are however generally more diversified and therefore would encounter greater difficulty in segmenting data for disclosure purposes. This result could possibly indicate that companies in these two sectors are less ready for segmental disclosure. This goes against the spirit and objective of MASB 22, which seeks to help users better understand diversified firms. Enforcement officers can also pay more attention to firms in these sectors rather than using random sampling. Firm size and financial leverage should not be the criteria in the selection process for such enforcement checks.

5.2 Recommendations for future research

Although this study has contributed in bringing some useful insights into segment reporting, nevertheless there were limitations of cost and time that restricted the scope and depth of this study.

This study can be extended to Second Board companies in Bursa Malaysia to ascertain the extent of compliance of MASB 22 in these companies.

The number of independent determinants can be increased to consider for instance the effects of ownership diffusion, diversification into related versus unrelated industries, assets-in-place, foreign listing, earnings volatility, overseas ownership and level of minority interest. Continuous variables could be used in place of categorical variables so that regression analysis could be performed to analyze the quality of segmental disclosure.

McKinnon and Dalimunthe (1992) had argued that a possible reason for the non-significant relationship between segment disclosure and financial leverage could be due to the lack of full cross-guarantees. A further study could be conducted to ascertain whether the absence of full cross-guarantees can affect the compliance of segment disclosure.

Further research could be channeled toward the comparison between MASB 22 and its predecessor IAS 14. For instance, has the new accounting standard resulted in fewer companies claiming that they operate in only one business segment? Has it resulted more meaningful, transparent geographic groupings rather than vague groupings under IAS 14? Is the primary segment information in the notes to the accounts consistent with other parts of the annual report?

Additional research should also be considered to examine whether segment reporting under MASB 22 has resulted in users better assessing the different returns, risk and growth rates of firms and therefore able to make better economic decisions. Has MASB 22 improved the predictive ability of financial analysts?