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Geographic Segment Disclosure in Indonesia

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Abstract

The purpose of this study was to examine how Indonesian MNCs (Multinational Companies) disclosed geographic information segment. The significance of this study is highlighted by the effort to empirically investigate the initial impact of Indonesian geographic condition and Indonesian company's behavior to respond that. Descriptive analysis was used to describe how geographic segment was used in Indonesia. The population of this study were 30 multinational companies listed in Indonesia Stock Exchange (IDX) in the period of 2015-2017. The results showed that most companies used LOB, only 18.75% of which used geographic as the main segment. They tend to disclose geographic information consistently in the number and level of specificity. The companies that used it as a secondary segment revealed a geographic basis with details, but not at a geographic level. It is the company's defense mechanism in responding to user needs and threats from competitors. Those findings help to lead a new insight regarding the implementation of segmental disclosure in the future.

Keywords: Geographic Segment; Level of Specificity Geographic; Number of Segments

Introduction

Information disclosure is a sensitive and valuable issue (Edward and Smith., 1996) because the information in the form of financial reporting is a form of accountability and business language used for communication between the management/agent and the stakeholder/principal. However, the information in financial reporting is often unable to provide all the required information, as the information provided is much broader than that required (Nobes and Parker., 2012). Users are more interested in disaggregated than aggregate reports (Street and Nichols., 2002; Birt, et al., 2017), so the company tries to meet those expectations through the disclosure of segment reporting. Managerial-stakeholder theory explains that (accounting and operational) information should be disclosed as a way of meeting stakeholder's expectations. The interest of management on segment information is related to segment policy making for better competitiveness or competence among segments (Gomez., 2015). Standard setters accommodate it by designing a disclosure using management perspectives that provides information at low incremental costs. It also improves the consistency of segment information with Management Discussion Analysis (MDA) or annual reports and provides various perspectives of segment performance measurement (IFRS 8, BC 6).

The need for segment information becomes more significant if there is a complexity of mergers and acquisition activities undertaken by the company as well as by the Multinational Company (MNC) that runs the business with various geographic and macroeconomic conditions. Segment information can assist management and investors in decision making and forecasting (Collins., 1976, Robert., 1989; Balakrishnan et al., 1990; Harris., 1998; Mande and Ortman., 2002; Birt and Shailer., 2011). This is demonstrated by the ability of segment information to disclose risk estimation from investments related to the disclosure of segment numbers (Doupnik and Rolfe., 1990). Information from the disclosure of such segment numbers can indicate different risks and profiles of each segment, making it easier for investors to make decisions. Segment reporting is believed to be able to provide accurate forecasting compared with aggregate reports (Baldwin, 1984; Boatsman et al., 1993; Nichols, et al., 1995; Herrmann., 1996; Birt and Shailer., 2011) because the presentation of segment information in the form of disaggregate based on the type of business or geographic environment is capable of presenting more detailed conditions and the details regarding possible risks and the accompanying macro conditions. If the company uses line of business (LOB) as its main segment, stakeholders assume that the report is able to present more relevant information (Maines et al., 1997) because it is able to show comprehensive information from segments that have similar conditions of business types and to implement stakeholder's expectations in the future. Whereas, if the company uses geographic as its primary segment, the information is claimed to be more useful and informative (Ettredge et al., 2005; Behn et al., 2002) because reporting based on geographic condition is able to reflect the macroeconomic conditions faced and the risks related to it and favored more by investors as it allows them to better understand the performance of a segment and its relation to foreign activities outside the geographic area (Hope et al., 2009). Information related to level of specificity of geographic segment becomes the useful information when the difference in geographic cement has consideration of risk differences. The disclosure of a more specific level of geographic specificity is able to provide more useful information for decision-making than that of the geographic level of specificity (Nichols, et al, 2012; Aleksanyan & Danbolt., 2015). Responding to the demand and need for such information, based on stakeholder theory, the company will disclosure the information to improve the value of corporate financial reporting. Reporting standards, accommodating the extent of disclosure of the specificity level of the geographic segment, are certainly expected to be valuable information for user's decision making. Thus, the use of primary segments based on LOB and geographic segments is considered capable of providing information required and desirable by investors. Thus, this research tried to study the disclosure of geographic segment in Indonesia to find out the behavior of companies in deciding information in the geographic condition.

Methodology

The population used in this research were all companies listed in Indonesia Stock Exchange (IDX). They were selected because of segment reporting, the reporting of all types of companies that do segmentation, diversification, and expansion. The sampling technique used in this study was purposive method, using multinational companies listed in Indonesia Stock Exchange in the period of 2015-2017 and disclosing segment information. The measurement of the number and types of segments was reported based on the percentage of the segment numbers, as for the geographic segment measurement by categorizing the level of geographic segment into the categories proposed by Aleksanyan and Danbolt (2015); they are (1) single-country segments (e.g., "UK", "France", etc.); 2) two-country segments (e.g., "UK and Ireland", "USA and Canada", etc.); 3) single-region or single-continent segments (e.g., "Continental Europe", "Rest of Europe", etc.); 4) two- or more-region or two- or more-continent segments (e.g. "Middle East and Africa", "Africa, Asia, Australia and Other America", etc.) including segment names that represent a combination of a country and a territory/content that does not include that country (e.g., Asia and USA ", etc.); 5) the rest of the world segments including segments whose names include unidentifiable geographic locations (e.g., 'the rest of the world', 'other International countries', etc.). The calculations results based on the percentage levels were compared in each period. The comparison was analyzed based on the depth of the theory and explanation of the phenomenon descriptively. This was undertaken to understand and explain more the phenomenon of change based on the perspective of theory and analysis of the author.

Result and Discussion

The Number of Geographic Segments

Of the 30 multinational companies used as the sample, there were 43.3% or 13 multinational companies having overseas holding companies while the remaining 56.7% or 17 companies were domestic holding companies. 80% of the total sample or 24 companies used the business line as the primary segments and the geographic segments as the secondary segments, and the remaining 20% or about 6 companies used the geographic segments as the primary segments and the business segments as their secondary segments in addition to the entire sample.

Table 1 List of average company segments

Years	**2015-2017**
Total Sampling	
Average number of overall segments	3,111
Average number of LOB segments	1,672
Average number of geographical segments	1,439
Companies using LOB segment as the main segment	
Average number of overall segments	3,187
Average number of LOB segments	1,923
Average number of geographical segments	1,263
Company using geo segment as the main segment	
Average number of overall segments	2,805
Average number of LOB segments	0.667
Average number of geographical segments	2,138

The difference in the primary number of reported segments where the companies mostly used the LOB primary segments with the geographic segments as the secondary ones did not apply to the total segments. The average companies disclosed their total segments of 3.11 in the period 2015-2017, of which 53.75% of them used the LOB segments. The remaining 46.25% of them disclosed the geographic segments as the primary. This is, of course, due to the tendency of the multinational companies' business complexities that cannot be explained in one segment alone. A secondary segment is needed to support the disclosed information to be more informative as Indonesia has a diversity of geographic areas that needs to be revealed in more details. In addition, the disclosure of geographic segments is based not only on sales but also on total assets and liabilities.

Companies with the LOB segments as the primary segments also tend to have LOB more than the segments in which from 3.18 LOB-segment disclosures as the primary segments. The companies which disclosed their geographic segments as a secondary segment were only 60.3%. This is because the segment-information disclosure here is a secondary aspect in which based on IFRS8, the disclosure must be based on CODM consideration. The various diverse market segments and vast geographic conditions in Indonesia held up some companies to segment segregation by the geographic segments. This is supported by the fact that the consequences of disclosure will increase the disclosure cost. On the other hand, the companies with the geographic segments as the primary segments disclosed their LOB segments as the secondary segments with fewer proportions from the total disclosure of 2,8. Only 23,7%

was the disclosure of LOB as the secondary segments. This is because the companies with geographic primary segments often had only one business branch expanded broadly.

The average operating segment of the MNC after the convergence of IFRS had a stable deployment, where there was no dominance of not using another segment. Presumably, the companies were trying to meet the expectations of the stakeholders to disclose quality information by presenting segment information proportionately. The choice of a company to use a segment as the primary segment in Indonesian context is the dominance of needs in disclosure. If it has a predominance of the need to map the number of assets/ liabilities/ revenues in each segment in geographic diversities, the company will likely disclose its geographic segment as its primary segment by focusing on that aspect and vice versa.

Table 2 Change of geographic specificity (Geographic as the main segment)

Level of Specificity	2015-2017
Single Country Segments	16,67%
Two-Country segments	0%
Single-Region or Single Continent Segments	16,67%
Two-or-more-regions or two-or-more continents segments	33,33%
Rest of The world segments	33,33%

Based on the observation, the companies using geographic segments as their primary segments had consistent varying levels of disclosure of geographic segments. Of the five categories, the companies in Indonesia were less likely to disclose using the second category. They have discretions in determining the levels of specificity of the geographic segments or areas for reporting purposes. On the other hand, excessive heterogeneous geographic aggregation of regions into a single geographic segment or area that can be reported reduces the levels of details of geographic information and may reduce the usefulness of this information to investors. Mapping results indicated that the majority of companies in Indonesia disclosed their detailed geographic, possibly making one of the arguments that reinforces the decline in other segments i.e. to reduce the level of competitive losses that may arise in the segment information. This disclosure behavior can be rationalized through the Proprietary Cost Theory (PCT) where the specific geographic segments reported will indicate the higher risk (and cost) of the company against disclosure. To reduce the increased risk of disclosure of proprietary information in accordance with the requirements of accounting information standards, the companies chose to define geographic-segment information rigidly.

Specificity Levels of Geographic Segments

The companies that used the geographic segments as the secondary segments had a variety of considerations including the ability of geographic description to explain the various risks that may be encountered in a given geographic condition and provide additional information from the LOB segments regarding how the product is received under certain geographic conditions. MNCs which have holding companies in Indonesia and overseas had diverse characteristics in providing descriptions related to the specificity levels of their geographic segments. The companies that have holding companies overseas tend not to disclose their geographic-segment-revenue information. It could happen because the companies in Indonesia were only focused for market shares in Indonesia so that the information presented was the business-line information in Indonesia. On one hand, the companies that have holding companies in Indonesia disclosed more varied and detailed geographic information.

Of the 24 companies using the geographic segments as the secondary segments, they did not disclose their geographic-segment information as they were the companies with overseas holding companies. 15 other companies had various geographic-information baes. Companies in Indonesia have the dominant geographic information-shifting characteristics based on revenues and assets. It can be seen from the statistics (Table 3) showing 60% of the samples using geographic segments as their bases for disclosure of information segments. This is because the disclosure based on both revenues and assets allows users to understand the information more accurately which is expected to improve the quality of segment information so as to reduce the company capital. The company's choice to disclosed in more detail also explains how the company maximizes the use of IFRS 8 which states that the disclosure of segment information is the representation of the management eye, whereby the company will use as much detail as possible in making decisions.

The characteristics of sample companies in Indonesia in providing geographic specificity information vary because they have diverse characteristics and needs. However, the more detailed information a company discloses, the more likely the quality of the information is high and absorbed by various external parties that have the potential to cause competitive losses. The criteria given by Aleksanyan and Danbolt (2015) in providing the level of geographic specificity show that the greater the number is given, the information provided is more aggregate meaning that number 1 shows the most specific level and has more detailed information.

40% of companies in Indonesia disclosed their geographic information using 5th category that used the most aggregated disclosure. Although they disclosed the origins of their detailed geographic determinations, most of them chose to be careful in disclosing the origins of their income sources or asset placement because they saw a potential competitive disadvantage in the disclosure of highly-detailed information that caused the disclosure to be absorbed by competitors or externalities. The companies will protect their competitiveness by defending their information mechanism through the disclosure of the origins of their information bases in detail, but not the detailed disclosure of the levels of geographic specificity.

Tabel 3 Geographic information

Geographic Information	**2015-2017**
Geographical Basis	
Revenue	33,3%
Asset	6,7%
Revenue and Asset	60%
Level of Specifity Geographic	
Single Country Segments	26,7%
Two-Country segments	0%
Single-Region or Single Continent Segments	6,6%
Two-or-more-regions or two-or-more continents segments	26,7%
Rest of The world segments	40%

Conclusion

The information in the segment report is the most important information for stakeholders in decision making. The segment report provides information about the different types of segments run by the company and the geographic environment in which they operate. This information certainly helps stakeholders to improve understanding of company performance, future cash-flow assessment, and overall company assessment. Very-interesting geographic information is highlighted in Indonesia due to the very diverse geographic characteristics of Indonesia. The disclosure of geographic information in Indonesia is important to be identified as the first step in understanding the characteristics of companies in Indonesia in responding to user's information needs and protecting information for corporate interests. This study takes the period after the transition of IFRS standard change. The assessment of geographic information is seen from three things: 1) the disclosure of total and types of segments; 2) the disclosure of geographic segments as the main segments; and 3) the disclosure of geographic specificity levels in all secondary geographical segments.

The results showed that the companies in Indonesia tend to use the LOB segments as the main segments, and only 18.75% use geographic segments as the main segments. In addition, the companies that use the geographic segments as their major segments also tend to disclose information consistently without the increase or decrease in the information disclosed (number and levels of geographic specificity). The companies with the geographic segments as the secondary segments choose to disclose the geographic information-disclosure bases in detail, but disclose the geographic bases in detail to reduce the absorption of information by competitors. This topic is important to examine because it is able to help stakeholders to eradicate the impact of changing the rules and understand the characteristics of the company. The period chosen to assess the impact of the change is short enough to be the limitation of this study. Future research can examine the impact of further changes after the introduction of new standards for a longer time. This research is expected to be the basis for further research. Further research may also assess the effect of changes based on other aspects of segmental information, such as forecast accuracy and also those related to disadvantage information based on the use of IFRS-8-based standards in Indonesia.

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