

The Effects of Corporate Governance on Segment Reporting Disclosure: A Case Study in Vietnam

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Abstract

Accounting information is essential for users. Useful information helps users to make appropriate investment-related decisions. Segment reporting disclosure plays a practical role for an investor in a business. The article data was surveyed by ordinary least squares to test the effects of corporate governance on the segment reporting disclosure. The article employed time-series data with 136 observations of the top 100 non-financial Vietnamese enterprises listed on the stock exchange in the period of 2018–2019. The research used two popular theories related to stakeholder and agency to explain the effects of factors on segment reporting disclosure. The results have identified two factors that have a positive impact on segment reporting disclosure, namely, the size of the board and the ratio of foreign members to the total number of the board. Accordingly, the managers of the top 100 Vietnamese listed enterprises should increase the number of board members as well as pay attention to the number of foreign members to contribute to improving the information disclosure on the segment reporting. It is the basis to improve the quality of information to ensure completeness and transparency. It contributes to attracting foreign investment to meet the trend of international economic integration.

Keywords: Accounting Information, Corporate Governance, Information Disclosure, Segment Reporting, VN100 Index

JEL Classification Code: M41, M42, O16

1. Introduction

Information from financial statements is important to users. Segment reporting disclosure (SR) makes more sense for investors to concretely recognize material information of each part of the enterprise (Geltmeyer, 2010). According to the study, the degree of disclosure is impacted by some factors, of which corporate governance (CG) has received more attention in recent years (Agyei-Mensah, 2012).

CG has helped in the provision of information to improve completeness, reliability, and transparency (Eliada et al., 2015). However, the current information status of Vietnamese listed enterprises, in particular, SR has some shortcomings. The status of information on SR of Vietnamese listed enterprises is still not really transparent and ensures the completeness of the information (Tran & Nguyen, 2016; Tran, 2019). This is an obstacle for Vietnamese listed enterprises in the process of seeking and attracting capital for investment and development.

2. Literature Review

The Organization for Economic Co-operation and Development (OECD) considered CG as internal measures to run an enterprise, related to the relationships between the board of directors, the board and the shareholders of an enterprise (OECD, 2019). CG is a monitoring and control process carried out to ensure that CG activities are performed for the interests of shareholders to influence the behavior of managers and determine the necessary authority (Ibrahim & Hartini, 2015).

According to the International Financial Reporting Standards for segment reporting (IFRS 8), SR aims to provide

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information to investors and creditors regarding financial results and key activities of each entity in the enterprise as a basis for corporate decisions (IFRS Foundation, 2021). The Vietnamese accounting standards for segment reporting (VAS 28) instructed SR to include two aspects – the business sector and the geographic area. The business sector of SR is an identifiable part of an enterprise engaged in the production or supply of products or services that has risks and economic benefits different from those of other departments. The geography of SR is a distinguishable part of an enterprise engaged in the production or supply of products or services that has risks and economic benefits in other economic environments (Vietnamese Ministry of Finance, 2005).

Stakeholder theory shows that key stakeholders include customers, shareholders, suppliers, employees, and the community. They are people who can have a significant impact or have a key role in the success of the business. According to the theory, governance decisions should be designed to please stakeholders. Consequently, stakeholders have a significant influence on governance decisions, which in turn affects the level of information in entities (Freeman, 1984). Meanwhile, the agency theory states that, when there is a separation between ownership and operator rights, a conflict between owner and operator arises. Both sides want to maximize their benefits. The theory holds that these managers are always more inclined to make decisions that benefit themselves rather than the interests of the company. On the other hand, the manager is also the informant of the business; for its own sake, the manager tends to provide little information or hide it to the owner. The theory will also explain more clearly the corporate governance to the information disclosure of the enterprise (Jensen & Meckling, 1976).

Currently, there are a number of studies interested in examining the factors influencing disclosure on SR. Factors are viewed on a number of aspects such as CG, financial indicators or a combination of many factors. Geltmeyer (2010) studied 119 companies in Belgium from 2006 to 2007 to examine the factors that influence the information on SR. The study used quantitative methods for testing. The research results showed that factors of firm size, industry, audit firm, and degree of ownership dispersion have a positive impact on SR. Ahfaraih and Alanezi (2011) evaluated the factors influencing SR of companies listed on the Kuwaiti stock exchange. The article used ordinary least squares (OLS) to examine the influence of these factors. Analysis results pointed out that the firm size, and type of audit positively impact SR. In contrast, the degree of dispersion of ownership and firm growth have negligible effects on SR. Ibrahim and Hartini (2015) studied the factors affecting the level of SR information according to IRFS 8 during the transition period of 97 listed companies in Nigeria in 2012. The analysis was verified by the OLS method. The results of the regression analysis showed that the factors

that positively affect SR are the duality of the chairperson and the board of directors, the size of the board the industry having the same effect SR while meeting frequency has the opposite effect SR. Lucchese and Carlo (2016) studied the effects of IFRS 8 on the SR of 195 non-financial companies in Italy from 2008 to 2012. OLS method is used to test the model. The results of regression analysis demonstrated that the factors of growth rate, industrial competitiveness, scale and dispersion of ownership all have opposite effects on SR. André et al (2016) examined the factors influencing SR. The article used 270 companies from 17 European countries in 2009. The article used OLS for testing. The results showed that ROA, mergers or acquisitions, and Big 4 auditing have a positive effect on SR. Aboud and Roberts (2018) studied 208 non-financial firms in 17 European countries in 2011. The article used OLS for assessment. The results revealed that free cash flow per share, company size, and profit have a positive influence on SR.

For Vietnam, issues related to information disclosure of enterprises have been the focus of many studies (Tran et al., 2020; Nguyen et al., 2020; Tran et al., 2021). However, research focusing on SR is quite modest. Tran and Nguyen (2016) studied the factors affecting the information disclosure on SR of 139 Vietnamese listed enterprises in 2014. The article used OLS to test the model. The study results showed that firm size (ROE) and financial leverage have a positive impact on SR, but dispersion complexity of ownership has an opposite effect with SR. Tran (2019) studied 278 listed companies of the Ho Chi Minh stock exchange (HOSE) in 2016–2017 to check factors of corporate governance impact on the level of accounting disclosure for segment reporting. The article used OLS to examine the model. The result showed that the board size and the frequency of the meeting impact on SR.

Both domestic and foreign studies shows that the assessment of factors affecting information on SR is of interest, but research on corporate governance factors on SR is very few, except for research by Ibrahim and Hartini (2015). For studies in Vietnam, no separate studies and considerations of corporate governance factors affecting the information disclosure on the SR of the top 100 Vietnamese listed enterprises (VN100) have been found in recent times.

3. Methodology

The article used time-series data of 136 non-financial listed enterprises of VN100 in 2018–2019.

The dependent variable is measuring the disclosure of SR in VN100 and the disclosure will be calculated by the following formula:

$$T_j = \frac{\sum_{i=1}^{n_j} d_{ij}}{n_j}$$

Where:

T_j : enterprise information index j , $0 \leq I_j \leq 1$.

d_{ij} : is 1 if information i is presented and 0 otherwise.

n_j : Number of information items that enterprise j can present.

The article inherits the model of previous studies and a combined opinion survey of some experts of the Vietnamese securities commission to assess the suitability of the independent variables in the context of Vietnam. Thus, the model is implemented as follows:

$$\text{SEGMENT} = \beta_0 + \beta_1 * \text{BSIZE} + \beta_2 * \text{DUAL} + \beta_3 * \text{WOMAN} + \beta_4 * \text{MEET} + \beta_5 * \text{AUDI} + \beta_6 * \text{FOREIGN} + \varepsilon$$

Description of variables and measurement methods:

SEGMENT : The dependent variable represents the level of information disclosure on the SR.

BSIZE : the number of board.

DUAL : Dummy variable, if there is concurrently between the board chairman and CEO is 1 and the opposite is 0.

WOMAN : the ratio of the number of female members to the total number of the board.

MEET : number of board meetings per year.

AUDI : Dummy variable, if the board is consulted by Big4 auditing company is 1 and the opposite is 0.

FOREIGN : the ratio of foreign members to the total number of the board.

4. Research Results

4.1. Descriptive Statistics

The results of the descriptive statistics will be the basis to consider the suitability of the overall sample for the variables. The descriptive statistical of the variables are presented in detail in Table 1.

Table 1: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
SEGMENT	136	0.1561	1.0	0.7681	0.281
BSIZE	136	6	11	8.4526	1.4712
DUAL	136	0	1	0.0564	0.0012
WOMAN	136	0	0.3541	0.1802	0.1018
MEET	136	9	182	32.06	15.04
AUDI	136	0	1	84.24	1.002
FOREIGN	136	0	0.1209	0.0418	0.0016
Valid N (listwise)	136				

The figures in Table 1 show that the average level of information disclosure of SR is 0.7681. This shows that the VN100 has a rather high level of information about SR. The average number of board is nearly 8 members. The board chairperson duality is on average 5.4%. The ratio of female members on the board averages 18.24%. The average board meeting frequency is 32 meetings per year. The average of the board consulted by Big4 auditors is 84.24%. The ratio of foreign members is 4.18%. All variables in the model have negligible standard deviations.

4.2. Suitability of the Model

The higher the value of R square, the closer the relationship between the independent variable and the dependent variable is. Adjusted R square is used to more closely reflect the suitability of the multivariate regression model.

Table 2 shows that the adjusted R square is 0.611, and means that the independent variable explains 61.1% of the variation of the dependent variable. The result is quite consistent with the statistical significance.

4.3. Analysis of Variance

The test aims to examine the linear relationship between the dependent variable and the independent variable, with specific assumptions:

$H0: \beta_i = 0$: The variables included in the model do not affect the SR.

$H1: \beta_i \neq 0$: The variables included in the model affect the SR.

The results from Table 3 show that the sig value is 0.000 less than 0.05, so the hypothesis H_0 is rejected. Then, the linear regression model is suitable for the data set.

4.4. Regression Results

The article has carried out regression based on independent variables to consider their influence on the SR.

Table 2: Testing the Suitability of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.784	0.672	0.611	0.684

Table 3: Results of Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.566	6	10.903	26.089	0.000
	Residual	38.313	129	0.501		
	Total	110.879	135			

Table 4: Results of the Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta				B
1	(Constant)	3.064	0.824		3.401	0.000		
	BSIZE	0.981	0.462	0.001	2.364	0.000	0.602	1.246
	DUAL	−0.663	0.307	−0.102	−0.504	0.461	0.406	1.067
	WOMAN	−0.073	0.036	−0.432	−1.162	0.118	0.721	1.339
	MEET	0.172	0.032	0.341	1.008	0.312	0.568	1.168
	AUDI	0.049	0.406	0.023	0.931	0.406	0.706	1.304
	FOREIGN	1.027	0.552	0.023	1.802	0.000	0.511	1.104

Results from Table 4, the regression model is determined as follows:

$$\text{SEGMENT} = 3.064 + 0.981 * \text{BSIZE} + 1.027 * \text{FOREIGN}$$

As a result, two factors have a positive impact on SR: the size of the board (BSIZE) and the ratio of foreign members to the total number of the board (FOREIGN). Of the two factors, the ratio of foreign members to the total number of the board has a significant effect.

5. Discussion and Policy Recommendations

The factors of CG have affected SR of VN100. The result is quite similar to previous studies of Vietnam because it is suitable to the particular economic situation of the developing country.

The study results show a positive relationship between board size and SR. It shows that, when the number of board members is higher, the information level will be higher. It explains that, as the number of members increases, there will be more views represented by stakeholders. It requires

increased levels of information and transparency. The study results also recognize that foreign members have an important role to play in increasing the information disclosure of SR. Foreign members, often representing VN100's investors, require more complete and specific information for information users.

The number of members of the board plays an important role in contributing to the increase in the information disclosure of the VN100. There are still a few VN100 with relatively modest membership numbers. According to the survey results, there are only six members of the board. Therefore, the VN100 needs to increase the number of boards. However, it should be noted that the maximum number according to the revised Enterprise Law in 2020, does not exceed 11 members (National Assembly of Vietnam, 2020). Besides, foreign members of the board have also increased significantly the level of SR. Therefore, the VN100 should pay attention to increasing foreign membership on the board. It will take advantage of the experience in executive management and step-by-step to be transparent. It contributes to ensuring the information is complete to the user. It is an

opportunity to increase investors' confidence in raising capital for economic development.

6. Conclusion

The study has identified two factors that affect the information on the SR, which are the size of the board and the ratio of foreign members to the total number of the board. Then, the managers of VN100 should consider increasing the number of board members to have comments and discussions to have useful and complete information for users. In particular, foreign members need more attention to promote information transparency as well as increase information disclosure. It contributes to improve the usefulness of the information and increase the confidence of information users in general and investors in particular.

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