Stockholm School of Economics
Department of Accounting and Business Law
Master's Thesis in Accounting and Financial Management – 3100
Fall 2007

Through the eyes of management

A study on segment reporting in Swedish companies and possible implications of IFRS 8

Abstract

Segment reporting disclosures are required by the financial reporting standards for listed companies in Sweden. This information provides a disaggregated picture of entities facilitating users' understanding of the entities' different operations. The purpose of this study is twofold; the first is to investigate segment reporting practice under IAS 14R in companies listed on the Large Cap-list on Stockholm Stock Exchange, the second is to investigate possible implications of an implementation of IFRS 8 for these companies. Our main source of data for our empirical study is the 2006 financial reports of the studied companies. Prior research has been the base for our literature study which we used together with empirical information on segment reporting practice and the qualitative characteristics of IASB when discussing possible implications of IFRS 8 for Swedish companies. The current segment information in Sweden under IAS 14R has an overall high quality in terms of consistency and compliance. Our literature based analysis in the light of IASB's qualitative characteristics suggests the implications of IFRS 8 are increased relevance, increased consistency and decreased comparability. An implementation of IFRS 8 is however expected to have less impact on Swedish companies than the corresponding standard had in the US.

Keywords: IFRS 8, segment reporting, IAS 14R, management approach, disclosures

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Presentation Date: December 21st, 2007, 3-5 p.m

Acknowledgement

We would like to thank our respondents for their answers to our questions, insightful comments and invaluable time during the interviews. Furthermore, we would like to thank our tutor Niclas Hellman for helpful advice during the work with this thesis.

Stockholm 10 December 2007

Anna-Karin Hessling & Johanna Jaakola

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1. INTRODUCTION

"All company secrets now revealed in all annual reports!"
This is what some companies believe will happen when the new standard effectuates in 2009. Companies are terrified their earnings will diminish in the haze of new rules on company disclosures. How can it be possible that IASB has decided to implement a standard that might be harmful for companies?

The consolidated information has become more aggregated as a result of the rapid globalization during the past decade, which has increased the need for disaggregated information in the financial statements[1]. Consolidated financial data simply does not provide users with all the information they need in order to make correct assessments of a company. Segment reporting is disclosure of the operations of the different parts of a company or group.

The current IFRS in practice relating to segment reporting is IAS 14 Revised. However, this segment reporting standard is to change as IASB in November 2006 adopted the new standard, IFRS 8 *Operating Segments*. The big change from the current standard is the introduction of the management approach. The management approach introduces structures and information used internally to the external financial reporting. One of the benefits IASB recognised with this new approach is that information through the eyes of management will allow users to better review an entity's operations.[2]

The new standard has caused a lot of turmoil throughout Europe this past one and half year. It has parted the users of segment information into two fields of opinion. Some are determined that the new standard will lead to lower quality segment reporting,[3] others that it is the only way to improve the segment information[4]. In May 2007 it also became evident that the EU Parliament might not endorse IFRS 8, despite recommendations from its advisory boards[5]. The EU Parliament has now, after a lot of contemplating, endorsed IFRS 8 as late as the 14 November this year.[6]

In the light of this process it is interesting to investigate how the segment reporting under current standard is presented in the Swedish companies and what possible changes an implementation of IFRS 8 might bring.

[1] Walton, Haller & Raffournier (2003) p. 445
[2] IFRS 8 Basis for conclusions 10, Deloitte *Segmentsrapportering – IFRS 8 Operating Segments*
[3] Rundfelt (2005). Verón N. *EU Adoption of the IFRS 8 Standard on Operating Segments*
[4] Phillips (2007-10-23)
[5] FAR SRS INFO (2007)
[6] EFRAG *The EU endorsement status report*

1.1. Aim and Question

The question we try to investigate is:

What is the current practice of segment reporting in Swedish companies and what possible implications might IFRS 8 entail in general and to Swedish companies in particular?

This multi-faceted question will be enlightened by a twofold purpose. First, we investigate the Swedish companies' segment reporting in their current situation under IAS 14R. In the light of the empirical study and prior research we then explore possible implications for the Swedish companies from an implementation of IFRS 8.

1.2. Delimitations

We limit our study of Swedish companies to companies listed on the Large Cap-list of Stockholm Stock Exchange, which are subject to the requirements of the current standard IAS 14R. We chose to study the Large Cap-list, since the usefulness of segment reporting is positively related to company size[7]. To study the small and medium size companies would not be as meaningful.

We will not investigate indirect consequences that IFRS 8 might bring to other related standards, such as IAS 36 *Impairment of Assets*.

1.3. Disposition

In section two we describe the theoretical framework used in the study with the background regarding segment reporting, the IASB's framework and more specifically the standards IAS 14, IFRS 8 and SFAS 131. The method used in the study will be explained together with the data and information collection process in section 3. Thereafter, in section 4 we present the empirical findings from segment reporting in Swedish companies and in section 5 prior research is examined. Subsequent to that we analyze the findings from prior research in section 6. Our concluding remarks related to are presented in section 7 and we discuss our study and give suggestions for future research in section 8.

[7] Herrmann & Thomas (1996)

2. THEORETICAL FRAMEWORK

The theoretical framework explains the accounting principles framework, and gives insight to the field of segment reporting. We will describe the current international standard IAS 14R, the new international standard IFRS 8 and the American standard SFAS 131.

2.1. Purpose of segment reporting

The subject of segment reporting emerged in the American accounting model, where the stewardship function[8] is central[9]. Consolidated financial information does not provide enough useful information for users to make appropriate decisions. This information is a technical sum of all parts of the company without consideration for how the individual parts of the enterprise have performed. Segment reporting discloses the nature of business and the location of businesses within an enterprise. Investors and analysts are interested in assessing the risks and prospects within the industry and the geographical markets in which the enterprise operates. Both the stewardship function and decision-usefulness for recipients of the financial information are better off with segment information.[10] The key aspect of segmental reporting is to provide users with relevant information.[11] Understanding the segmental information will improve understanding of performance and potential for the company as a whole.[12] Segment information does this by letting investors combine this company-specific information with external information.[13]

2.2. The IASB Framework – qualitative characteristics

The IASB Framework describes the basic concepts by which financial statements are prepared. The framework of IASB assumes two types of principles: underlying assumptions and qualitative characteristics. The objectives of IASB framework are to provide information that is useful for decisions making to a wide rage of users[14]. The qualitative characteristics of IASB framework are attributes that make the information contained in the financial statements useful.[15]

Relevance of information is determined by the influence it has on the economic decisions of users. Information can influence decisions by helping users evaluate past, present, or future events relating to an enterprise. Relevance is connected to the understandability, timeliness and comparability of information.[16] Timeliness means the information should be provided in a time period in which it is most likely to influence users' decisions[17]. The essence of relevance is that non-significant items should

[8] The aim is to provide investors and owners with information on how management operates the business.
[9] Walton, Haller & Raffournier (2003) p. 445
[10] Nobes & Parker (2006) p. 411
[11] Walton, Haller & Raffournier (2003) p. 445
[12] Ibid.
[13] Radebaugh, Gray & Black (2006) p. 223-224
[14] IASB Framework, Paragraph 12-14
[15] IASB Framework, Paragraph 24
[16] Nobes & Parker (2006) p. 121
[17] IASB Framework, paragraph 26-28 & 43

not be given the same importance as those that are significant, since they are unlikely to influence the decision-makers.[18]
Understandability relates to financial information presented in a way that is understandable by users who have a reasonable knowledge of business and economic activities and accounting and who are willing to study the information.[19] Information that is not understood cannot be relevant[20]

Comparability provides the possibility of comparing the financial statements of an enterprise over time and also to compare the financial statements of different enterprises.[21] Companies should also ensure that financial information is consistent throughout the financial statements. Changes in methods that could affect comparability or consistency should be disclosed.[22]

Reliability of information indicates that it is free from material error and bias and can be depended upon by users to represent events and transactions in a true way.[23]

2.3. Accounting Standards

2.3.1. Current practice IAS 14R

Within segment reporting, the current standard in practice for listed companies with consolidated accounts within the EU is IAS 14 Revised, hereafter IAS R. The standard became compulsory for public companies in the EU for all financial reporting from 2005.[24]

2.3.1.1. Change from IAS 14 to IAS 14R

IAS 14R came into effect 1 July 1998 and is a revised version of IAS 14 from 1981.[25] The change was the result of a corresponding examination of the current standards in place at the time between IASC, and the North American standard setters, CICA and FASB.[26]

The original standard required disclosures of revenues, results and assets employed for both line of business (LoB), and geographic (Geo) segments, and followed the American standard SFAS 14 closely.[27] The standard was criticized by many for, amongst other things, its lack of prescriptive guidance in presenting the segment information.[28]

An important change from the original IAS 14 was that IAS 14R gives more specific guidance in the determination of reportable segments. There was a split of importance between the primary and secondary segments, where either LoB or Geo segments was to be chosen as primary segment. IASC thought that these two dimensions best revealed the pattern of risk and return to which the company's

[18] Nobes & Parker (2006) p. 121
[19] IASB Framework, Paragraph 25
[20] Nobes & Parker (2006) p. 121
[21] IASB Framework, Paragraph 39-42
[22] Nobes & Parker (2006) p. 121
[23] IASB Framework, Paragraph 31-32
[24] Nobes & Parker (2006) p. 102-103
[25] Nobes & Parker (2006) p. 415, IAS Plus *IAS 14 Standard*
[26] Nobes & Parker (2006) p. 415
[27] Ibid.
[28] Kinsey & Meeks (2004)

operations were exposed.[29] IAS 14R increased the required amount of information for the primary segments. The use of the same accounting principles in segment reporting as for the consolidated accounts is required by IAS 14R. IAS 14R also requires that the entity report according to the internal company structure and internal financial reporting instead of IAS 14's more flexible determination of segments.[30] One major reason for the approach used in IAS 14R was that it was considered to allow better comparisons between companies.[31]

2.3.1.2. Determination of segments in IAS 14R

The entity's dominating background and character of risks and rewards are the basis for determination whether an entity has a LoB or geographic division as primary segment. If the entity is affected by both products and services produced and the geographic location of its operations, the LoB is reported as primary and geographic as secondary.[32] The purpose of the risk and rewards approach is to create a general level of comparability with other companies and to improve the understandability.[33]

2.3.1.3. Required information

With IAS 14R, the information disclosed in the segment reporting footnote is prepared according to the same accounting principles as for the consolidated financial statements.[34]

IAS 14R requires for the primary segments information on:

- Sales revenue (external / inter-segment)
- Operating results
- Total segment assets
- Total segment liabilities
- Capital additions
- Depreciation
- Other non-cash expenditures
- Equity method income
- The basis for inter-segment pricing

Secondary segments requirements are:

- Revenue
- Assets
- Capital additions

Segment revenues, results, assets and liabilities should be reconciled to consolidated amounts of respective measure.[35]

2.3.2. SFAS 131

The current standard in the US is SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* which superseded SFAS 14 in 1997. The objective of SFAS 131 is to assist users of the financial statements to understand the entities performance, to assess the prospects for future net cash

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[29] Walton, Haller & Raffournier (2003) p. 453
[30] Kinsey & Meek (2004)
[31] Walton, Haller & Raffournier (2003) p. 454
[32] IAS 14R, Paragraph 26-27
[33] IAS 14R, Paragraph 28-30
[34] IAS 14R, Paragraph 44
[35] IAS 14R, Paragraph 51-67, 69-72

flows and make informed decisions about the entity.[36] This standard adopted the management approach to segment reporting and is also the standard on which IFRS 8 is based.

One study prior to the adoption of SFAS 131 stated that the major changes needed to improve segment reporting were: more segments reported by companies, more information about the segments, information corresponding to internal management reports, more consistent information in the financial statements, and interim segment information.[37]

There were objections to this standard due to competitive reasons since entities can be seen as strategically organised and were now forced to report their strategic organization. Claims were also made that the new standard would not facilitate comparisons between entities. However, SFAS 14 had not as an objective to achieve inter-enterprise comparability. A statement by the FASB pointed out that when a choice has to be made between relevance and comparability of information, relevance should be the overriding concern.[38]

2.3.3. IFRS 8

The new standard IFRS 8 *Operating Segments* arises from IASB's consideration of SFAS 131 *Disclosures about segments of an enterprise and Related information* compared to IAS 14R *Segment Reporting*.[39]

This standard was issued in November 2006 by the IASB and will be in effect for financial statements for periods beginning after 1 January 2009, though earlier application is permitted. It applies to companies whose debt or equity instruments are traded in the public market, or is in the filing for public listing. The standard is a result of the joint short-term project between IASB and FASB in order to reduce differences between IFRS and US GAAP. [40] IFRS 8 adopts all major requirements of SFAS 131, except minor differences found in Appendix 1. The core principle in IFRS 8 states that information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the types of business activities the entity is engaged in and the economic environment in which it operates[41].

IFRS 8 does not provide any definitions of segment revenue, expense, result, or assets and liabilities as did IAS 14R. The reportable segments are operating segments or aggregations of operating segments that meet specified criteria.[42] IFRS 8 is also an amendment to IAS 34 *Interim financial reports*, as segment information is now required in the interim financial reporting.

The major change that IFRS 8 brings to segment reporting is the adoption of the management approach. Companies are now required to report information that is internally used by the chief operating decision maker (CODM)[43]. IFRS 8 requires that reported amounts are based on the internal measures used by the CODM in order to assess performance and allocate resources to segments, whereas IAS 14R required segment information prepared in accordance with the same accounting

[36] Epstein, Nach & Bragg (2006) p. 970 f
[37] IFRS 8, Basis for conclusions, 50
[38] IFRS 8, Basis for conclusions 62, 64-65
[39] IFRS 8, Introduction 2
[40] KPMG First Impressions p. 4-5, IAS Plus *IFRS 8 Standard,* IAS Plus *IAS 14 Standard.*
[41] IFRS 8, Paragraph 1
[42] IFRS 8, Introduction 5, 14-15
[43] IFRS 8, Introduction 11

policies used for the entity as a whole[44]. The allowance of non-IFRS measures in entities' segment reporting is a big difference between IFRS 8 and IAS 14R[45].

Reportable segments are no longer divided into primary and secondary, they are based on operating segments. Operating segments are components of an entity from which revenues are derived and expenses are incurred, and whose operating results are reviewed by the CODM. Operating segments may be components of an entity that earns only internal revenues. The term CODM refers to a function, rather than to a specific title. The CODM is usually the highest level of management but may be performed by a group rather than one person, e g board of directors. If the organization has overlapping operating segments, in a matrix organization, the core principle[46] should be applied when determining reportable segments.

When determining reportable segments from the set of operating segments, a number of quantitative criteria have to be applied[47]. Operating segments may also be aggregated into reportable segments but certain aggregation criteria[48] need to be applied and it is important that the core principle not is conflicting. [49] For a more specified picture of how the reportable segments are determined, please see Appendix 2.

In order to allow users to understand the disclosed information, the entity as a whole must disclose the following information:

- General information about how the entity identified its reportable segments and from which types of products and services each reportable segment derives its revenues.
- Information about reported segment profit/loss, segment assets, segment liabilities and the definitions on measures used.
- Reconciliations are also demanded for the totals of segment revenues, reported segment profit/loss, segment assets, and segment liabilities. [50]

Except for required information on reportable segments as stated above, some entity-wide disclosures are required even when the entity reports only one segment. These include revenues from external customers for each product and service, or each group of similar products and services. The entity should also report external revenues from the country of domicile and all foreign countries from where the entity earns revenues. Certain non-current assets should also be disclosed the same way. These entity-wide disclosures are not demanded if the information is not available or if the cost to produce it is excessive, and if not presented it has to be explained. There is a new requirement to disclose information about major customers if 10% or more of the entity's revenues are generated from a single external customer.[51]

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[44] IFRS 8, Introduction 13
[45] IFRS 8, Introduction 14
[46] IFRS 8 Paragraph 1: Information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the types of business activities the entity are engaged in and the economic environment in which it operates.
[47] The operating segments need to constitute at least 10% of total revenues, assets or operating results.
[48] IFRS 8, Paragraph 12: Aggregation criteria can be applied when segments have similar economic characteristics and segments are similar in each of the following: nature of products, nature of production process, type of customer, distribution method, nature of regulatory environment
[49] IFRS 8, Paragraph 5-13, KPMG *First Impressions* p 4-5
[50] IFRS 8, Paragraph 21-22
[51] IFRS 8, Paragraph 31-41

The standard was applied to the IFRS November 30 2006, and November 14 of the following year, the standard was endorsed by the EU. From IASB's side, the critique has been evident; two of the twelve members of the board voted against the standard. The motivation behind their dissent was that IFRS 8 would not enable users of the financial statements to evaluate the activities and the economic environment because it does not have definitions and does not require consistent attribution of assets and profit or loss to segments. They also believe that proper external reporting should not allow non-IFRS measures because they could mislead the users.[52]

[52] IFRS 8, Dissenting options on IFRS 8

3. METHOD

In this section, we provide an overview of frameworks of methodology and specifically the framework for our study. We then describe the method used to conduct this study.

3.1. Choice of research approach

There are several approaches for conducting a study that is reliable and valid. The choice of method is affected by the research question; a well-conducted study will result in better conclusions, more reliable results and deeper understanding.[53] Two main approaches are the qualitative and quantitative[54]. Given the aim of this thesis and the research question at hand, we classify our study as a qualitative study with some quantitative elements. We are trying to understand and investigate the current situation and possible effects of IFRS 8.

The inductive approach and deductive approach are two ways to conduct a study. The deductive approach starts with general principles in order to draw conclusions about specific phenomena. Inductive approaches start from empirical discoveries, which are then generalized into theory[55]. There is a third approach, the abductive approach, which is based on the interaction between the induction and deduction[56]. If we were to classify our method we would call it an abductive approach. We map the current practice under IAS 14R, and sum up possible effects of IFRS 8 given the information in prior research. After this attempt to deduce general implications from theory and research, we use our empirical study to investigate if these conclusions can be applied to Swedish companies under the new standard.

3.2. Sources of primary and secondary information

Different sources of information need to be treated differently depending on the reliability of the information[57]. Primary data is specific information gathered by the researcher during the study and secondary data is interpretations of already existing data.[58] The main source of empirical information in this thesis is of secondary nature. Academic articles and annual reports constitute the main part of empirical information used in this thesis. Interviews have been conducted as research of primary character in order to deepen our understanding and give new input to the examined subject.

3.2.1. Choice of data

To develop basic knowledge and understanding of the standards, we started by reading the current standard IAS 14R, the new standard IFRS 8 and IASB's framework, and other material related to these documents.

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[53] Gustavsson (2004) p. 7
[54] Holme & Solvang (1997) p. 14
[55] Olsson & Sörensen (2007) p. 32
[56] Alvesson, Sköldberg, p. 42
[57] Ejvegård (1996) p. 15
[58] Bell (2006) p. 124

Annual reports of the companies listed on the Large Cap-list of the Stockholm Stock Exchange were examined in order to investigate the current segment disclosures in Sweden. We conducted extensive studies of the segment reporting notes in the annual reports. We also obtained a deeper understanding on the research field of segment reporting by reading articles studying issues in both Europe and the US. The most extensive research has been carried out in the US, which is why the research mostly concerns the American standard. IFRS 8 is based on the American standard, which is why we saw these articles as relevant.

3.2.2. Method to collect data

Our data on the segment reporting in the Large Cap-companies was summarized in a spreadsheet in order to analyze it and create tables. We included information on which industry the company belongs to according to the listing of the company[59]. Columns contained information about number of segments, primary and secondary segment classification, and which disclosures were made for each. This data provided us with understanding of segment reporting currently in practice under IAS 14R for the companies examined.

In cases where companies did not disclose any specific segment information, this was noted and the company is classified as a one-segment company. If the companies disclosed separate data for one primary segment and then aggregated all other data in a segment named "Others" this was also classified as a one-segment company. The "Others" segment was commonly aggregated with group functions such as headquarters, and we chose to count only segments that were part of operations. Geographic segments named "Rest of the world" or "Others" were seen as segments since they constitute information related to geographic locations.

Information from other parts of the annual reports was gathered in order to understand how companies described their operations. This information helped us to gain insight into the consistency between segment reporting and companies' presentation of their operations. When we examined the consistency of information we contrasted composition of management and presentation of business operations with the segment reporting disclosures. We looked at the composition of the management group compared to the segment structure because this was a method for the Panel for Monitoring Financial Reports[60] when investigating the quality of segment information.

3.2.3. Choice of companies and interview respondents

The choice to study the companies on the Large Cap-list of the Stockholm Stock Exchange is to map the practice of segment reporting in Swedish companies. The companies ABB Ltd, Autoliv and Lawson Software report according to US GAAP and Lundin Mining Corporation according to CA GAAP. Hence, we excluded them from our study. After a first round of analysis of the remaining 69 companies' segment information we saw that financial and real estate companies did not provide useful segment information. They were consequently excluded from further work on our thesis, which reduced the number of companies studied to 46.

To get feedback on the standards and some findings, we conducted two interviews with auditors and one interview with an analyst. The auditors are more objective than companies, and serve as a control

[59] OMX *Sector specifications*
[60] "Övervakningspanelen"

function for the compliance of segment reporting. We interviewed two specialists on the subject, Göran Arnell and Dan Phillips, representing two of the Big Four auditing firms. Both interviews were of semi structured character with questions prepared in advance with the opportunity to ask complementary questions during the interview. Both interviews were approximately one hour long. For insight on the user perspective of segment reporting, we conducted an interview with the head of analysts at Nordnet, Peter Malmqvist. This interview was approximately one hour long, recorded and later transcribed. Possibilities for follow-up questions and clarifications were given at all interviews.

4. EMPIRICAL DATA

In this section we present empirical data from the financial statements of the examined companies and information from the interviews.

4.1. Segment information in Swedish Companies under IAS 14R

In this part, we have investigated information regarding primary and secondary segments as well as the compliance with IAS 14R and the consistency of presented information in the annual reports.

4.1.1. Primary and secondary segments

Table 4.1. below shows a division of the companies in industries on the Stockholm Large Cap and whether business segments or geographical segments are disclosed as primary.

Table 4.1.

Primary segments	Geo	LoB	LoB/Geo	Omitted	Grand Total
Consumer Stables	1	2			3
Energy	1			1	2
Health Care	1	5			6
Industry		17	1		18
IT		3			3
Materials		5			5
Consumer Discretionary	2	4			6
Telecommunications	3				3
Grand Total	8	36	1	1	46

As we can see, a majority (~78%) of companies on the Stockholm Stock Exchange's Large Cap-list has identified line of business (LoB) as their primary segment. Companies reporting geographic (Geo) location as primary segment are less common (~17%). One company reports a mix of geographic and LoB segments and another company omits segment reporting all together. In total, there are 36 companies reporting line of business as primary. Of these, seven companies report one single primary segment (~15% of whole population).[61] None of the companies reporting geographical areas as primary segments are one-segment reporters.

We can see that companies within the Materials (100%) and Industry (~94%) segments are highly concentrated and report line of business as primary segment. Companies reporting geographic segments as primary have a high concentration within Telecommunications (100%).

[61] Detailed data for all companies is available in Appendix 3

Table 4.2.

Secondary segments	Geo	LoB	Omitted	Grand Total
Consumer Stables	2		1	3
Energy		1	1	2
Health Care	5	1		6
Industry	16	1	1	18
IT	3			3
Materials	5			5
Consumer Discretionary	4	1	1	6
Telecommunications		3		3
Grand Total	35	7	4	46

An analogy to the fact that the majority of companies report LoB as primary segments is that a majority of companies disclose Geo as secondary. All 36 companies that report LoB as primary segments also provide some kind of secondary information based on Geo. However, seven companies in total (~15%) do not report any secondary disclosures at all. Five of the eight (62,5%) companies disclosing Geo as primary segment omit or refer to the financial statements as the whole for information about their secondary segments.

The Tables 4.3.-4.10 below shows how the specific companies in the different industries disclosed their primary and secondary segments.

Table 4.3.

Consumer Discretionary	LoB	No.	Geo	No.	Sec. segment
Electrolux	LoB	5			Geo
Eniro			Geo	3	LoB
H&M			Geo	3	
Husqvarna	LoB	2			Geo
MTG	LoB	4			Geo
Nobia	LoB	1			Geo

Table 4.4.

Consumer Staples	LoB	No.	Geo	No.	Sec. segment
Axfood	LoB	4			Geo
Oriflame Cosmetics			Geo	5	
Swedish Match	LoB	5			Geo

Table 4.5.

Energy	LoB	No.	Geo	No.	Sec. segment
Lundin Petroleum			Geo	9	
Vostok Gas					

Table 4.6.

Health Care	LoB	No.	Geo	No.	Sec. segment
AstraZeneca	LoB	1			Geo
Elekta	LoB	1			Geo
Getinge	LoB	3			Geo
Meda			Geo	5	
Nobel Biocare	LoB	1			Geo
Q-Med	LoB	3			Geo

Table 4.7.

Industry	LoB	No.	Geo	No.	Sec. segment
Alfa Laval	LoB	2			Geo
Assa Abloy	LoB	2	Geo	3	
Atlas Copco	LoB	4			Geo
Hexagon	LoB	3			Geo
Lindab International	LoB	2			Geo
NCC	LoB	7			Geo
NIBE Industrier	LoB	3			Geo
Peab	LoB	3			Geo
Saab	LoB	3			Geo
Sandvik	LoB	4			Geo
SAS	LoB	3			Geo
Scania	LoB	2			Geo
Seco Tools	LoB	1			Geo
Securitas	LoB	3			Geo
Skanska	LoB	4			Geo
SKF	LoB	3			Geo
Trelleborg	LoB	4			Geo
Volvo	LoB	6			Geo

Table 4.8.

Information Technology	LoB	No.	Geo	No.	Sec. segment
Axis	LoB	1			Geo
Ericsson	LoB	2			Geo
TietoEnator	LoB	6			Geo

Table 4.9.

Materials	LoB	No.	Geo	No.	Sec. segment
Boliden	LoB	2			Geo
Holmen	LoB	5			Geo
SCA	LoB	5			Geo
SSAB	LoB	4			Geo
Stora Enso	LoB	6			Geo

Table 4.10.

Telecommunications Services	LoB	No.	Geo	No.	Sec. segment
Millicom			Geo	4	
Tele2			Geo	5	LoB
TeliaSonera			Geo	9	LoB

4.1.2. Compliance

The companies were examined regarding specific disclosure compliance with IAS 14R's requirements for primary segments.[62]

Table 4.11.

	No. examined companies	Sales	Results	Assets	Liabilities	Cap. Ex	Depr	Non-cash expenses
Number	46	39	39	39	39	37	36	15
Percentage		84,8%	84,8%	84,8%	84,8%	80,4%	78,3%	32,6%

The compliance with the requirements of IAS 14R is ~85% when it comes to separate segments disclosures as we can see in table 4.11 above. One item of information, non-cash expenses, was left out by a majority of the population, ~33% complied with the requirement of this specific item.

4.1.3. Consistency

We investigated consistency between the segment information and other parts of the annual report. We also compared the consistency between the segment information and the composition of the executive management.

Table 4.12.

Consistency	Other parts of Annual Report	Total consistency	No. of companies	Percentage
Consumer Discretionary	4	2	6	33%
Consumer Staples	3	2	3	67%
Energy	2	1	2	50%
Health Care	5	1	6	17%
Industry	17	13	18	72%
Information Technology	1	1	3	33%
Materials	3	2	5	40%
Telecommunications Services	2	2	3	67%
	37	24	46	52%

The consistency throughout the annual reports for the companies is high; ~80% of the companies present their operations in other parts of the annual in the same way as in the segment disclosures. When adding consistency between segment information and management composition, the consistency dropped to 52%. The sectors Industry, Consumer Stables and Telecommunications Services are more consistent than companies in average on the Large Cap-list.

[62] Information was not collected for all of the requirements for primary segments under IAS 14R. Equity-method income and inter-segment pricing were excluded. These requirements are only interesting in entities where they occur and including these in the measuring of compliance could give an incorrect view.

4.2 Interviews

This section is a short summary of the interviews with the respondents. Both interviews with the auditors are summarized into one section below, and the interview with the analyst follows.

4.2.1. Auditor perspective

The implementation of IFRS 8 is a step in the right direction in order to increase the quality of segment reporting. The information available internally in companies is often more informative than the information reported in the financial reports. Some companies have reported an incorrect set of segments due to rules on determination of segments under IAS 14R. IFRS 8 will make it easier for companies with a more complex internal structure, since they will be allowed to report mixed line of business and geographical segments.

When segment reporting is done properly, it is informative for users. It shows where the entity earns its profits and which parts require heavy investments. Companies that make most effort to segment their reporting in Sweden today are the traditional industry companies.

Companies are still reluctant to show detailed segment reporting, due to risks of competitive disadvantage, and want to aggregate segments as much as possible. The health care industry is special in that respect, as the companies in that industry often show only one segment. It will be harder to justify disclosing one single segment under IFRS 8, and those companies that claim to operate in one segment only will be most affected by the change to IFRS 8.

Companies that use own measures in their segment reporting might be hard to understand, and is a risk to the overall quality of the information. However, companies have to explain the measures they use in the segment reporting. In cases where companies use other measures for internal purposes, the substitute is most likely the national GAAP. The differences between internal and external reporting accounting measures are rarely significant.

The changes in practice with the implementation of IFRS 8 will be smaller than with SFAS 131 since European companies are smaller than US companies.

4.2.2. Analyst perspective

The users' objective with segment reporting is to find the profit-driving products and customers of the companies, how much the company earns from them and how important they are for the company.

The determination of segments is not effective today, since IAS 14R regulates how companies are allowed to report their segments. The management approach will increase relevance of information. The Panel for Monitoring Financial Reports[63] monitored segment reporting during four years after IAS 14R was published, and found that segment reporting had "too shallow segments, and showed too little information in some segments". Companies tend to overestimate the importance of their financial data. Companies do this because they fear competitive disadvantage if reporting too detailed information.

[63] "Övervakningspanelen"

For example, pharma companies often aggregate on a vague basis, which probably is an effect of the competitive situation pharma-companies face.

Traditional Swedish industry companies often have high quality financial reporting, including segment reporting. This is partly a result of their experience in controlling, and Swedish companies in general have useful accounting. Disclosures are detailed due to a long tradition of seeking foreign investors, which have demanded detailed information on the operations.

Larger companies are better at segment reporting than small ones. A firm claiming to operate in one line of business is not necessarily a bad thing, if it is due to the nature of their operations. Geographic regions as primary segment when companies have one line of business are also usual when operations are relatively streamlined, and are not a sign that companies try to cover their operations.

A risk under the management approach is that companies continue to misuse the aggregation criteria in order to give less detailed segment disclosures. The required amount of information is important. If too many items are required, companies will aggregate segments in order to show less vulnerable information. This holds particularly if companies have very profitable segments, in which case they prefer not show this information to customers and competitors.

5. PRIOR RESEARCH

This part will examine prior research within the area of segment reporting in order to give us a deeper understanding of how the theoretical framework works in practice. This section provides further insight to research findings on SFAS 131, IAS 14 and IAS 14R.

5.1. General research findings on segment reporting

The quality of segment reporting can be defined as the number of financial statement items disclosed per segment, and not as the number of segments disclosed. Firms may disclose more LoB segments simply because they are more conglomerate-type firms or disclose more Geo segments because they are more internationally diverse. In these cases, a greater number of segments would not necessarily indicate greater willingness to disclose information.[64]

The quality of segment reporting was influenced by firm size and exchange listing. Larger firms provided more disclosures per segment than smaller firms and exchange listing was found to be significant for geographical disclosures, as companies seeking investors in foreign countries need to meet the demands of its foreign investors.[65] Also, an overall significant relationship between firm size and segment disclosures was found[66]. The disclosures of Swedish companies have also been examined, and were found to be good at voluntary disclosures, and the quality was dependent on public listing. This was explained by the disproportionately high number of multinational enterprises in Sweden, and the greater the need to raise capital outside Sweden, the greater the likelihood of additional voluntary disclosures. [67]

It has been established that the management approach provides reliable information when internal and external segments are congruent, and it does not matter if products provided within one segment are dissimilar. Conversely, under the approach of IAS 14R the information is seen as reliable as long as products are similar. Information under both approaches provides reliable information. IAS 14R is more restrictive than SFAS 14 was on grouping of products; the similarity approach under IAS 14R is expected to provide more reliable information than SFAS 14.[68]

5.2. Research findings IAS 14R

The quality improvement due to the revision of IAS 14 consisted of an increase in the number of information items disclosed, for primary as well as for secondary segments[69]. Some items newly required under IAS 14R were already disclosed under IAS 14, but such voluntary disclosure was a minority practice[70]. The consistency of segment information with other parts of the annual report increased but there is still a significant minority of companies that reported inconsistent segment

[64] Herrmann & Thomas (1996)
[65] Ibid.
[66] Harris (1998)
[67] Cooke (1989)
[68] Maines, McDaniel & Harris (1997)
[69] Street & Nichols (2002), Kinsey & Meek (2004)
[70] Kinsey & Meek (2004)

information. Companies that claimed to operate in one LoB-segment decreased, but continued to report one segment even when other parts of the annual report revealed that multiple segments should be reported[71]. The results on the number of segments reported in general after the implementation of IAS 14R are split; research has found a marginal increase in the number of segments[72], as well as no significant increase.[73]

The relationship between industry competition and the manager's choice of disclosing separate business segments has also been examined under IAS 14R. Research concluded that companies are less likely to report operations in less competitive industries as business segments. The flexibility that allows companies to aggregate industry segments is still an area of concern with IAS 14R, and managers still try to protect excess returns by aggregating segment data.[74]

A point of concern is that many companies continue to utilize the broad, vague geographic segment groupings for which the original version of IAS 14 was often criticized[75]. The quality of segment information was higher when companies were audited by any of the large auditing firms, companies disclosed more items and compliance with IAS 14R was better. [76]

5.3. Research findings on SFAS 131

Research on SFAS 131 is extensive as it covers implications and effects of SFAS 131 compared to pre-SFAS 131 segment reporting.

One specific area of interest regarding the quality of segment reporting is the number of companies claiming to operate in one LoB. One-segment LOBs may exist due to natural reasons[77], but research addresses the issue of companies aggregating business segments in order to protect their competitive advantages. Research has addressed the following questions particularly: the number of segments, the extent to which companies reported more items of information about each segment, and whether information was consistent with other parts of the annual report.

Findings from research show an overall quality improvement and more useful information in segment reporting when the management approach was implemented. The number of segments reported increased, (marginally in one study[78] and significantly in another[79]). A decrease in the number of companies claiming to operate in one LoB[80] as well as increased consistency of segment information[81] was found. Firms changed how they defined their reportable segments,[82] and the number of large US companies that claimed to operate in one LoB decreased by half from 1997 to 1998. Few companies

[71] Street & Nichols (2002)
[72] Kinsey & Meek (2004)
[73] Street & Nichols (2002)
[74] Nichols & Street (2007)
[75] Street & Nichols (2002)
[76] Kinsey & Meek (2004)
[77] Herrmann & Thomas (1996)
[78] Herrmann & Thomas (2000)
[79] Street Nichols & Gray (2000), Berger & Hann (2003)
[80] Street Nichols & Gray (2000), Herrmann & Thomas (2000)
[81] Street, Nichols & Gray (2000)
[82] Herrmann & Thomas (2000), Street, Nichols & Gray (2000)

restructured to avoid reporting additional information.[83] On the other hand, voluntary disclosures were less frequent in 1998[84]. Results from studies indicate a decrease of comparability due to lack of definitions under the management approach. But inter-company comparability under SFAS 14 might have been more illusory than real.[85]

The aggregation criteria in SFAS 131 have been criticized and have been pointed out as being subjective. The aggregation criteria could be an opportunity for companies trying to hide information[86], but there is evidence that SFAS 131 and the management approach has hindered companies from doing so[87]. Research findings on SFAS 131 and how firms define reportable segments showed that companies reporting one segment under SFAS 14 would have reported two segments on a voluntary basis.[88]. However some companies have applied the aggregation criteria to report fewer segments under SFAS 131.[89] Companies that reported one segment under SFAS 14 but turned to multiple segments under SFAS 131 have been studied. Firms were reporting one segment in order to protect profits in less competitive industries, and research findings reveal that companies have been aggregating segments falsely under SFAS 14[90].

Competitive harm arises as disclosed information reveals high profit and attracts rival companies[91]. The cost of competitive disadvantage is the reason managers want to disclose less information than demanded by users[92]. Disclosures decrease investors' insecurity about a company's performance, which indicates there is a trade-off between lowering the cost of capital and increasing the costs of competitive harm by increasing disclosures[93]. Early studies have concluded that operations in less competitive businesses are less likely to be reported as segments. Companies in more competitive industries do not have the same incentives to hide information since margins are already low. [94] This has more specifically been investigated within geographical disclosures in segment reporting. Country level disclosures under SFAS 131 increased[95], but companies expecting competitive harm were found to report a significantly lower level of detail in country-level disclosures[96]. Vague geographic definitions were still used by companies under the management approach[97].

[83] Street, Nichols & Gray (2000)
[84] Herrmann & Thomas (2000), Street, Nichols & Gray (2000)
[85] Street, Nichols & Gray (2000), Paul & Largay (2005)
[86] Sanders & Sherman (1999)
[87] Street, Nichols & Gray (2000)
[88] Haynes & Lundholm (1996)
[89] Sanders & Sherman (1999), Herrmann & Thomas (2000)
[90] Botosan & Stanford (2005)
[91] Berger & Hann (2007)
[92] Sanders & Sherman (1999)
[93] Tsakumis, Doupnik, & Seese (2006)
[94] Harris (1998)
[95] Herrmann & Thomas (2000)
[96] Tskumis Doupnik & Seese (2006)
[97] Herrmann & Thomas (2000)

6. LITERATURE BASED ANALYSIS

In this section we summarize findings in prior academic research in order to state general conclusions from the change to SFAS 131 and IAS 14R. These conclusions will be helpful in order to outline potential effects of IFRS 8 and to state potential effects on Swedish companies and their current practice.

6.1. Number of segments

As we saw, findings show both an increase and unchanged number of segments after the implementation of SFAS 131 and IAS 14R. Number of segments was also found to be a complicated variable to draw conclusions about because it is closely related to the nature of business. Diversified companies can be assumed to have more segments due to the nature of their business. Hence, the number of segments is related to the nature of business rather than to the standard.

One specific issue regarding number of segments is that of one-segment firms. Prior research has shown it will be harder for companies to maintain segment reporting with one single reportable segment under the management approach. Research on companies after the change to SFAS 131 and IAS 14R showed a decrease in one-segment companies. The number of one-segment firms under IFRS 8 may not decrease as much as post-SFAS 131 because there already has been a decrease due to IAS 14R. However, research indicates that due to the change in approach and change in determination of reportable segments, a decrease of one-segment firms is possible. Prior research hence indicates that:

i. number of one-segment companies may decrease under IFRS 8

6.2. Competitive harm

The number of segments and items reported are linked to the level of competition in the industry, and in industries with less competition companies will provide less useful information in order to protect earnings. Companies in mature industries, where margins are already low, are less hesitant to provide voluntary disclosures and information on their true internal segment structure. On the other hand, in less competitive industries, companies are not as willing to report voluntary disclosures or information on their internal structure.
Prior research suggests that:

ii. companies in less competitive industries are less inclined to report their internal structure than companies in competitive industries

6.3. Consistency

Research on both IAS 14R and SFAS 131 indicated that consistency of presented information increased compared with the predecessors of both standards. Since IAS 14R increased the consistency of segment information, the effect from IFRS 8 is suggested to be smaller than that from SFAS 131. Reportable segments under IFRS 8 should reflect the internal organization of a company; hence

consistency between reported segment information and information in other parts of the annual report including the composition of executive management is likely to increase under IFRS 8.
Prior research indicates that:

iii. consistency of segment structure with companies' organization may increase under IFRS 8

6.4. Comparability

Research suggests that comparability will decrease due to lack of definitions and the use of non-standard measures under the management approach.
Prior research indicates that

iv. comparability between entities may decrease under IFRS 8

6.5. Reliability

Management approach itself does not increase reliability. The different approaches under IAS 14R and SFAS 131 facilitate reliability, however they do so in different aspects. The management approach gives an increased impact on reliability of its congruency both internally and externally.
Prior research suggests that:

v. reliability as perceived by users is likely to remain unchanged under IFRS 8

6.6. Relevance

Under the management approach, the information and measures are presented in line with the information used internally, through the eyes of management. Prior research suggests that the increased amount of information has improved the quality of segment reporting. Improved quality corresponds to increased relevance, hence prior research suggests that:

vi. relevance of segment information may increase under IFRS 8

7. CONCLUDING REMARKS

This section gives us an opportunity to state concluding remarks about the study on current segment reporting in Sweden and highlight the results from our literature based analysis. These results are also seen through the qualitative characteristics of IASBs framework. Finally, implications of IFRS 8 on Swedish companies will be discussed through prior research, empirical findings and information from respondents.

7.1. Observations on current practice under IAS 14R in Swedish companies

Of the forty-six examined companies, 78% report line of business as primary segment whereas 17% present geography as primary segments. One companies presented a mixed segment structure and one omitted all segment information. Seven companies (~15%) report one (1) primary segment. The Industry companies had a high concentration of line of business as primary segments (~94%), whereas Telecommunications had a high concentration of geography as primary segments (100%).

The compliance with IAS 14R regarding required information on sales, earnings, assets and liabilities is 85% of the examined companies that report more than one segment. 80% presented capital expenditures and 78% presented depreciation. Only 33% of the companies presented information on non-cash items.

The consistency between segment information and information in other parts of the annual report is 80%. The total consistency, defined as consistency between segment information, other parts of the annual report and composition of executive management, is 52%.

7.2. Observations based on prior research

Based on prior research, we found that possible effects of IFRS 8 are:

i. **number of one-segment companies may decrease under IFRS 8**
ii. **companies in less competitive industries are less inclined to report their internal structure than companies in competitive industries**
iii. **consistency of segment structure with companies' organization may increase under IFRS 8**
iv. **comparability between entities will may decrease under IFRS 8**
v. **reliability as perceived by users is likely to remain unchanged under IFRS 8**
vi. **relevance of segment information is improvedmay increase under IFRS 8**

Prior research suggests the following possible changes on usefulness under IFRS 8 according to the qualitative characteristics:

- Comparability decreases between companies since the objective of the standard is to allow companies to disclose information based on their specific internal structures and the management's methods of evaluating the company.

- Relevance of the information improves. The flexibility of the standard when it comes to determination of reportable segments allows companies to show their organisation as the internal structure, making it easier for investors to evaluate the company.

- Consistency increases, both in terms of consistency with internal organization as well as consistency with other parts of the annual report.

- Reliability of the information remains high under the management approach. Information is seen as reliable both when segments are based on similar products and when information is structured in a consistent way with other parts of the annual report.

7.3. Possible implications of implementation of IFRS 8 in Sweden

From our empirical study we gained information on the current practice of segment reporting under IAS 14R in Swedish companies. Our literature-based analysis gave us insight into what possible effects there might be of the implementation of IFRS 8. From this, we try to make some concluding remarks on what the implications of IFRS 8 might be for Swedish companies.

The current situation regarding segment reporting in Sweden indicates that an implementation of IFRS 8 will not have as big an effect on the Swedish companies as SFAS 131 had on the US practice of segment reporting. The upgrade from IAS 14 to IAS 14R caused some of the expected implications of SFAS 131 to take place, as we have seen in prior research. Also, the expected effects of IFRS 8 on Swedish companies are smaller since US firms are larger than those in Sweden.

In general Swedish companies are consistent and have informative segment reporting. A reason for this might be the long tradition of focusing on foreign equity, which has forced them to present disaggregated information useful for explaining their operations. It is thought that the new approach will have a more pronounced impact on Swedish companies that have segment reporting inconsistent with other parts of their annual reports or inconsistency with composition of executive management.

Companies in Sweden are to a great extent consistent when it comes to the segment information and other parts of the annual report. However, companies can increase their consistency between segment reporting and the composition of the executive management group. Hence, in order to report segments that are used internally some companies may need to change structure of reportable segments. Companies in less competitive industries, e. g. pharma-companies, will be less inclined to change their reportable structures due to competitive disadvantage arguments.

To exemplify our reasoning, we compare two companies in the health care industry that are both one-segment firms under IAS 14R: Nobel Biocare and AstraZeneca. Nobel Biocare is one of the smaller companies on the Large Cap-list and since they have relatively homogenous operations, this indicates that they might currently report segments in line with their internal structure. AstraZeneca on the other hand has more diversified operations and also seems to operate in multiple therapy areas within medicine. From a line of business perspective, Astra Zeneca will have to explain only one reported segment under IFRS 8. This is also something the respondents commented on.

The number of one-segment companies is dependent on the nature of the company. Companies currently reporting one-segment due to competitive harm reasons are more likely to change reportable segments under the management approach than companies reporting one segment due to the nature of their business. An increase in companies showing more than one segment due to their internal structure suggests an increase in quality of presented segment information. This also holds for companies changing their reportable segments to be consistent with internal structure of the entity. If quality of information is improved this indicates an increase in the relevance of information under IFRS 8.

Based on prior research it is suggested that comparability between companies may decrease under the management approach due to lack of definitions and use of non-IFRS measures in segment reporting. The information from the respondents however point out that the internal use of non-IFRS measures in the Swedish companies are not very common. Company specific measures might result in a decrease of comparability between entities in Sweden. However, comparability between entities is not an objective of the standard which is why this might be given less significance.

8. DISCUSSION

The decision to examine a wide rage of industries on the Swedish Large Cap-list has affected the findings and concluding remarks in this thesis. If we had instead used a sample of companies in a specific industry or decided to investigate a larger number of companies, our concluding remarks might have been different. If we examined one single industry but a bigger sample of companies, we might have gotten more depth in the analysis but not as good of a base to generalize our findings for companies in Sweden as a whole, as was our aim.

Our study on current practice first included financial and real estate companies as well. If we had included them in this thesis, the picture of current practice in segment reporting would have been negatively biased. These companies were a large share of all listed companies subject to IFRS (33%) but the nature of their business does not facilitate good practice in segment reporting. A relatively large share of the companies examined is within the Industry segment (39%). This has probably affected the results from our investigation on current practice in segment reporting. A larger sample of companies could have provided us with a larger number of companies per industry and more in-depth information, however, we conclude that our sample reflects a general picture of Swedish companies that aim to provide segment reporting.

The information about the companies that we used is gathered from their annual reports. Other information from the companies would perhaps have been useful. This was not deemed possible under the scope of this thesis.

The information on current practice turned out to be less useful to draw conclusions from, which is also why we took some help from respondents in order to provide more information on practice from auditors and the user perspective from an analyst. This thesis at least provides a mapping of segment reporting practice under IAS 14R among Swedish listed companies.

8.1. Reliability and internal and external validity of the study

Reliability considers to what extent the study can be repeated with the same result[98]. Reliability is not as important in qualitative research as in quantitative since the purpose is to gain a better understanding of certain factors[99]. The analysis and concluding remarks of this thesis have been influenced by the writers' knowledge and perceptions. Others might not have made the same choices and might have reached other conclusions, which is a general problem with qualitative research. However this thesis aims to increase the understanding of segment reporting and possible effects of the new standard rather than providing a definitive answer.

Validity can become a problem in qualitative research due to the interpretations by the researcher[100]. Internal validity considers whether the study measures what was intended[101]. To strengthen the internal

[98] Merriam (1994), p. 180
[99] Holme & Solvang (1997), p. 94
[100] Holme & Solvang (1997), p. 156
[101] Bell (2006), p. 117

validity we looked at segment reporting practice in all companies on the Large Cap-list. We also investigated the variables used in prior research on segment reporting. We examined the specific requirements of IAS 14R when looking at compliance with the standard.

External validity considers to what degree the results from the study can be generalised[102]. This study has tried to show possible implications of the new standard both on a general basis but also how Swedish companies can be affected by the change of standard. There is risk we might have tried to generalise from a vague basis of information. To strengthen the external validity we performed a great deal of research on the subject, and then studied a large sample (>30) of companies.

8.2. Suggestions for future research

One given subject for future research is the actual effects of the implementation of IFRS 8 for Swedish companies. Annual reports of 2009 will be the first set of annual reports that use this standard throughout all listed entities in the EU. The proposed study would investigate the effects on how companies report their segments i.e. the characteristics of segments, number of one-segment firms, consistency and compliance with the standard. The study could be conducted for Swedish companies in general as was the aim of this study, or for a single industry. For a more international analysis, a more general study on Nordic or European basis could also be conducted.

It would be of great interest to see what the greatest impact of IFRS 8 actually turns out to be. Due to the debate on the use of non-IFRS measures in segment reporting, it would be interesting to evaluate the significance of changes to segment reporting. This study is suggested as a quantitative study on reconciliations to group financial data. The inclusion of non-IFRS measures to IFRS 8 almost caused a split in IFRSs[103], which makes the effects of this change relevant to study.

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[102] Merriam (1994), p. 183

[103] The debate nearly caused a separation of "full-IFRS" and "EU-endorsed IFRS", and two members of the IASB also voted dissenting opinions due to the measurement issue, but that's another story…

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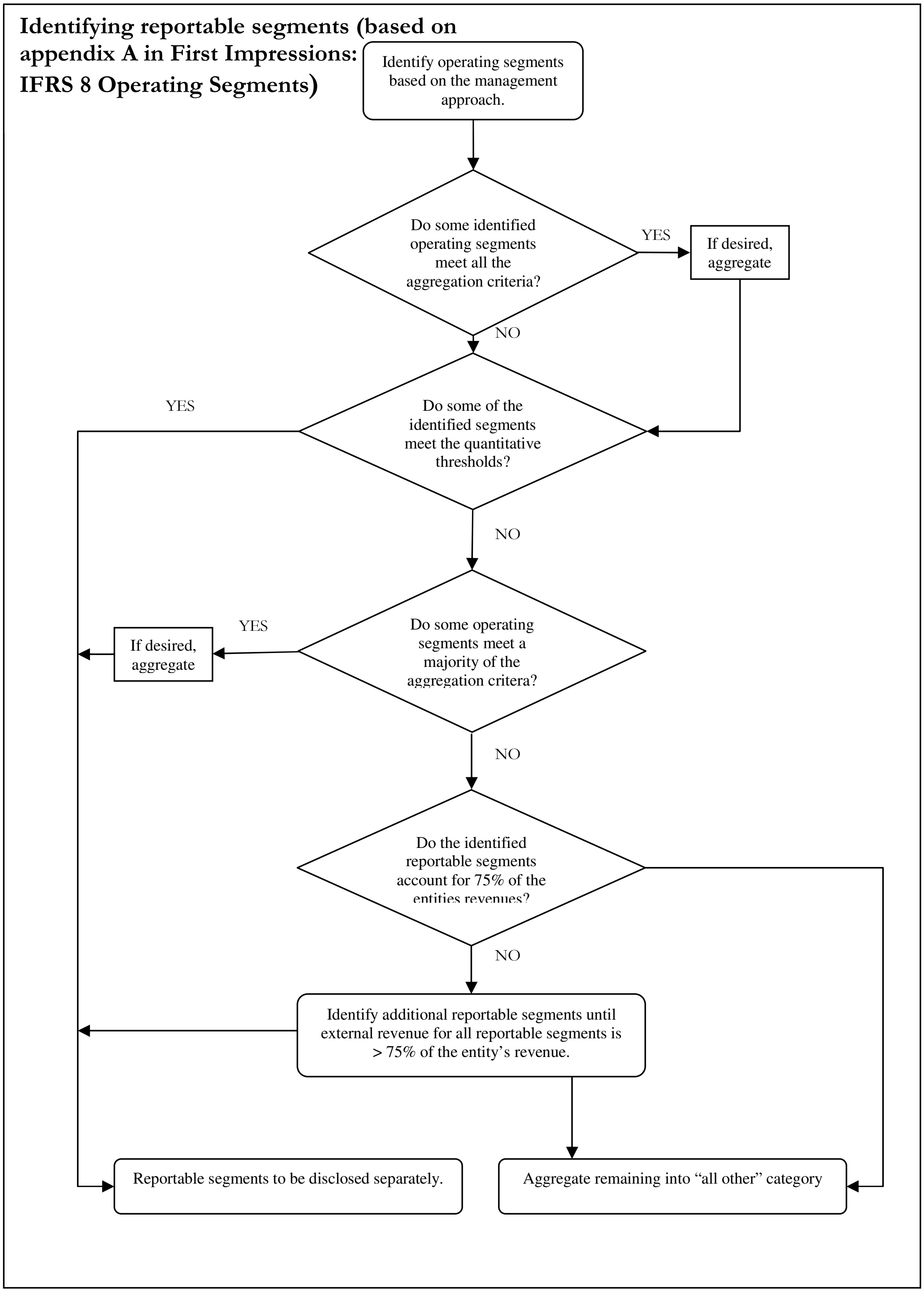
Appendix

Appendix 1

Differences between IFRS 8 and SFAS 131

Difference	IFRS 8	SFAS 131
Non-current assets vs. long lived assets	Non-current assets under IFRS include intangible assets, therefore they are required to be disclosed if regularly provided to and/or considered by the CODM	Long-lived assets refer to hard assets that cannot readily be removed, which does not include intangible assets. In SFAS 131 there is no explicit requirement to disclose intangible assets.
Segment liabilities	If considered by the CODM they should be disclosed.	No requirement to disclose liabilities
Entities with a matrix form of organization	The operating segments are determined based on the core principle of IFRS 8	Segments are determined based on products and services
Extraordinary items:	The concept of extraordinary items was eliminated from IFRSs in 2003	Extraordinary items are required to be disclosed, if regularly provided to and/or considered by the CODM

Appendix 2



Identifying reportable segments (based on appendix A in First Impressions: IFRS 8 Operating Segments)
Identify operating segments based on the management approach.
Do some identified operating segments meet all the aggregation criteria?
YES
If desired, aggregate
NO
Do some of the identified segments meet the quantitative thresholds?
YES
NO
Do some operating segments meet a majority of the aggregation critera?
YES
If desired, aggregate
NO
Do the identified reportable segments account for 75% of the entities revenues?
NO
Identify additional reportable segments until external revenue for all reportable segments is > 75% of the entity's revenue.
Reportable segments to be disclosed separately.
Aggregate remaining into "all other" category

Appendix 3

Type of industry	Companies	Type	No	Sales	Results	Assets	Liabi-lities	Cap. Ex	Depre-ciation	Non-cash expenses	Sec. segment	Consistency with other parts of the AR	Consistency with Management Group
Industry	Alfa Laval	LoB	2/	X	X	X	X	X	X		Geo	X	X
Industry	Assa Abloy	LoB/Geo	2/3	X	X	X	X	X	X			X	X
Health Care	AstraZeneca	LoB	1/								Geo		
Industry	Atlas Copco	LoB	4/	X	X	X	X	X	X	X	Geo	X	X
Consumer Staples	Axfood	LoB	4/	X	X	X	X	X	X	X	Geo	X	X
Information Technology	Axis	LoB	1/								Geo		X
Materials	Boliden	LoB	2/	X	X	X	X	X	X	X	Geo	X	X
Consumer Discretionary	Electrolux	LoB	5/	X	X	X	X	X		X	Geo	X	
Health Care	Elekta	LoB	1/								Geo	X	
Consumer Discretionary	Eniro	Geo	/3	X	X	X	X	X	X		LoB		
Information Technology	Ericsson	LoB	2/	X	X	X	X	X	X	X	Geo		
Health Care	Getinge	LoB	3/	X	X	X	X	X	X		Geo	X	X
Consumer Discretionary	H&M	Geo	/3	X	X	X	X	X	X			X	X
Industry	Hexagon	LoB	3/	X	X	X	X				Geo	X	X
Materials	Holmen	LoB	5/	X	X	X	X	X	X		Geo	X	X
Consumer Discretionary	Husqvarna	LoB	2/	X	X	X	X	X	X		Geo	X	X
Industry	Lindab International	LoB	2/	X	X	X	X	X	X		Geo	X	X
Energy	Lundin Petroleum	Geo	/9	X	X	X	X					X	
Health Care	Meda	Geo	/5	X	X	X	X	X	X	X		X	
Telecommunications Services	Millicom	Geo	/4	X	X	X	X	X	X			X	X
Consumer Discretionary	MTG	LoB	4/	X	X	X	X	X	X		Geo	X	
Industry	NCC	LoB	7/	X	X	X	X	X	X	X	LoB	X	X
Industry	NIBE Industrier	LoB	3/	X	X	X	X	X	X		Geo	X	X
Health Care	Nobel Biocare	LoB	1/								Geo	X	
Consumer Discretionary	Nobia	LoB	1/								Geo		
Consumer Staples	Oriflame Cosmetics	Geo	/5	X	X	X	X	X	X			X	X
Industry	Peab	LoB	3/	X	X	X	X	X	X	X	Geo	X	
Health Care	Q-Med	LoB	3/	X	X	X	X	X	X		Geo	X	
Industry	Saab	LoB	3/	X	X	X	X	X	X	X	Geo	X	X
Industry	Sandvik	LoB	4/	X	X	X	X	X	X	X	Geo	X	X
Industry	SAS	LoB	3/	X	X	X	X	X	X		Geo	X	
Materials	SCA	LoB	5/	X	X	X	X	X	X	X	Geo		
Industry	Scania	LoB	2/	X	X	X	X	X	X		Geo	X	
Industry	Seco Tools	LoB	1/								Geo	X	X
Industry	Securitas	LoB	3/	X	X	X	X	X	X		Geo		
Industry	Skanska	LoB	4/	X	X	X	X	X	X	X	Geo	X	X
Industry	SKF	LoB	3/	X	X	X	X	X	X		Geo	X	X
Materials	SSAB	LoB	4/	X	X	X	X	X	X		Geo	X	
Materials	Stora Enso	LoB	6/	X	X	X	X	X	X		Geo		
Consumer Staples	Swedish Match	LoB	5/	X	X	X	X	X	X		Geo	X	
Telecommunications Services	Tele2	Geo	/5	X	X	X	X	X	X	X	LoB	X	X
Telecommunications Services	TeliaSonera	Geo	/9	X	X	X	X	X	X		LoB		
Information Technology	TietoEnator	LoB	6/	X	X	X	X	X	X	X	Geo	X	X
Industry	Trelleborg	LoB	4/	X	X	X	X	X	X	X	Geo	X	X
Industry	Volvo	LoB	6/	X	X	X	X	X	X		Geo	X	
Energy	Vostok Gas		/									X	X