DEAKIN UNIVERSITY

DISPOSITION OF THESIS


and agree to the thesis being made available for such consultation, loan or photocopying as may be approved by the Chief Librarian provided that no part of the thesis shall be reproduced without the prior approval of the Chief Librarian and with the appropriate acknowledgement of the source.

Signed
Date 28-2-1990

Signature Redacted by Library
TO: ALL USERS OF THIS THESIS

Please sign this form to indicate that you have used this thesis in accordance with the disposition signed by the author of this thesis.

Thank you.

MARGARET CAMERON

<table>
<thead>
<tr>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>24/10/90</td>
</tr>
</tbody>
</table>

Signature Redacted by Library

- 4. 11. 1991
- 11. 11. 1991
SEGMENT REPORTING AND CORPORATE TAKEOVERS:
USER NEEDS

By

Michele A. Sims, B.Bus.(RCAE), B.Com.(Hons), AASA

A thesis submitted in fulfilment of the requirements for the degree of Master of Commerce, School of Management, Deakin University

July 1989
DEAKIN UNIVERSITY

CANDIDATE'S CERTIFICATE

I certify that the thesis entitled "Segment Reporting and Corporate Takeovers: User Needs" and submitted for the degree of Master of Commerce is the result of my own research, except where otherwise acknowledged, and that this thesis (or part of the same) has not been submitted for a higher degree to any other university or institution.

Signed

Date 28-7-1989

[Signature Redacted by Library]
# TABLE OF CONTENTS

| LIST OF TABLES                              | ix |
| GLOSSARY OF TERMS                          | x  |
| ACKNOWLEDGEMENTS                           | xiii |
| ABSTRACT                                   | 1  |

**CHAPTER 1: INTRODUCTION**

1.1 Corporate Takeovers and Financial Reporting: The Underlying Problem 3

1.2 Segment Reporting: the Possible Resolution, or Not? 6

1.3 Plan of the Thesis 10

**CHAPTER 2: AN OVERVIEW OF SEGMENT REPORTING**

2.1 The Historical Development of Authoritative Pronouncements on Segment Reporting 12

2.1.1 USA Developments 13

2.1.2 Canadian Developments 18

2.1.3 United Kingdom Developments 20

2.1.4 International Developments 22

2.1.5 Australian Developments 23

2.2 The Literature on Segment Reporting Prior to the Authoritative Pronouncements 27

2.2.1 The Need for Segment Reporting to Improve Financial Disclosure of Diversified Companies 28

2.2.2 Predictive Ability of Segment Data 36

2.2.3 Segment Data and the Company's Risk 39

2.3 The Level of Voluntary Segment Disclosure Prior to the Authoritative Pronouncements 41

2.3.1 United States of America 42

2.3.2 United Kingdom 44
2.3.3 Internationally 46
2.3.4 Australia 47

2.4 Research on the Influence of the Professional Pronouncements on Segment Reporting 52
2.4.1 USA: The Influence of SFAS 14 53
2.4.2 Internationally: The Influence of IAS 14 55
2.4.3 Australia: The Influences of AAS 16 and ASRB 1005 56

2.5 The Most Recognised Problems of the Current Segment Disclosure Requirements 60
2.5.1 The Preconceived Problems with Segment Reporting 61
2.5.2 The Most Recognised Problem with the Segment Reporting Accounting Standards -- Segment Identification 66

2.6 How the Present Study Differs from Previous Works on Segment Reporting 76

CHAPTER 3: CORPORATE TAKEOVERS AND FINANCIAL REPORTING CONCEPTS 79

3.1 Factors that Influence the Success of a Takeover Bid 81
3.2 Takeovers Create Synergies and Wealth 85
3.2.1 Wealth and the Target Shareholders 86
3.2.2 Wealth and the Acquirer Shareholders 89
3.3 Takeovers Do Not Create Wealth 92
3.4 Takeovers and Financial Reporting 98
3.4.1 Takeover Studies and Financial Reporting 99
3.4.2 Usefulness of Financial Reporting 104
3.5 The Gaps in the Literature and the Present Study 109
CHAPTER 4: METHODOLOGY OF THE RESEARCH

4.1 The Sample 113
4.2 The Time Period 115
4.3 Tools for the Investigation 117
4.4 Stages in the Determination of the Sample and the Collection of the Data 117

4.4.1 The Initial List of Takeovers: first round of eliminations 117
4.4.2 Identification of the Companies and their Top 20 Shareholders: second round of eliminations 119
4.4.3 Determination of the Addresses of the "Common" Shareholders: third round of eliminations 120
4.4.4 The Mail Survey 123

4.5 Summary 125

CHAPTER 5: RESEARCH RESULTS

5.1 The Corporate Acquirer Questionnaire 128

5.1.1 Types of Companies in the Sample 128
5.1.2 Preamble of the Reporting Practices of the Acquirer 130
5.1.3 A Background to the Takeovers 132
5.1.4 Pre-Takeover Segment Reporting Practices 136
5.1.5 Post-Takeover Segment Reporting Practices 139
5.1.6 The Creation of New Segments after the Takeover 148
5.1.7 The Anomalies in the Presentation of Segment Information and the Remainder of the Annual Report 151
5.2 The Common Target-Acquirer Shareholder Questionnaire  
5.2.1 Makeup of the Shareholder Sample Group  
5.2.2 Shareholder Knowledge of Segment Data Terminology  
5.2.3 General Attitude to the Takeover and to the Manner of its Disclosure in the Annual Reports of the Acquirer  
5.2.4 The Type of Segment Information Shareholders Would Like Disclosed in the Annual Report  
5.2.5 Shareholder Satisfaction with the Post-Takeover Disclosure of the Target within the Segment Reports of the Acquirer  
5.2.6 A Summary of the Common Target-Acquirer Shareholder Questionnaire Responses  
5.3 The Corporate Acquirers' Preferred Forms of Segment Reporting  
5.3.1 The Acquirers' Preferred Bases of Segmentation  
5.3.2 The Acquirers' Preferred Types of Reportable Segment Data  
5.3.3 What Financial Segment Disclosure Acquirers Consider is Adequate for User Needs  
5.3.4 The Acquirers' Preferred Placement in the Annual Report for Qualitative and Quantitative Segment Data  
5.3.5 The Influence of Post-Takeover Results of the Target on Future Segment Reporting and Acquisitions  
5.4 Summary of the Main Research Findings
CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Major Findings of the Research

6.1.1 Compliance with the Professional and Statutory Segment Reporting Requirements

6.1.2 What Corporate Acquirers Would Segment Report in the Absence of Professional or Statutory Reporting Requirements

6.1.3 Can Segment Reporting Compensate Shareholders for the Loss of Information they Experience as a Result of a Takeover?

6.2 Implications of the Findings

6.2.1 For Accounting Standard Setters

6.2.2 For the Financial Reporting of Takeovers

6.3 Limitations of the Research

6.4 Recommendations for Future Research
APPENDICES

Appendix A: Covering Letter to Corporate Acquirers 223
Appendix B: Corporate Acquirers Questionnaire 224
Appendix C: Covering Letter to Common Target-Acquirer Shareholders 225
Appendix D: Common Target-Acquirer Questionnaire 226
Appendix E: List of Sample Acquirer and Target Companies 227
Appendix F: Reasons for Eliminations of Takeovers from the Original List 229
Appendix G: Number of Pre- and Post-Takeover Industry Segments (Group 1 Acquirers: Entrepreneurial Investors) 233
Appendix H: Number of Pre- and Post-Takeover Industry Segments (Group 2 Acquirers: Single-Industry Companies) 234
Appendix I: Types of Takeovers Pursued and Cases of New Segment Creation for the Target in the Annual Report after the Takeover (Group 1 Acquirers: Entrepreneurial Investors) 235
Appendix J: Types of Takeovers Pursued and Cases of New Segment Creation for the Target in the Annual Report after the Takeover (Group 2 Acquirers: Single-Industry Companies) 236
Appendix K: Cases Where the Number of Organizational Divisions Does Not Match the Number of Segments Reported 237
Appendix L: Acquirer Companies -- Sundry Data 238

REFERENCES 241
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Useable Responses</td>
<td>126</td>
</tr>
<tr>
<td>5.1 Number of Takeovers Each Year and the Year of First Disclosure</td>
<td>131</td>
</tr>
<tr>
<td>5.2 Expected and Actual Frequency of Post-Takeover Segment Reporting</td>
<td>141</td>
</tr>
<tr>
<td>5.3 The Type of Takeover, Acquirer, and Frequency of New Segment Creation for the Target Company in the Post-Takeover Reports</td>
<td>149</td>
</tr>
<tr>
<td>5.4 General Attitude Held by Shareholders Toward the Takeover</td>
<td>160</td>
</tr>
<tr>
<td>5.5 General Attitude Held by Shareholders Toward the Acquirer's Annual Report Disclosure of the Acquisition</td>
<td>161</td>
</tr>
<tr>
<td>5.6 Shareholders' Preferred Annual Report Placement of Additionally Desired Takeover Information</td>
<td>163</td>
</tr>
<tr>
<td>5.7 Shareholders' Preferred Annual Report Placement of Segment Data</td>
<td>168</td>
</tr>
<tr>
<td>5.8 Possible Explanation for the Shareholder Dissatisfaction with Post-Takeover Disclosure of the Integration of the Target in the Acquirer's Annual Report</td>
<td>175</td>
</tr>
<tr>
<td>5.9 Acquirer Companies' Preferred Bases of Segmentation</td>
<td>181</td>
</tr>
<tr>
<td>5.10 Acquirer Companies' Preferred Types of Reportable Segment Data</td>
<td>183</td>
</tr>
<tr>
<td>5.11 The Extent of Financial Segment Data Considered by Acquirers to be Adequate for Shareholder Needs</td>
<td>183</td>
</tr>
<tr>
<td>5.12 Acquirer Companies' Preferred Annual Report Placement of Quantitative Segment Data</td>
<td>185</td>
</tr>
<tr>
<td>5.13 Acquirer Companies' Preferred Annual Report Placement of Qualitative Segment Data</td>
<td>196</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>------</td>
<td>------------</td>
</tr>
<tr>
<td>AAA</td>
<td>American Accounting Association; the academic accounting body in the United States of America.</td>
</tr>
<tr>
<td>AASE</td>
<td>Australian Associated Stock Exchanges; the set of six State stock exchanges.</td>
</tr>
<tr>
<td>AARF</td>
<td>Australian Accounting Research Foundation; established by the ASA and the ICAA in 1966 to provide the means of integrating the technical research activities of the two professional bodies; it aims to improve the quality of financial reporting and auditing in Australia.</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants; the principal organization of accountants in professional practice licensed under State legislation in the United States of America.</td>
</tr>
<tr>
<td>Approved Standard</td>
<td>An accounting standard that has been referred to the ASRB for review and approved by the ASRB. After being published in the Commonwealth Gazette and not disallowed by the Ministerial Council within 60 days of the publication, the standard has legislative backing and Company directors are to ensure that company accounts are drawn up in accordance with applicable approved standards.</td>
</tr>
<tr>
<td>ASA</td>
<td>Australian Society of Accountants; one of the professional accounting bodies in Australia.</td>
</tr>
<tr>
<td>ASC</td>
<td>Accounting Standards Committee; the body comprised of representatives of professional accounting organizations responsible for developing accounting standards in the United Kingdom.</td>
</tr>
</tbody>
</table>
ASRB

Accounting Standards Review Board; formed in 1984 by resolution of the Ministerial Council for the review, sponsor, public airing and approval of accounting standards referred to it (chiefly from the AARF).

CICA

Canadian Institute of Certified Public Accountants: the professional organization of accountants in public practice in Canada.

Consolidation

The process of reporting the combination of the assets, revenues, and expenses of the holding company and the subsidiary companies making up the company group.

Company Group

The holding company and its subsidiaries that have their assets, revenues, and expenses consolidated for financial reporting purposes.

Corporate Companies and Securities Scheme

The Commonwealth and the six Australia States are parties thereof by way of the Formal Agreement, made among them on 22 December 1978. Under the scheme the Ministerial Council for Companies and Securities was formed, as was the ASRB and the NCSC.

Common Target-Acquirer Shareholders

Shareholders selected from the Top 20 shareholders of the Target company before the takeover that match with the Top 20 shareholders of the Corporate Acquirer after the takeover.

Corporate Acquirer

A company that has acquired more than 50% of the issued share capital of another company (the Target) by way of a formal takeover bid.

Diversification

The act of combining with another company that operates in a different industry to the company making the diversification.
Exposure Draft
The preliminary document of an accounting standard; produced by the AARF and made public, for comment before editing and conversion into an accounting standard.

FASB
Financial Accounting Standards Board; is an independent authority supported by the Financial Accounting Foundation, created to develop accounting standards applicable in the United States of America.

Horizontal Integration
The combination of two companies from the same industry classification.

IASC
International Accounting Standards Committee; responsible for developing International Accounting Standards.

ICAA
Institute of Chartered Accountants in Australia; one of the professional accounting bodies in Australia.

SEC
Securities and Exchange Commission

Stewardship of Management
The situation whereby management of a company is held responsible for the control and allocation of the company’s resources, on behalf of the shareholder owners of the company.

Target Company
The company that is taken over by the acquirer during a formal takeover action

User
A body that reads and analyses financial statements.

Utility
The usefulness and relevance of the financial reports read by shareholders.

Vertical Integration
The combination of two companies, of which the output from one is the input of the other.
ACKNOWLEDGEMENTS

I wish to acknowledge my thanks to Associate Professor Robt. W. Gibson for the endless inspiration, stimuli, valuable suggestions and criticisms, and proof reading given to me during the course of the research. To the staff members of the Discipline of Accounting and Economics at The Flinders University of South Australia for being an audience to my results and offering their sound comments, I thank them. For the use of the computer facilities to assist in the draft and final productions, I am grateful to the Department of Accountancy and Law at Footscray Institute of Technology and the School of Management at Deakin University.

For personal support and understanding I thank my family; their continued love has always been the strength needed to achieve the goals I set for myself. Especially to my husband Brian, I thank him for his never-ending encouragement, literary direction in the proof reading, and enthusiasm for my study.
ABSTRACT

The nature of a corporate takeover often leads to the contraction in the number of companies operating in a given industry classification, along with the contraction in the amount of formal financial statements produced by the companies in that industry. Since 1985 Australian diversified companies are required to break their operations down into industry and geographical segments, so it would be expected that companies which diversify their operations through a corporate takeover would be forerunners in the adoption of this relatively new accounting standard on segment reporting.

While previous studies have both declared the benefits of segment reporting to report users, and exposed some preconceived problems of its application in practice, there has not been any work on the 'usefulness' of segment reporting as a form of reporting that will compensate shareholder users for the information loss suffered during a corporate takeover. This study endeavours to determine this, by questioning shareholders of companies that have been involved in takeovers in a period subsequent to the application date of the segment reporting standard, and obtaining their views on the usefulness of the post-takeover segment reports produced by their companies. A link is discovered to exist between shareholder dissatisfaction with segment reporting and the non-practice of creating a new segment in the post-takeover annual report for the target acquired. The underlying assumption
that the practice of new segment creation after a takeover is influenced by the type of takeover undertaken is supported by the study. Regardless of whether or not a company is diversified before the takeover, the findings show that a corporate acquirer in a takeover is less likely to create a new industry or geographical segment for the target acquired if they are involved in horizontal or vertical takeovers than if they are involved in diversified takeovers. In these situations, segment reporting is found to not compensate shareholders for the loss of information incurred by them in these types of takeovers.
CHAPTER 1

INTRODUCTION

1.1 Corporate Takeovers and Financial Reporting: The Underlying Problem

Corporate takeovers in Australia have been undertaken in abundance in the past few years. The introduction of the Trade Practices Act in 1974 formed a barrier to the level of takeover activity if the takeover was deemed to be harmful to competition. That is, a takeover was prohibited by Section 50 of the Act if it was likely to result in the corporation being in "...a position to control or dominate a market of goods or services." The purpose of this prohibition was to discourage monopoly-creating takeovers from occurring. Amendment to the Act in 1977 and the removal of the word "control" from Section 50 in 1986, reduced the number of acquisitions that would be likely to require administrative decisions under the Act. These changes to the pro-competition legislation lowered the barriers to takeover activity in Australia, allowed increased access to a given market, and provided the incentive for corporations to undertake takeovers and to create monopolies. Whether or not the Trade Practices Act has been successful in achieving its stance against anti-competitive behaviour is not the issue of this study. It is interesting to note however, that takeover activity in Australia during the past two decades has been at a very high level. In the six years prior to 1977 there was an
average of 53 successful takeovers per year. By coincidence, this had risen to 66 takeovers per year in the period between the first and second amendments of the above-mentioned Act. A total of 1357 bids were actually made in this 13 year period with 783 being successful\textsuperscript{1}. In the twenty eight months studied in the present investigation, 351 bids were made, of which 147 became successful takeovers. Takeover activity destroys the once enjoyed 'perfect competition' market conditions, as quite rapidly industries may be transformed into oligopolies or monopolies through the acquisition of major competitors by the larger players in the industry.

In conjunction with this concentration of activity within industries, is the concentration of accounting information available to the market. The outcome of a full takeover for all of the issued shares of the target company is the delisting from the Stock Exchange of this latter company; and so the amount of published financial information is reduced each time such a takeover occurs. After a takeover the market is denied the reporting of the target as a previously independent company, and must obtain details of the target's activities that are now a part of the newly expanded group, in the consolidated reports of this group.

In the event of a takeover which does not result in the delisting of the target, but nonetheless, involves the acquisition of control of the voting power of the company

\textsuperscript{1} Calculated from Bishop, Dodd and Officer (1987, p.25)
shares, a reduction in accounting information still takes place. The very nature of consolidated financial statements prepared for diversified companies, causes "...some loss of information in a pure sense, since less detail is available"\textsuperscript{2} to the users of the consolidated financial statements about the individual companies making up the consolidated group. With respect to understanding how the target subsidiary integrates into the activities of the acquirer and what contribution it makes to the profits of the acquirer, it is usually the case that only the statutory required list of subsidiaries and their contribution to the group net profit after extraordinary items, is provided for financial statement users. The Directors’ comments in the Review of Operations section of the financial reports are often the only means by which users gain any further information about the target acquired.

The literature of financial reporting per se has discussed at length the objective of financial reporting and ways of improving the 'usefulness' of the reports. However, it is still the case as it was in 1973 when Walker stated that "...in Australia and elsewhere, there has been little acknowledgement that takeover and merger activity frequently points to the inadequacy of accounting and corporate reporting practices" [Walker (1973, ARS No. 4, p.74)]. A part of the aim of this study is to determine the financial reporting needs of shareholders in times of

\textsuperscript{2} Silhan (1982, p.256).
corporate takeover activity and to see if present reporting practices are satisfying these needs.

1.2 Segment Reporting: The Possible Resolution, or Not?

The development of professional accounting standards on segment reporting in other countries and in Australia has been a much discussed affair. In the United States of America, diversified companies were willing to voluntarily disclose segmental data as early as 1968\(^3\) and academics welcomed the introduction of an accounting standard on segment reporting\(^4\). Australia's development of a professional accounting standard has followed the direction taken by the American professional accounting bodies, and as a result, there is now both a professional and statutory approved standard on segment reporting in Australia that matches closely the American Statement of Financial Accounting Standard No. 14 of 1976.

The aim of segment reporting itself is to assist financial statements users in being able to assess the past performance of the different activities of a diversified company. The literature has proclaimed the benefits of segment reporting, regarding the enhanced predictive

---

3. See the Hobgood (1971) study of the voluntary segment disclosures diversified companies in 1968 - 1970; discussed in section 2.3.1 of Chapter 2 herein.

ability possible with segment data\textsuperscript{5}, the reduction in stock market risk of those companies providing segment reports\textsuperscript{6}, and the overall better usefulness of the segmented financial reports. On the other hand, much has also been written on the problems that were foreseen, and have now been realised, with the segment reporting standards. These problems form the heart of the issue of the present study.

The objective of the present study is to determine if segment reporting, practised through the requirements of AAS 16 in Australia, has improved the 'usefulness' of financial reporting in light of a corporate takeover. That is, do segment reporting disclosures compensate shareholders of the companies involved in takeovers for the information loss they experience as a result of the takeover?

The investigation of the financial reporting needs of shareholders about the integration of the target into the acquiring firm is not only an important extension of the 'usefulness' literature, but is also the first research of this kind linking the two issues of financial reporting (namely, segment reporting) and corporate takeovers. Segment reporting in Australia is relatively new. The literature on this issue has predominately been concerned with compliance with the requirements of the professional accounting standard AAS 16 "Financial Reporting by

\textsuperscript{5} Collins (1976), Emmanuel and Pick (1980), Kinney (1971), Kochanek (1974) and others discussed in section 2.2.2 of Chapter 2 herein.

\textsuperscript{6} Collins and Simonds (1979), Dhaliwhal, Spicer and Vickrey (1979); discussed in section 2.2.3 of Chapter 2 herein.
Segments" and the statutory approved standard ASRB 1005 of the same name. The literature has not addressed the question of whether segment reporting achieves its objectives in the special circumstance of a corporate takeover. With the ever-increasing occurrence of this expansion-orientated activity by Australian companies, there is a need for a study into the issue of the financial information needs of the shareholder report user in these circumstances. Protagonists of segment reporting would consider it axiomatic that segment reporting can satisfy the usefulness objective of financial reporting for the diversified firm. However, the more critical evaluators of segment reporting would question the ability of segment reporting to compensate shareholders for the loss of information about the target company that occurs in a takeover. In this situation, a shareholder would encounter a lowered 'utility' or usefulness of the segmented financial reports for their investment needs.

The null hypothesis of this study can then be stated as:

\[ H_0: \text{Segmented financial statements do not compensate shareholders for the loss of financial information caused by corporate takeovers.} \]

This supposition can be subdivided into two subsidiary hypotheses as the nature of the takeovers is addressed. They relate to the expectation that the type of takeover undertaken will have an influence on the segment reporting practices of the acquirer and therefore, on the
shareholders' utility of the post-takeover financial statements containing segment data.

Horizontal and vertical takeovers are likely to cause a greater loss of information about the target company than a diversified takeover. This is so because the target company of a horizontal-type takeover will presumably become entrenched into one or some of the existing segments reported by the acquirer, and not be readily identifiable to the users of the financial reports.

For a vertical takeover, the AAS 16 standard does not expect segmentation of closely integrated companies, so it is a factor of this reporting requirement that shareholders of vertical-type takeovers suffer a lowering in the utility or usefulness derived from financial reports in respect to the post-takeover segment reports.

On the other hand, diversified takeover action would, by its definition, lend itself to the reporting of a new industry or geographical segment for the disclosure of the target's assets, revenue, and results after its integration into the acquiring firm. This practice may therefore be expected to satisfy the shareholders' information needs about the integration of the target company into the activities of the acquiring firm.

Therefore, the subsidiary hypotheses of this study can be stated as follows:

\[ H_a: \text{ Segment reporting can not compensate shareholders for the loss of information they experience as a result of horizontal- and vertical-type takeovers.} \]
H_b: Segment reporting can compensate shareholders for the loss of information experienced as a result of a diversified-type takeover if the target company acquired is reported as a new industry or geographical segment.

1.3 Plan of the Thesis

The thesis is divided into six chapters. The first is an introduction to the nature of the underlying problem studied and the hypotheses established to be tested.

Chapter 2 provides a chronology of the development of segment reporting pronouncements in the major English speaking countries, followed by a review of the literature on segment reporting. This review reveals the initial desires by the profession and academics for an improved way of reporting the activities of diversified companies; outlines the influence that the authoritative pronouncements have had on practice; and exposes the problems of the new financial reporting method encountered by financial report users.

Chapter 3 discusses the identifiable literature on corporate takeovers and the 'usefulness' of financial reporting in these circumstances. It will become evident upon reading this literature that little work has been done on the ways of improving the reporting of the impact that an acquisition (particularly, the target acquired) has on the acquirer's activities and organizational structure.
Chapter 4 describes the methodology of the research, the sample studied, the tools used, and the steps taken in determining the final useable sample and in collecting the data.

Chapter 5 unveils the results obtained from the research about the pre- and post-takeover reporting practices of the acquirers, the utility of the post-takeover reports by shareholders, and the desired forms of segment reporting by both the shareholders and the corporate acquirer sample groups.

Chapter 6 presents a summary of the major research findings, the conclusions drawn from these findings, and considers the study's implications for external reporting and standard setting. The chapter also discloses the limitations inherent in the research design and offers recommendations for future research.
CHAPTER 2

AN OVERVIEW OF SEGMENT REPORTING

The study undertaken investigates the segment reporting practices of a particular sample of public companies in Australia in a period subsequent to a major development in the professional accounting standards of financial reporting. Segment reporting in Australia has taken some time to develop. It followed the lead set by American accounting standards and practice some ten years earlier.

The purpose of this chapter is to present the historical development of segment reporting in the United States of America, Canada, Australia, the United Kingdom and the International arenas; to discuss the literature findings on the usefulness and need for segment data; to outline the application of segment reporting in practice; and to expose the conceptual problems discussed by the literature as being inherent in the relevant accounting standards.

2.1 The Historical Development of Authoritative Pronouncements on Segment Reporting

The development of an accounting standard on segment reporting for diversified companies has taken place in the last twenty years. Much of the work by professional accounting bodies has occurred in the United States of
America, with those in Canada, Australia, and the United Kingdom following.

2.1.1 USA Developments

Developments in the USA may be listed thus in a time line.

1949 The Securities and Exchange Commission (SEC) issued a requirement for 10-K companies to report the relative importance of each line of business that contributed at least 15% to the enterprise's gross sales.

1967 (September): The Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA) issued a statement "Disclosure of Supplementary Financial Information by Diversified Companies", which was only a suggestion of voluntary disclosure of segment data rather than a mandatory standard.

1968 (Sept): The SEC proposed amendments to three of its forms, requiring disclosure of the "approximate contribution which the various lines of business make to a company's overall profitability, or lack of it".

1970 (Oct): The SEC formally introduced the lines-of-business disclosure requirements for documents filed with the SEC by 10-K companies.

1971 (May): The Financial Executives Institute (FEI) followed the SEC requirements by issuing an official policy statement recommending that the lines of business data reported to the SEC be incorporated in company shareholder reports.
1973 The Financial Accounting Standards Board (FASB) was created and considered segment reporting as one of its initial projects.

1974 (May): The FASB issued a Discussion Memorandum – "Financial Reporting for Segments of a Business Enterprise".

1974 (Oct): The SEC disclosure requirements were extended to corporate annual reports.


1977 (Dec): Statement on Auditing Standards No. 21 – "Auditors Guidelines on Segment Information" was issued by AICPA, reinforcing SFAS 14.

1978 (Feb): The SEC adopted rules of industry segment reporting that generally conformed with SFAS 14.

1978 (March): Accounting Series Release No. 244 was issued by the SEC, discussing the application of SFAS 14 to five industries: electrical and electronic products,
forest products, chemicals and drugs, and property and casualty insurance. The information was to be disclosed if it was material to the segment rather than to the company as a whole.

1978 The FASB issued Statement of Financial Accounting Standards No. 21 - "Suspension of Reported Earnings Per Shares and Segment Information by Non-Public Enterprises", which exempted private companies from reporting segmented data.

1978 (Sept): The FASB issued an Exposure Draft - "Reporting Segment Information in Financial Statements that are Presented in Another Enterprise's Financial Report".

1978 (Dec): FASB Statement of Financial Accounting Standards No. 24 - "Reporting Segment Information in Financial Statements that are Presented in Another Enterprise's Financial Reports" was issued as an amendment to SFAS 14, eliminating the requirements for segment reporting in some financial statements when presented with consolidated reports.

1979 (May): The FASB issued an Exposure Draft - "Reporting of Sales to Government Customers" as an amendment to SFAS 14.

1979 An FASB Discussion Memorandum entitled "Reported Earnings" stated that disclosure of information by segments is likely to enable users to make improved assessments of future earnings.

1979 FASB Statement of Financial Accounting Standards No. 30 - "Disclosure of Information about Major Customers" was issued, modifying identification criteria for
foreign government customers under SFAS 14. This became effective for accounting periods beginning or after December 15, 1979.

The most important of these actions was the issue of SFAS 14. The main requirements of SFAS 14 may be identified as follows.

The main requirements of SFAS 14. This mandatory statement requires U.S. companies to disclose in their annual reports data "about the enterprise's operations in different industries, its foreign operations and export sales and its major customers" [para. 1]. The information to be disclosed for each segment is revenue, operating profit or loss, and the amount of identifiable assets [para. 25]. Revenue is that received from sales to outside customers unassociated with the company\(^1\), and intersegment sales or transfers. The standard does not provide guidance as to the choice in the basis of pricing these transfers, but requires that disclosure be made of the method used. Operating expenses included in the calculation of the operating profit or loss, consist of intersegment purchases made within the company as well as expenses incurred by the company for the benefit of several segments, and allocated or traced to a particular segment. The amount of identifiable assets is calculated as the net tangible and

---

1. If 10% or more of the revenue earned by an enterprise was derived from sales to a single customer, or to domestic or foreign government agencies, SFAS 14 required that this fact be disclosed, as well as the amount of the revenue earned from each customer and the applicable segment making the sales.
intangible assets used by a segment, plus the allocated share of assets jointly used by two or more segments. Liabilities need not be disclosed in segment reports. The Statement however, requires that the identifiable assets of the segment be reconciled with the consolidated total assets of the company. SFAS 14 also requires three additional pieces of information to be disclosed separately for each reportable segment. Two of these are, the aggregate amount of depreciation, depletion and amortization of the segment's assets, and the amount of capital expenditure made by the company for each segment. The third piece of information is the enterprise's equity in the net assets of unconsolidated subsidiaries and investee companies whose operations are vertically integrated with the operations of a particular segment.

SFAS 14 gives guidelines or tests to be used when a company identifies its segments [para. 18]. An industry segment is considered reportable if it satisfies one or more of the three tests, which relate to revenue, operating profit, and identifiable assets\(^2\). Also, the totality of segment information disclosed must meet another test so

---

2. The three tests are:
   (i) Revenue from sales to outside customers and intersegment sales is 10% or more of the combined revenue of all industry segments.
   (ii) Operating profit or loss is 10% or more of the absolute amount of either the combined operating profit or loss of all industry segments incurring a profit or loss respectively.
   (iii) Identifiable assets are 10% or more of the combined identifiable assets of all industry segments.
that a substantial portion of an enterprise's operations are explained by its segment information.

For geographical segment information, domestic operations are treated as one area and foreign operations are broken down into different countries or groups of countries, whatever is appropriate in an enterprise's particular circumstances.

2.1.2 Canadian Developments

Legally, segment reporting in Canada is regulated by provisions of the Canada Business Corporations Act (1975, as revised) and legislative requirements of the Securities Commission of each province. These legislative requirements recognise that generally accepted accounting principles are those set out in the Handbook of the Canadian Institute of Chartered Accountants. Professionally, the Canadian Institute of Chartered Accountants (CICA) issued an accounting standard in 1979 on segment reporting.

The timeline below shows the development of these authoritative pronouncements in Canada.

1969 A Canadian Institute of Chartered Accountants survey of 325 companies' annual reports for 1968, showed 15.7% of these companies voluntarily provided segment financial data.

---

3. This rule requires that the revenue of all reportable segments must constitute 75% or more of the total revenue derived from outside customers of the company.
1969 (May): A Bill tabled in the House of Commons would have required segment reporting of sales if enacted.

1970 (Nov): The CICA issued an Exposure Draft — "Financial Reporting of Diversified Operations". This brought many objections to the concepts it proposed to implement.

1971 (Aug): The CICA made recommendations supporting industry type divisionalisation, disclosure of sales and segment margins and allocation of common costs across segments.

1975 The Canada Business Corporations Act required a diversified company to segment its financial statements identifying each "class of business".

1976-1977 Research projects were being undertaken by the CICA on "Segmented Information".

1978 (May): The CICA issued an Exposure Draft entitled "Segmented Information".


The two more important developments on the segment reporting issue in Canada have been the Canada Business Corporations Act (1975) and the professional accounting standard issued by the Canadian Institute of Chartered Accountants in 1979, CICA Handbook, section 1700. The main features of these may be summarised thus.
The Main Features of the 1975 Act. The Act required publicly listed diversified corporations with a gross revenue exceeding C$10 million or assets exceeding C$5 million to disclose segmental information for each 'class of business' that accounts for 10% or more of the total revenue for the period.

The Main features of the CICA Handbook, section 1700. The CICA Handbook outlines Generally Accepted Accounting Principles that are mandatory for financial statements of companies complying with the above-mentioned legislative requirements. This standard applies to businesses with publicly traded shares, or businesses which are required to file financial statements with the Securities Commission of Canada. It was issued after SFAS 14 in the USA, and replicates much of the American standard. However, the disclosure of identifiable assets by geographic segment is not required by the CICA Section 1700.

2.1.3 United Kingdom Developments

In the United Kingdom (UK) segment disclosure requirements were produced by the relevant authoritative bodies although not by the accounting profession. The Companies Act (1967) and the Stock Exchange listing requirements have been the main influences on financial reporting in the UK for the past twenty years. At present a professional accounting standard has not been released, although, at the time of writing, the Accounting Standards Committee (ASC) was working on an exposure draft for segment reporting.
A time line and main features of each authoritative requirement is listed below.

1965 The Stock Exchange Listing Requirements required annual reports to describe operations of subsidiaries in the group and the contributions of each differing operation to the group's trading results; and show a geographical analysis of trading (but no level of disclosure was defined).

1967 The Companies Act required an analysis of turnover and profit, by "substantially different classes of business", in the Directors' Report.

1979 The Stock Exchange Listing Requirement Para. 10(c) required geographic analysis of sales revenue and profit before tax to be reported.

1981 The Companies Act was amended so that segment data previously reported in the Directors' Report was now to be part of the Notes to the Accounts and therefore subject to audit.

1984 The ASC included on its work programme "Segmental Reporting" and an Invitation to Comment was made.

1985 The Companies Act gave companies discretion to divide their businesses into "lines-of-business" and geographical areas.


1987 An Exposure Draft "Segmental Reporting" was proposed by the ASC, but this was not considered a major project.
The principal point to note about the position in the United Kingdom is the absence of any pronouncement by the accounting profession seeking to regulate segment reporting.

2.1.4 International Developments

The International Accounting Standards Committee (IASC) released its preliminary exposure draft on segment reporting in 1978, in anticipation of producing an international accounting standard. The impetus had obviously come from developments in the USA. It is also possible that the IASC's actions gave impetus to the moves in Australia, and also in the UK already outlined. Below is a timeline for the major developments toward an International Accounting Standard on segment reporting.

1978 (Jan): The International Accounting Standards Committee (IASC) released a preliminary Exposure Draft - "Accounting for Diversified Operations".

1978 The European Economic Community (EEC) released its 4th Directive requiring disclosures of sales revenue by geographical area.

1979 (Sept): The IASC and the Organization for Economic Cooperation and Development (OECD) authorities met to discuss the implementation of an International Accounting Standard.

1979 (Dec): An Exposure Draft, ED15 - "Reporting Financial Information by Segment" was approved by the IASC and published as a proposed International Accounting Standard in March 1980.
1980 (June): A further IASC Exposure Draft - "Accounting and Auditing Standards Reporting Financial Information by Segment" was produced after pressure from the United Nations and the OECD.


1981 (Sept): The New Zealand Society of Accountants decided not to endorse the Exposure Draft 15 or proposed International Accounting Standard IAS 14 on segment reporting.

1981 (Aug): The IASC released IAS 14 - "Reporting Financial Information By Segment", which will apply to financial statements for periods beginning on or after 1 January 1983.

Although there were signs of difficulty in achieving an international consensus, an international accounting standard on segment reporting was established in due course. Usually international standards tend to follow the lowest common denominator and do not have much impact on practice in the major developed Western economies. This is particularly true when a national standard applies.

2.1.5 Australian Developments

Professional discussion of segment reporting did not commence in Australia until 1980. The State companies acts existing at the time required pseudo segmentation of companies on a legal entity basis, rather than on any lines of economic activity. Before the agreement between the
State and the Federal governments in 1978 to centralise the legislation of corporate activities in Australia, companies were governed by differing State companies acts. These State acts required the disclosure in Directors' Reports of the principal activities and the contributions by subsidiary corporations to the consolidated profit of the group. Therefore, these disclosures did not provide scope for segregation by lines of activity. The Australian Accounting Research Foundation (AARF), jointly funded by the two professional accounting bodies, the Australian Society of Accountants (ASA) and the Institute of Chartered Accountants in Australia (ICAA), began a research project in 1980 on segment reporting. This eventually resulted in the promulgation of a professional standard in 1984. This was given legislative approval in 1985 by the issue of an approved accounting standard. These accounting pronouncements are the concerns of the present study.

A timeline showing the developmental steps taken toward producing the Australian segment reporting standard is listed below.

1980 (June): The AARF published Discussion Paper No. 4 - "Financial Reporting by Segments".

1981 The Companies Code required companies to disclose in their financial statements, the nature of their principal activities, and the contribution to the consolidated profit and loss of each company in the group.
1983 (March): A draft Exposure Draft prepared by the AARF was presented to the Accounting Standards Board (AcSB) of the AARF for consideration.

1983 (May): The AARF issued the Exposure Draft as a proposed Statement of Accounting Standards entitled "Financial Reporting by Segments".

1984 (March): An accounting standard was issued by the Australian Society of Accountants and the Institute of Chartered Accountants entitled AAS 16 - "Financial Reporting by Segments", effective on financial statements produced on or after 31 March 1985.

1986 (March): The Accounting Standards Review Board (ASRB) released an Invitation to Comment No. 407 - "Financial Reporting by Segments".

1986 (April): The ASRB gazetted the approved accounting standard ASRB 1005 - "Financial Reporting by Segments". This made non-compliance with AAS 16 a breach of the Companies Code. This standard became effective for the financial statements of a relevant company produced on or after 30 June 1986.

The subject of the present study is the accounting standard AAS 16, which is the most important development in Australia on segment reporting. The main features of this standard may be summarised thus.

**The Main features of the AAS 16 and similarities to SFAS 14.** The standard is almost a copy-book version of the American standard SFAS 14. The segment revenues,
operating profit (although called "segment result" in AAS 16), and identifiable assets aspects of the American standard are the three main items to be reported for segments under the Australian standard. The two standards differ by the exclusion from AAS 16 of the requirements to disclose the depreciation, depletion and amortization of a segment's assets, capital expenditure, assets of vertically integrated investee companies, and the identity of single customers from which 10% or more of revenue is derived. There is also a difference in the enforceability of compliance with the standards. SFAS 14 is a mandatory standard whilst AAS 16 was only a professionally recommended standard prior to the issue of the legislatively approved standard ASRB 1005. The latter made segment reporting in Australia mandatory for "relevant companies". The companies involved in the takeovers selected as the sample for the present study are all required to comply with ASRB 1005 and hence, also fall into the wider catchment of AAS 16 (as it applies to all Australian companies).

With this chronologically presented historical background to the development of segment reporting requirements, the chapter now progresses to review the more significant research and academic discussions on segment reporting.

4. Relevant companies are a) listed Australian companies or b) an Australian subsidiary of a foreign listed company (paragraph .06, ASRB 1005)
2.2 The Literature on Segment Reporting Prior to the Authoritative Pronouncements

In conjunction with the formal developments made by the profession toward the creation of an accounting standard on segment reporting, there has been much academic literature on the topic. Quite often the literature declared the need for an 'improved' form of financial reporting for diversified companies, and then argued that segment reporting seemed to provide the required improvement. Other studies have investigated the disclosure practices by large diversified companies made on a voluntary basis, before any authoritative standard had been released. These voluntary disclosures consisted of segment-type data and were provided with the purpose of giving 'improved' financial statements to the company's users. Both of these research approaches had a direct influence on the development of the professional pronouncements and the eventual formalization of the mandatory accounting standards that now exist in Australia and the United States. Another group of studies, which may be described as compliance studies, has investigated the influence of the appropriate standard of a country on the financial reporting practices used by companies in that country. Much of this literature has aired debates about the theoretical concept of segment reporting itself and the content of exposure drafts as they were released prior to an accounting standard. The most pertinent of the identified literature on segment reporting will be reviewed
here, to help develop a background to the current study of the 'usefulness' of segment reporting to shareholders of companies involved in acquisitions and mergers.

2.2.1. The Need for Segment Reporting to Improve Financial Disclosures of Diversified Companies

From the late 1960s onward, segment reporting has received increasing attention from researchers and other parties interested in improving the disclosure practices of diversified companies. This literature began in the United States of America. In the 1960s, it was becoming evident that companies frequently expand through the diversification of their activities. This is usually achieved through takeover offers and mergers. Pacter (1969) revealed that more than 50% of the company mergers taking place in America in 1968 were diversifications because they were between firms with different lines of business. The professional and regulatory bodies at this time were concerned that the existing financial reporting practices of diversified companies did not adequately supply users with reports containing 'useful' financial information that could assist users in making their economic investment decisions. Segment reporting was seen as a necessary reporting method for diversified corporations, as it could reveal the contribution, among other things, made by each 'segment' to the overall profitability of the company. Such information could also assist users in the evaluation both of the past performance and future prospects of the company while taking into
account the potential impact of risk minimization through diversification.

Advocacy of segment reporting developments relies on the premise that users actually want the additional information that is supplied in segment reports. Mautz (1968), Backer and McFarland (1968), and Day (1986) have interviewed financial analysts to determine what information they require when evaluating a firm for investment purposes. Financial analysts represent the more "sophisticated" users, which are more likely to use annual reports than the "unsophisticated or naive" user. Mautz (1968) found that 90.8% of the financial analysts interviewed attempted to determine operating results by segments from the annual reports although the reports supplied information far less than that required to adequately perform these analyses. Backer and McFarland (1968) interviewed 72 financial analysts, 71 commercial bankers, and 70 company executives regarding the benefits they saw in segment data. These users also confirmed unanimously their desires for segment sales and earnings data when performing their investment analyses. Both of these studies were conducted in America before the SEC rulings of 1970 and FASB's SFAS 14 of 1976.

5. Clift (1975) and Lee and Tweedie (1974) discovered that private shareholders ("unsophisticated" users) skim annual reports and use the Directors' report section, stock brokers advice, the financial press and analysts' interpretation of the financial statements themselves for their investment information. Clift found that financial analysts also underuse annual reports, but they use them more than the private shareholder does. These shareholders are considered "sophisticated" users.
A similar investigation, but of a smaller sample was carried out by Mirza (1971) in Australia before the issue of AAS 16 in 1984. Here, 19 sharebrokers and investment analysts all agreed that diversified companies should disclose segment information.

In the United Kingdom, Day (1986) also sought to establish what financial information was being used and what was desired by analysts. Day found that "by far the most common requests were for improved and increased, or even compulsory and standardised disclosures of segment information." (1986, p.301). Sales and pre-tax profits, split by geographical area and by product or activity, were the data requested by these analysts. Of the 30 most frequently referred to items in the annual report, the interviewed analysts stated that segment data -- specifically that broken down by geographical area and by activity -- were the 8th and 10th most frequently referred to items. It must be remembered that this study was conducted in an environment not containing professional or statutory standards on segment reporting. The analysts in question were performing analyses of voluntarily disclosed segment data. Nonetheless, evaluations of the breakdown by geographical areas and activity ranked, in analysts' requests for information, above the funds statement, cash flows, the reports and the accounts in general, the profit and loss account and capital expenditures.

This review demonstrates that similar ideas were being advocated regarding segment data in most of the major English speaking developed economies. The general theme
was equally relevant to Australia even if only given limited expression in the localised literature. Users of financial reports, therefore, made it known before the promulgation of accounting standards on segment reporting, that they desire more detailed segmentations of diversified firms in order to make sound investment decisions.

The benefits which advocates expect to derive from segment data. As mentioned earlier, segment reporting is considered the means for users to evaluate the contributions and future prospects of each segment of a diversified firm. This level of evaluation could not be possible with aggregated data such as that provided in consolidated reports covering a holding company and its subsidiaries. The assumption behind this axiom is that the different industry and geographical segments of a firm are likely to experience different degrees of risk, profitability, and growth potential. These differences are due to the segments operating in different markets, having different sensitivities to business cycle fluctuations, and experiencing varying profit margins. Taking the view of Baker and Haslem (1973) and others, that the projection of segment earnings and the group's earnings are a primary part of users' analyses of annual reports, then, "...each segment must be studied separately to develop a projection of segment earnings."


It has also been claimed that both external and internal influences on individual segments can be assessed by the investor through segment reports. Watt (1974) believed that trends within a company are a part of the internal assessment products of segment reports, and market risks are the external items that can be assessed through segment reports. As a result, "uncertainty" about investments is then reduced through the provision of segment data in the annual reports. [Lerner and Rappaport (1972)].

Other benefits of segment reporting lie in the assistance it gives employees, trade unions, share-holders, consumers, and management in the assessments they make of the stewardship function of management. Some aspects of this are, the possibility of evaluating the internal control and allocation of company resources, as well as the possibility of assessing the success of management's ability in making acquisitions. Backer and McFarland (1968, p.8) stated that the disclosure of segment data "gives an indication of a diversified management's success in its programme of growth and acquisition or internal development. Otherwise unsuccessful ventures may be masked by consolidation with profitable segments." So called "bad" investments can be highlighted through segment reporting. AAS 16 and SFAS 14 overcome the possibility of management hiding poorly performing segments through the

consolidation process, by requiring disclosure of segments which incur either a profit or a loss that is at least 10% of the total of all segments that incur a profit or loss respectively. This identification criterion is therefore not based only on profitable segments. By requiring the disclosure of poorly performing segments as well as the profitable ones, these two accounting standards on segment reporting allow the report user reviewing companies in either of the countries, to assess the degree of skill of the management of each segment, in addition to allowing the assessment of the higher management's investment skills discussed earlier. [Roederer (1977)].

In the UK, Emmanuel and Gray (1977b, p.297) believed that segment disclosures would

"protect investor interests by ensuring that the management of a company is kept both competitive and innovative...[as the]...goals of segment managers will become more closely aligned to those of investors as a result of the increased measure of accountability at lower management level of the organization."

This proposition assumes that segment management is akin to organizational management. Quite often the segments disclosed in the financial statements are not identical to the organizational structures within the company. This dilemma is discussed later in part 2.4 and the existence of such confusion is exposed in the results of the present research.

From an economic viewpoint, Emmanuel and Gray (1977b), the FASB (1979), and Miller and Scott (1980) have proclaimed that segment reporting will promote economic and operational efficiency in the market for information, and
as a consequence, will also promote efficiency in the allocation of society's resources. This proclamation relies on making investors more informed about the activities of companies they invest in, and thus in turn, influence the market's share price setting mechanism and eliminate the desire for insider trading. Miller and Scott (1980, p.5, para 2.5) expressed the view that "[the] basic aim of any disclosure requirement is to effect an improvement over the current situation, an improvement which in essence leads to increased society welfare."

The overall test of the usefulness of segment data and hence the need for professional disclosure requirements, is the "relevance" and "freedom from bias" of the data. Roederer (1977) added another dimension for the evaluation of segment data, "cost viability". Together with relevance and freedom from bias, these dimensions determine the "utility" of segment data. The early studies of Mautz (1968) and Backer and McFarland (1968) claimed that segment information does possess the relevance and objectivity characteristics. 'Relevance' is satisfied by the arguments proclaiming the need to measure the risk and performance of the significant parts of the total company and that segment reporting will facilitate this (see the discussion above). The 'objectivity' criterion was also

---

9. AICPA: The Trueblood Report (1973); The Corporate Report (1975); FASB Statement No. 1 (1978) and Kenley and Staubus (AARF Statement No. 3, 1972) have each provided a statement of the objectives of external reporting. Part of these objectives are the requirements that financial information be relevant, material, reliable, free from bias, comparable, consistent, understandable, and timely.
raised by Mautz in 1968. He found that investors feel that when intra-company sales reached 10% of total sales non-objectivity becomes a factor. Roederer (1977, p.339) answered this by suggesting that if intra-segment sales "are very significant then the segments are actually in the same line of business..." and should be combined. An independent audit was also considered by Roederer as a means of improving objectivity of segment information. Finally the 'cost viability' aspect of the utility criteria was confirmed by Roederer as he claimed that added costs of segment reporting such as audit fees, increased internal controls, and administrative labour are really "relatively insignificant" in monetary terms.

In the UK, Buckley (1978) also based his ideas on the underlying objectives of financial reports when evaluating the worth of segment data to users. He felt that the value of a business segment is the function of its cash flows discounted at the cost of capital rate. This means that shareholders must regard segmental cash flows as relevant information for their decision making and for judging the usefulness of financial statements per se. Cash flows broken down by country would enable shareholders to assess the risk inherent in each of the overseas operations of the company. Here, Buckley sees the worth of presenting a segmented form of the Sources and Applications of Funds Statement based on geographical area. It should be remembered that in the UK at the time Buckley wrote, there had not been any segment reporting disclosure requirements produced by the accounting profession. The only
legislative force in existence was the 1967 Companies Act, which was very weak on segment disclosures.

Overall, several arguments have been put forward for the need for segment reporting as part of the financial information requirements of users. More specific benefits of segment disclosures have been tested empirically. They are the predictive ability of segment data and the influence of segment data on a company's stock market risk. These will be discussed now.

2.2.2 Predictive Ability of Segment Data

Studies that wished to determine some of the specific benefits of segment reporting looked at how these disclosures compare with consolidated data in being able to provide accurate forecasts of a firm's earnings and sales. Most of the work in this area has been performed in North America. However, one paper from the United Kingdom, replicating two of the American predictive studies, has been written on the predictive ability of segment data.

The first work on the predictive ability of segment data was done by Kinney (1971), before an accounting standard in the USA had been issued. Therefore he studied segment data which were voluntarily disclosed by companies in the late 1960s. He used 24 of the 32 companies studied by Pacter (1968) which had made such disclosures in their 1967 annual reports. Kinney found that predictive models which incorporated segment data predicted total earnings of a company more accurately than models that utilized consolidated data only. However, he warned against making
generalizations from his findings as the sample showed much diversity in their segment reporting bases and inconsistency of classification within the reports. These factors would be considered inherently a part of an environment which did not have any professional guideline for reporting segment data.

Collins (1976) studied a wider sample of companies in order to examine the predictive accuracy of forecasting models that are applied to segment data. He randomly selected 150 multi-segmented firms which had not disclosed segment data before 1970 but reported both segment revenue and profits after the SEC disclosure requirement for 10-K companies was released in 1970. Collins corroborated Kinney's findings about the accuracy of the predictions of total entity earnings and sales based on segment data. He also extended the study to determine if earnings predictions were superior to sales predictions. He found that earnings estimation procedures performed only marginally better than either segment revenue or consolidated profit margins procedures.

Finding similar results about the superiority of segment data forecasts over consolidated data forecasts, Emmanuel and Pick (1980) replicated the Kinney and Collins studies on 50 randomly selected UK firms from the top 100 listing for the 1977/8 financial year. The base year was 1972 and predictions were made for the 1973 - 1977 time span using the models used by Kinney and Collins. The study confirmed the discovery that segment based forecasts of earnings were more accurate than consolidated based
earnings forecasts. This study was performed before an accounting standard on segment reporting had been discussed in the UK so Emmanuel and Pick asserted that segment revenue information should be the minimum requirement of segment disclosures in the UK.

Two other studies investigated this issue of predictive ability in the period prior to the SEC 1970 ruling and the period prior to the issue of SFAS 14. Firstly, Kochanek (1974) studied the narrative and financial sections of the reports of 37 diversified companies for the 1966 - 1969 period. He found that firms, which voluntarily disclosed "high quality" segmental data\(^{10}\), created information which improved investors' predictions of company earnings.

Secondly, rather than investigate predictive models, Baldwin (1984) surveyed security analysts to see whether or not users of financial statements were better able to predict earnings per share after the implementation of SEC lines of business disclosure requirements in 1970. The analysts of 178 companies were surveyed and asked to make quarterly forecasts using the segment data produced by these companies. The findings supported Kinney (1971) and Collins (1976) but through the use of actual users' predictions rather than predictive models.

---

10. Companies which disclosed descriptions of segment and gross revenues were classified as "good reporters", producing "high quality" segment data. This occurred in 65% of Kochanek's sample. In 16% of the sample, the annual reports disclosed segment capital expenditures and assets employed as well as gross revenue and operating profit of each segment. These companies were considered "superior reporters" of high quality segment data.
The only identifiable works to dispute the predictive ability of segment data were those of Silhan (1982, 1984). He simulated segment data for quarterly time periods and applied Box-Jenkins analysis to the 60 selected firms. Silhan found that there was no general superiority of either consolidated forecasts or segment data forecasts and contended that "segment earnings may be of limited usefulness in making predictions of enterprise profits." [Silhan (1982, p.261)]. In the second study, Silhan investigated whether or not company size and quarterly data had an effect on the predictive ability of segment data. Large firms, he found, yielded no difference in their consolidated and segment predictions on either a quarterly or annual basis.

In short, five studies have confirmed the superiority of segment data to consolidated data in assisting users to make predictions about a company's future earnings potential. Segment profit data however, were not proven to be any better at assisting these predictions than segment revenues. Two studies have disagreed with these points, as they could not prove or disprove the predictive superiority of either of the data types with regard to earnings. The balance of the results lends support to the desirability of enforcing segmented disclosure.

2.2.3 Segment Data and the Company's Risk

The second specific benefit of segment reporting to be discussed is its influence on a company's market risk or share price fluctuations. The literature has discussed the
impact segment disclosures have on the variance in earnings per share and share prices of a company's shares.

Market-based studies such as Kochanek (1974) and Twombly (1979) have investigated the mean returns on shares of companies engaged in voluntary segment disclosures before the SEC line of business requirements of 1970. Ajinkya (1980) extended Twombly's work to the post-1970 period. Each study divided their sample companies into subgroups, determined by their level of segment disclosures. The earliest study could not confirm that "good segment reporters"\textsuperscript{11} exhibited lower weekly share price fluctuations than "poor reporters" and that segment reporters in general showed lower fluctuations over time in their share prices than the non-segment reporters. On the other hand, Twombly (1979) produced results that indicated no evidence of statistically significant differences in the share price fluctuations of the subgroups of companies with differing levels of segment disclosures. Ajinkya (1980), upon looking at the post-1970 period, found that there was only a marginally higher degree of correlation among the portfolio returns of diversified companies disclosing lines-of-business data than of companies disclosing less segment data on a voluntary basis before 1970.

Generally then, the studies in this area have not been able to indicate that either voluntary disclosures of segment data or the first introduction of segment reporting requirement in 1970 improved the market's assessment of expected returns and share price variances.

\textsuperscript{11} ibid.
Mohr (1983, p.44) believed that in the "...real world perceptions of financial statement users [are] only loosely consistent with the theoretical 'fineness'..." of additional segment data disclosures. That is, it is more the availability of segment information itself, rather than the incremental disclosures of extra information after reporting requirements are imposed, that influences users' perceptions and utility of the financial statements. Both the predictive ability studies and the market return studies have shown that using segment data rather than consolidated data improves forecasts and lowers share price fluctuations. All the same, there appeared to be little improvement in these two variables through the provision of 'finer' segmental information, such as earnings and capital expenditure of each segment. Users, apparently see benefits in being given segment data in the financial statements, but once it becomes the 'norm', no further benefits are generated through its refinements.

2.3 The Level of Voluntary Segment Disclosure Prior to the Authoritative Pronouncements

It is now intended to outline the extent of voluntary segment disclosure made in the USA, UK, and Australia prior to the major development of an accounting standard on segment reporting in each instance.
2.3.1 United States of America

In the USA, the first authoritative pronouncement for segment disclosures was made by the Securities and Exchange Commission in 1970 (see the time line in section 2.1.1). Here the main requirement was for companies that were required to complete a 10-K listing form, to break up their sales into 'lines-of-business'. It was mentioned earlier (section 2.2.1) that the general need for segment data by users of financial statements was recognised in the late 1960s. At that time some diversified companies in America were voluntarily disclosing segment information by various bases and methods. Hobgood (1971) discovered that 48% of his sample of 506 companies showed segment sales and 9% showed segment earnings in 1967. This did not significantly change in 1968, but in 1969, the percentage of the sampled companies voluntarily disclosing segment sales had risen to 59% whilst 15% were voluntarily disclosing segment earnings. Hobgood also studied the segment disclosures after the SEC ruling and found that the segment sales disclosures had improved to 64% and segment earnings to 27%. These percentages are quite high levels of voluntary disclosure considering the extra man-hours and costs involved in providing additional segment information to the already time-consuming annual report preparation.

Salamon and Dhaliwal (1980) attempted to provide evidence on the relationship between a firm's size and its extent of voluntary financial disclosure, particularly segment data. Their study of reporting before the implementation of the SEC ruling was motivated by their
questioning of whether the disclosure requirements in the ruling were suitable for small companies. The paper was a response to the call for papers on "the small company problem" by the SEC Advisory Committee on Corporate Disclosure in 1977. Salamon & Dhaliwal believed that small companies would be faced with a relatively heavy burden and placed at a competitive disadvantage to large companies, if they tried to meet the same reporting requirements as large companies. According to these co-writers, small firms (defined as having a capitalization of less than $50 million) should be allowed exemptions to the disclosure requirements of segmental data. The sample consisted of 25 diversified firms that had not voluntarily disclosed segment sales or profits prior to the SEC 1970 ruling, and 26 diversified companies that did provide these voluntary disclosures in the same time period. The investigation confirmed the authors' alternative hypothesis: that the "asset size of diversified firms voluntarily disclosing segmental information is larger than that of diversified firms that did not disclose segment financial data." (Salamon and Dhaliwal (1980, p.560)). The study also found that a firm's voluntary disclosure is positively associated with the amount of public interest or external financing undertaken by the firm. That is, voluntary disclosures of segment data were increased when a firm attempted to attract greater public and investor interest.
2.3.2 United Kingdom

In the same time frame as the investigations of segment reporting in the USA discussed above, UK academics were studying the voluntary disclosure practices of UK diversified companies. The 1967 Companies Act was the only authoritative pronouncement existing at this time. It required the disclosure of turnover and profit before tax of "substantially different classes of business" of a diversified company (sec. 17). Emmanuel and Gray (1977a) doubted the effectiveness of this legal requirement, as the Act did not define what "substantially different classes of businesses" means. The co-writers studied the 1975/76 annual reports of the 100 largest quoted industrial companies in the UK, to examine the extent of voluntary segment information disclosure by UK companies. They found that 78% of the sample provided either turnover and/or profit analysis whilst of the 22% that did not, 19% had more than one class of business according to the standard industry classification. These voluntary disclosures provided more information than required under the Companies Act. Emmanuel & Gray then determined whether these disclosures were consistent with how the Directors "see" the company. Only 45% of the companies with segments showed consistency between the segmental supplementary information and the Directors' Report or Chairman's Report. The researchers concluded that there needs to be some means of identifying segment classes of business and guidelines which "will provide useful and reliable information for
users but without constraining managers by imposition of a rigid and arbitrary set of rules." (1977a, p.50).

It seems that the issue of ensuring consistency between the segment data and the other parts of the annual report is an important aspect of segment reporting requirements. This issue is raised again in section 2.4.1 which discusses the problems of segment reporting, and it will also appear in the results of the present study.

A more recent study of the reporting practices of UK firms was made by Welchman (1983). The investigation took place before the imposition of the 1981 Companies Act, which required the same level of analysis of turnover and profit before tax as the 1967 Act, but it relocated these data to the audited Notes to the Accounts section of the annual report. During this period the Accounting Standards Committee had suspended its work on segment reporting, so no accounting standard was imminent at this time for UK companies. Welchman's study of the 300 largest companies and groups in the UK found that many companies (66%) provided detailed information on their various activities far beyond the minimum information required by law.12

12. 199 of the 300 companies studied provided analysis of their turnover and results in the 1980/1 year. 14 companies gave turnover only and 7, results only. 80 companies did not give any class of business analysis (62 of these stated that they were single-class companies). These percentages were constant for the 1979 - 1982 years studied by Welchman.
2.3.3 Internationally

Notwithstanding the existence of the IASC, it is found that little work has been reported on the segment disclosure practices of companies other than in the USA, UK, and Australia.

Gray (1978) investigated the voluntary disclosures made by 100 of the largest listed EEC multinationals in their 1973 annual reports. This time period was after the SEC 1970 rulings in America but before the release of the EEC 4th and 7th Directives in 1974 and 1976 respectively and before the issue of the International Accounting Standard in 1981. On a voluntary basis, Gray found that 81% of the EEC companies provided sales analysis while qualitative disclosures of segment data were made by 95% of the sample companies. Other levels of disclosure, of the equivalent type as the voluntary disclosures made in America and Australia at this time, were relatively low. Only half of the companies gave segment profit analysis and 26% gave asset analysis. Also, there was a general lack of geographical analysis by the EEC companies prior to the release of the 4th and 7th Directives and the International Accounting Standard on segment reporting.

2.3.4 Australia

Most of the literature in Australia before the 1980 AARF Discussion Paper No. 4 on segment reporting [Miller and Scott (1980)], were investigations of the voluntary disclosure practices of diversified companies.

Mirza (1971) studied seven major companies known to engage in diverse activities, but found that none disclosed operational results of segments in annual reports. There was no apparent attempt to break-up sales on the basis of geographical markets, product lines, or industry classification. These companies also provided little description of their diverse activities other than their prime activity.

In an AARF sponsored examination of the financial information in annual reports of 120 Australian public companies, Standish (1972) found that very few companies were voluntarily segmenting their consolidated results and position. Most of the reported information about divisional performance was descriptive in nature and presented in the Directors' Report. Also, there was little effort to provide quantitative data on the results and position of the company's particular divisions. Only 11 companies in the sample presented tabulated financial information about divisional performance. Several other reports gave graphical presentations of the distributions of sales revenue, but without percentages or amounts. Standish was a strong supporter for segment reporting feeling that
...companies with a diversified set of activities are likely to experience different levels of profitability for each type of activity and varying rates of change in the factors influencing profitability. Unless these matters are identified in financial reporting, the investor has no way of knowing the relative significance of each activity and the extent to which overall profitability is supported or reduced by performance of individual divisions." [Standish (1972, p.253)].

Such a statement has not only been repeated by many protagonists of segment reporting but it has formed the basis for the introduction of this type of financial reporting by countries prior to the developments in Australia.

As a preliminary to the AARF Discussion Paper No. 4 in 1980, Miller and Scott (1980) published in the Chartered Accountant of Australia results of their study of the voluntary segment disclosures made by 100 listed diversified companies in 1979. Miller and Scott strongly supported segment reporting requirements for Australia, as they felt that "highly aggregated consolidated accounts alone are insufficient to supply a reasonable view of operating results where operations have been diversified into disparate markets." (1980, p.33). At the time of this article only the companies acts of each State required disclosure in the Directors' Report of the principal activities and contributions of each group member of the corporation. Therefore, the only form of 'segmentation' at this time in Australia was on a legal entity basis. Miller and Scott contended that there was a need for "either amendments to the law or for the development of an Australian accounting standard on this topic." (1980, p.33).
The study conducted by Miller and Scott for the AARF, found that most of the segment information voluntarily disclosed in the 1979 reports of the sampled diversified companies was in a qualitative form, and presented largely (in 73% of the cases) in the Review of Operations or Manager's Review sections of the annual report. The predominate basis of segmentation was by industry classification. Only 36% of the sample voluntarily supplied any financial information on these segments additional to that required by the applicable State companies acts at the time of Miller and Scott's study. Another finding was that only 21% of the sample attempted to relate, on even a partial basis, segment data to consolidated data. This was a requirement of the State company laws existing at the time.

These findings may be contrasted with the situation in the USA before mandatory disclosures had been introduced, and also in the UK where equivalent mandatory disclosures had not even been discussed. In both of those circumstances, there were high levels of voluntary segment disclosures made by diversified companies.

A study of voluntary disclosures performed much closer to the release of the AAS 16 standard in Australia was Kelly (1987). He did not do a compliance test but instead attempted to establish associations between management's discretionary choice of disclosure of segment profit, and attributes such as company size, leverage, return on investment, industry membership, and size of the audit firm. Kelly's sample was the largest 150 publicly listed
companies on the Australian Associated Stock Exchanges as at 30 June 1984, before AAS 16 was released. Multivariate tests of the variables revealed the following four points:  
i) neither company size nor leverage was related to the incentive to disclose segment profit figures\textsuperscript{14};  
ii) companies with lower returns on investment were found to be more likely to disclose segment profit than companies with higher returns;  
iii) segment profit disclosure was influenced by industry-wide effects. That is, companies classified as 'diversified industrial and resources' were more likely to voluntarily disclose than 'mining and metals' companies; and  
iv) the size of the audit firm was not related to the segment profit disclosure decision.

In sum, Australian studies of the voluntary disclosures of segment data before the pronouncement of AAS 16 found that, there was less initiative taken by Australian companies to their counterparts in America and the United Kingdom in providing these voluntary disclosures before the release of the professional standard, SFAS 14, in America. While the proportion of companies in America and the United Kingdom to voluntary disclose at least segment sales (as revealed by the literature), was around the 60 - 70 percentile band and the 70 - 80 percentile band respectively, only 30 to 40 percent of the Australian companies sampled voluntarily disclosed segment data before

\textsuperscript{14} This finding is in contradiction to Salamon and Dhaliwal (1980), who found that larger firms voluntarily disclose segment data more readily than smaller firms; and voluntary disclosures were made if the company was attempting to attract public and investor interest.
the release of the relevant standard in Australia, AAS 16. Unfortunately the Australian literature does not reveal any studies of voluntary segment disclosures closer than seven years prior to the release of this standard. Although Kelly's research was carried out in 1984, one year before the release of AAS 16, it was an investigation of the factors that influence a company's incentives to disclose segment data rather than a compliance study of voluntary disclosures. Hence the findings of relatively low disclosures of segment data in Australia prior to the release of AAS 16 might have been disputed by a more recent study, if one had taken place.

An understanding of the development of the regulation of segment reporting in the United States of America, the United Kingdom, and Australia, can be achieved through the investigations of the voluntary disclosures of segment data made by companies before mandatory standards were released in these countries. The studies discussed have provided this information.

Despite the fact that voluntary disclosures of segment information were relatively high in the USA and UK in the 1970s, Ronen and Livnat (1981) questioned whether managerial motivations for voluntary disclosure would be high enough to ensure consistent and long term disclosure of segment data. Although Ronen and Livnat recapitulated the findings of others regarding the influence segment data have on share price fluctuations and signals to the market, their evidence was not conclusive that segment information could induce either greater shareholder wealth or
individual wealth and expected utility of financial statements. They felt that the costs of providing the information (both financial and loss of competitiveness costs) would outweigh the benefits of segment disclosures. Hence, the "net private value of managers" (1981, p.479) would be negative and managers would have no incentives to voluntarily segment report. Ronen and Livnat concluded that, mandatory segment requirements may be a way of overcoming the lack of incentive for voluntary disclosures in some cases. As they expressed it, the "potential social value of segment information might be captured through mandatory disclosure requirements." (1981, p.481).

The impact of mandatory requirements in the USA and Australia on the segment reporting practices of diversified firms will be explored below.

2.4 Research on the Influence of the Professional Pronouncements on Segment Reporting

Compliance studies were performed with abundance after the issue of SFAS 14 in America, and to a lesser extent, after AAS 16 was issued in Australia as there has been a shorter period in which to investigate the impact in Australia. In addition to tests of compliance with SFAS 14, the American literature often draws a comparison between the levels of disclosure provided by companies after the SEC 1970 ruling and the 1976 mandatory standard, SFAS 14. This American literature will be discussed before that of Australian compliance tests and that which studies
the influence of the International Accounting Standard on practice.

2.4.1 USA: The Influence of SFAS 14

In September 1975 the FASB released an exposure draft of a proposed standard which became SFAS 14. Caldwell and Ingram (1976) responded to the exposure draft with the results of a survey of 433 National Accounting Association members in 1974 and 1975 about their attitudes to the new definitions and conditions described in the exposure draft. These members held executive positions in large multisegment companies, hence would be considered by Lee and Tweedie (1974) and others to be "sophisticated" users. Caldwell and Ingram found that 50% of the management accountants "strongly agreed" with the "feasibility and desirability of many aspects of segment reporting". However, some disagreed with the required disclosures of foreign operations, export sales, and major customers. The researchers warned that care should be taken in interpreting these results, as the survey represented only one element of the accounting profession and the respondents who disagreed with FASB's disclosure requirements are as important as those that agreed with the segment reporting concept.

The following studies investigated the segment reporting practices actually performed by companies in the post-SFAS 14 period in America. Beresford & Buckner (1978) surveyed 126 large public companies' annual reports for 1977, finding that 59 companies reported industry segments
only, nine reported geographic data only, and 51 reported both geographic and industry data. This gave a large 94% of companies reporting some form of segmental data. The trend from previous years showed that on average, 26% more industry segments were reported in 1977 under SFAS 14 than under the lines-of-business criteria of the SEC rules in prior years\textsuperscript{15}. Beresford and Buckner found that overall, there was an increase in the information reported since SFAS 14, but there was no uniformity in the identification of industry or geographic segments or the allocation of corporate assets and expenses.

In March 1979 Mednick performed a similar study of 250 publicly owned US companies with a specified level of average revenue, in order to determine the extent of segment disclosure under the SFAS 14. Although a third of the sample had only one segment, the remainder disclosed an average of three segments per company, this being a larger number of segments for 25% of the companies than under the previous SEC rule.

Steedle (1983) performed a survey of the 1980 reports of 61 companies covering six industry classifications, in order to evaluate the state of compliance with SFAS 14. He found that 22% of the sample provided only financial segment data whilst other disclosures required under SFAS

\textsuperscript{15} 84% of companies reporting segments reported corporate expenses as per SFAS 14; 88% of companies reporting segments reported corporate assets as per SFAS 14. 40.5% companies presented the segmental data solely in footnotes, 12.7% presented this in a separate schedule in the financial statements by reference in footnotes, 38.9% presented segment data in both footnotes and a schedule for past segment data.
were generally made. In the area of inter-segment sales, complete disclosure for all segments of the sample companies was only made by 50% of the companies reporting industry segments and 75% of the geographically segmented companies. Overall, compliance with the mandatory standard SFAS 14 was high, but there was not full compliance. The review implied that "while firms [were] complying with the letter of SFAS 14, compliance with its spirit is uneven". [Steedle (1983, p.38)]. This unevenness appeared within the determination and definition of an individual industry or geographical segment. Steedle blamed the lack of identification within SFAS 14 of the criteria to be used when defining these segments, for the unevenness in compliance with the accounting standard. (This is further discussed in section 2.5.2 and confirmed within the Australian context by the present study).

The discussion will now consider the international accounting scene and the literature on the developments that have occurred in that arena since the release of the International Accounting Standard No. 14 (IAS 14) in 1981.

2.4.2 Internationally: The Influence of IAS 14

The International Accounting Standards Committee produced a standard on segment reporting in August 1981, to be effective for financial periods beginning on or after January 1, 1983. At the time of writing, no identifiable research has been done on the influence of this standard on actual practice, but the literature has contained
assertions of the benefits of having an International Accounting Standard on segment reporting.

Following the release of the Exposure Draft 15 by the IASC in 1979 for the establishment of an international accounting standard on segment reporting, the American Accounting Association commissioned a paper to discuss this Exposure Draft. Rappaport, Twombly and Skousen (1980) consequently, surveyed the literature on segment reporting from 1966 to 1979 then commented on the scope and purpose of the proposed standard and its requirements. They believed that this International Exposure Draft, together with SFAS 14 in America and similar documents in other countries like Canada, should "provide a thorough reference on reporting by segments for international firms." (1980, p.4). Rappaport et al. supported strongly the objective, scope, and requirements of the proposed IASC standard. Only one suggestion was made for the proposed standard, that monetary units would be more useful than percentages and should be made more explicit than presently in para. 20 of the Exposure Draft.

The level of reporting in America is now compared with the Australian scene after the installation of AAS 16 into practice in 1985, and then the application of the approved mandatory standard ASRB 1005 in 1986.

2.4.3 Australia: The Influences of AAS16 and ASRB 1005

It might be recalled from the discussion on the historical development of a standard in Australia (section 2.1), that Miller and Scott (1980), on behalf of the AARF,
provided the impetus to this formal development. Their discussion paper looked at the relevance and benefits of segment disclosures to Australian public company external reporting, and also revealed the limitations and likely objections to the installation of a mandatory standard. Possible bases for segmentation were illustrated and disclosure levels likely to be required by such a standard were described. These followed closely the SFAS 14 and CICA Section 1700 standards of America and Canada respectively.

Papers by Carnegie, Davies and Gavens (1986), Gavens and Carnegie (1988), and Goodwin and Goodwin (1987) have further claimed the value of segment reporting to Australia. These authors also performed studies of compliance with AAS 16. Carnegie et al. (1986) researched 137 Melbourne-based listed diversified companies having a balance date between March 31 and June 30 1985. This was so that these companies would be affected by AAS 16 after it was first released. Carnegie et al. found that only 27.7% of the companies examined complied fully with AAS 16, 26.3% made disclosures but did not fully comply, and 42.4% did not comply at all. For single industry companies, qualitative descriptions of their industry and geographical location — the only disclosures needed for this type of company under AAS 16 — constituted 44.5% of the sample. These writers tried to justify the possible reasons for such non-compliance but failed to see that any of the offered "excuses" were conceivable. They revealed that in 95% of the non-compliance cases, the auditor did not
qualify the reports. This situation would lead users of financial statements to "believe that the non-disclosure would have no material consequences for them" (1986, p.52), which is a paradox in light of the obligatory nature of AAS 16. Carnegie et al. then claimed that the profession needs to encourage this reporting activity.

A similar study of 1985 reports was conducted by Goodwin and Goodwin (1987), who surveyed 100 of the largest public Australian companies with balance dates on or after 31 March 1985 to determine whether the AAS 16 standard was achieving its objectives. They found that 60% of the sample supplied 'some' segmented information, with the remainder either making no mention of segment reporting or dismissing it as inapplicable to single-industry companies. AAS 16, however, requires that disclosure is made of the fact that a company only operates in one industry or geographical location. Goodwin and Goodwin also found that within this high non-compliance environment, very few companies were given qualified audit reports with some of these being exception opinions. Goodwin and Goodwin identified cases where companies did not comply with AAS 16 and were given unqualified audit reports. These writers then saw the lack of uniformity of practices and this non-compliance position as a circumstance of the difficulty of identifying segments initially -- the heart of the segment reporting issue. These results conformed with the earlier findings of Carnegie et al., that compliance with AAS 16 after its initial release was low, and that this may be due to the difficulty of defining segments.
The issue of unqualified audit reports being given to companies that did not comply fully with AAS 16 seems to be in accordance with the directives one of the 'Big 9' accountancy firms was giving their corporate clients after the release of AAS 16. This particular firm assured their clients that the audit report would not make reference to non-compliance "if there was a note to the accounts evidencing the directors' decision not to disclose segment information and acknowledging such non-compliance as being a departure from the accounting standard." 16

Gavens & Carnegie (1988) followed through with the compliance issue by surveying twelve months later the same sample of companies as utilised in Carnegie et al. (1986). They were then able to incorporate the release of ARSB 1005 in April 1986, and to test its impact with respect to the segment reporting practices of companies that were found to not comply with AAS 16 in 1985. The results showed quite an improvement in segment reporting practices over the year. For 1985 Carnegie et al. found that only 27.7% of the sample fully complied with AAS 16 whilst for 1986 Gavens and Carnegie found that 61% of 125 company sample complied fully. 'Non-disclosure' had also improved from 42.4% to 14%, indicating an improved awareness and application of AAS 16 in Australia and perhaps an influence of the issue of ASRB 1005 in April 1985 was showing in the results, even though ASRB 1005 was not effective until June 1986.

In summary, the initial lack of compliance and adoption of the 1985 accounting standard on segment reporting by large Australian companies and the recent trend toward full compliance since the ARSB 1005 statutory requirements of 1986, confirms a trend towards an improved application of this important accounting practice.

---

Some of the literature reviewed so far has been concerned with the need for segment reporting, and the benefits produced by segment reporting that are said to accrue to shareholders and other report users, and to society as a whole. Other literature has demonstrated the disclosure practices of companies prior to and after the release of the applicable accounting standard on segment reporting according to where the companies were registered. The remainder of this part of the chapter will reveal the problems that users, including the profession itself, have found with the interpretation and the use of the reports produced under the guidelines of these mandatory standards.

2.5 The Most Recognised Problems of the Current Segment Disclosure Requirements

It is only once a standard has been in practice that some of the preconceived disadvantages of segment reporting existing before the release of the standards, are manifested. These preconceived disadvantages of segment reporting, along with the actual problems with segment
reporting recognised from both academics' and users' points of views, will be discussed.

2.5.1 The Preconceived Problems with Segment Reporting

Before segment reporting was mandated in America, suggested in Australia, or considered in the UK, as the method of reporting the varying activities of diversified companies, the literature was responsive to the potential difficulties that might arise with the practical application of the concept and with the consequential after-effects of providing the additional information to users.

The preconceived problems or disadvantages of segment reporting fell into seven categories. The first was the basis of segmentation or criteria to be used in identifying the segments of a firm. Several bases were suggested, including by legal entities; by organizational structure or divisions; by individual products or services, product lines or industry; by classes of customers; or by geographical area. [Emmanuel and Garrod (1987); Mirza (1971, 1982)]. Fraser (1971) further saw that segments could be selected on an economic basis, that is, on the basis of their rates of profitability, degrees of risk, or growth potential. This implies the creation of segments after their contribution to the company is known. This is a somewhat paradoxical arrangement which appears to beg the question, would such a basis of segmentation have any identification with the objectives of the firm's activities? Although Fraser believed that this method
would assist in providing more accurate forecasts of profits by users, it may not have any connection with the structure of the organization.

Even before the establishment of standards on segment reporting, academics were concerned about this issue of segmentation and the link with organizational structure. In the United Kingdom, where an exposure draft on segment reporting had taken until 1987 to be produced, companies were voluntarily disclosing segmented data in various formats. [Emmanuel and Gray (1977a, 1978)]. Both studies by Emmanuel and Gray found an overall inconsistency between the disclosures of segment data and the information about the company's organizational structure. Although voluntary disclosure by industry or product line or organizational lines were the most popular bases of segmentation, in most cases it was not possible to identify the organizational structures of the sampled companies by their segment disclosures. Emmanuel and Gray then promoted the identification of reportable segments by an "external yardstick", such as the Standard Industry Classification system. This yardstick would ensure verification and comparability; and the addition of an "internal yardstick" would ensure a more plausible, relevant and material interpretation of segment reporting by users. The objective here was for the development of "guidelines which will provide useful and reliable information for interested users but without constraining corporate managers by the imposition of a rigid and arbitrary set of rules."

[Emmanuel and Gray (1977a, p.50)].
The second preconceived problem of segment reporting was the allocation of common costs and revenues between the segments. Costs are often incurred by the organization as a whole (such as administrative costs, audit costs, council rates, and electricity) and would need to be allocated among the identified segments for a true reflection of the operating result of those segments. The problem arises in practice two ways. Firstly, the method of allocation to be used; and secondly, the relevance of these figures to segments that are identified on a basis that does not correlate to organizational structures or management responsibilities. Mirza (1982) and Roederer (1977) believe that common cost allocations are subject to manipulation and inconsistencies with major misinterpretations as a consequence. Fraser (1971) contended that allocations must be made arbitrarily, as the method used will have a significant effect on the profit reporting by any segment. He felt that this problem could be overcome by reporting only down to the level of a segment's contribution margin. This would involve charging as costs only those that are directly related to a particular segment and deducting the unallocated costs from the aggregate of the contribution margins to arrive at the total net profit of the business. This argument implies that segments may need to be identified on the basis of whether costs can be arbitrarily allocated to them. Such a situation would arise under segmentation based on managerial organization, product line, or geographical area.
The other preconceived problems or disadvantages of segment reporting discussed in the literature relate to the following five aspects: i) the method of pricing intersegment transfers; ii) the basis for allocating commonly used assets to different segments; iii) the oversaturation of information to users; iv) the problem of divulging confidential information to competitors; and v) the actual added costs of keeping the records necessary for segment disclosures.

The first two of these problems are matters of concern for the accountant and management who have to perform the segmentation of their company for reporting purposes. Mirza (1982) saw the solution of the inter-segment pricing problem as reducing the number of transfers between segments. This may not be possible for a highly integrated firm that has, for instance, markets of its products as geographical segments located in another area. Regardless of the number of transfers made between segments, the basis used for inter-segment transfer pricing must be arbitrary and consistently applied, otherwise "misinterpretations of segment data may result". [Roederer (1977, p.339)].

With regards to oversaturation of information, Mautz (1968) stated that utility of segment reporting would be reached at a point when the number of segments reported was a maximum of twelve. A user's conceptual level of understanding of the annual report varies with that user's
perceived complexity of the report\textsuperscript{17}.

The final preconceived problem of segment reporting to be discussed is the 'fear' that the costs of providing the data, of identifying the segments initially and maintaining the necessary records of segment activities and results, will outweigh any benefits derived from segmenting a diversified firm. [Fraser (1971)]. This problem has been argued down by Gray (1981) and MacDonald (1986). Gray proposed that the type of information that might be reported about a company's segments would be already generated through the firm's internal management reports. That is, segmentation on the basis of organizational structures and managerial responsibilities are a natural by-product of the internal accounting system. The provision of another set of reports for external use would be a "ridiculous" situation according to MacDonald (1986, p.43). On the point of divulging confidential information to competitors, management need to decide how much of the information already generated by the internal system should be disclosed to shareholders and other users. If the company "makes public too much, it may assist the competition more than it benefits shareholders. On the

\textsuperscript{17} Revsine (1970) looked at information overload in general and the user's conceptual structure, in order to determine if it is necessary to increase the amount of information disclosed in order to satisfy user needs. The more complex the environment (the financial reports) becomes the more sophisticated or "abstract" the decision models of the user also become. But this occurs only in small degrees, as an information "overload" arises when the decision models reach a certain point in the environment's complexity and in the user's conceptual structure or perceptions. Therefore, increased disclosures contradict the "usefulness" objective of financial reporting.
other hand, if it gives away too little, then the objective of giving shareholders more useful information may not be achieved." [MacDonald (1987, p.43)].

The discussion will now proceed to discover how useful users have found segment reporting to be, under the disclosure requirement of the USA and the Australian standards.

2.5.2 The Most Recognised Problem with the Segment Reporting Accounting Standards -- Segment Identification

Of all the disadvantages and problems of segment reporting discussed in the literature, the most frequently referred to problem is that of segment identification and the ultimate usefulness of segment reporting to readers of those reports. The concerns of academics and users about the actual disclosures made by companies under SFAS 14 in USA or AAS 16 in Australia have been directed at this one point of segment identification. These concerns are discussed herewith.

Problems with SFAS 14. Emmanuel & Gray (1977a) questioned the principle of the statement, claiming that it was "arbitrarily prescriptive and complex" in approach, contained "confusing and inconsistent aspects" and was "relatively inflexible" (1977a, p.461). According to Emmanuel and Gray, the fundamentally weak structure of SFAS 14 will lead to "meaningless" information (1977a, p.416). These fundamental weaknesses are summarized below.
(i) SFAS 14 permits managerial discretion in the initial area of identification of industry and geographic segments.

(ii) The definition of a profit centre requires the centre to sell "primarily" to outside markets -- "primarily" is open to interpretation.

(iii) There is no consideration for the degree of control and responsibility held by lower management in departments when identifying segments. Pseudo profit centres could be reported as a segment because they meet the 10% sales criterion.

(iv) Inter-segment sales are included in total revenue of segments for the identification of reportable segments, yet they are excluded when determining the identification of additional segments in order to meet the 75% rule of total reportable segments' proportion of total operations. Emmanuel & Gray suggest that external revenue of segments should be greater than internal revenues and that total external revenues of all segments should be greater than 75% of the company's total external revenues.

(v) The definition of what is a "reasonable basis" for allocation of common costs is not provided.

The first and third of these weaknesses are given most attention in the literature. These hinge on the entire issue of 'usefulness' of financial reporting. If segment
reports are not relevant to users' needs, lack understandability, materiality or objectiveness, then this small section of the financial reports cannot be considered useful to users' needs. Gray (1981) questioned the usefulness of segment reporting under the existing disclosure requirements in the USA, the EEC, and the UK. Overall, he found that these pronouncements lacked a definition for "Classes of Business" and "segment bases" to be used when identifying segments. Gray proposed that some form of industry standard classification would be a useful basis of segmentation, instead of managerial discretion being permitted on this matter.\(^{18}\)

Compliance tests performed after the issue of SFAS 14 found that, although there was an increase in the information reported since the introduction of the standard, there was no uniformity in the identification of industry or geographical segments (or in the allocation of corporate assets and costs). [Beresford and Buchner (1978)]. This situation arose because of the problems inherent in SFAS 14:

"...the accounting profession has not sufficiently restricted the judgements made in defining the segments. In addition, it has not sought to attain uniformity of segment definitions among companies of the same industry..." [O'Donnell (1986, p.15)].

---

\(^{18}\) Emmanuel and Gray (1978) had also proposed the use of an external yardstick, such as the SIC system, for identification of segments. The existing accounting standards fail to provide meaningful guidelines on this issue, guidelines which would prevent inconsistencies of segmentation across companies.
The literature discussed above has been generated by academics concerned that the accounting standards on segment reporting maintain their stated objectives, viz. assisting users of financial reports of diversified companies with their investment and other economic decision-making activities. It is now worthwhile reviewing the literature on segment reporting which investigated the user's view of the usefulness of segment reporting -- as it was in America after SFAS 14 was released and put into practice by diversified companies.

The User's View. Users are unable, according to O'Donnell (1986), to extract relevant information for their investment decisions from financial statements in their present form. The problem does not only exist in segment reports, but also in inventory accounting, lease accounting, and consolidation practices. Users are confronted with reports that are prepared under a variety of different methods, all legitimately based on the alternative methods provided in accounting standards. "The inadequacies of financial statements require that users employ a variety of imperfect devices to adjust them and render them more meaningful." [O'Donnell (1986, p.18)].

Looking specifically at the research of the user's view of segment reporting, it is evident that the most frequently interviewed 'sophisticated user' is the financial analyst. The analysts sampled by Steedle (1983) felt that the segment reporting disclosure requirements of SFAS 14 are fair and reasonable and allow them to better
evaluate performance than consolidated data. This preference for segment data was because "the nature of the data disclosed allows [analysts] to perform additional corporate analysis and evaluation and permits them more time for this analysis since less time is required for collection..." (1983, p.41) of these data. Industry data, sales and operating profit were considered the most useful to analysts of all the segment data. Despite this degree of satisfaction with something that is better than consolidated data, the analysts required that more adequate definitions of segments and the disclosure of more segments were needed to be made a part of the standard practice of segment reporting. Only about half of the sample agreed that management should be allowed to define its own segment breakdowns as SFAS 14 suggests. The frequency of reporting was also preferred by the sample of financial analysts to be at quarterly intervals rather than annual. Therefore, according to this group of sophisticated report users, segment reporting can be improved from its present form by i) more adequately defining segments, ii) increasing the extent of disclosures, and iii) changing the frequency of disclosure to quarterly intervals.

The Steedle findings were confirmed in 1987. Emmanuel and Garrod (1987) interviewed 16 financial analysts in the UK to determine what use they make of segment reports. About one third felt that between 10 and 40 percent of the companies they analyze attempt to disguise the performance of some business parts. There was an overall complaint by the users, of the lack of consistency between the segment
report data and the comments in the Chairman's Report and other data in the annual report which relates to different activities of the business. Users felt 'consistency' in reporting enabled them to relate all parts of the annual report which referred to segmentation, to each other. On the other hand, Emmanuel and Garrod interviewed the preparers of the segment reports and found that 'consistency' to them, meant maintaining the same segments over time so that analysis can have meaning. None of the preparers perceived that they had mismatched segment information with the reality of the company's operations. They also did not believe that further disaggregation would provide benefits to the firm. In fact, the sampled company accountants felt that further disaggregation would be harmful, both internally and externally, to the company.

Therefore the literature has shown that users prefer more detailed breakdowns of companies by activity and geographical area, but there is a concern that there exists an incompatibility between the report users and report preparers. This incompatibility relates to the inconsistency between the segment disclosures and other data in the annual report on the separate activities of the business.

19. The companies interviewed used a variety of different bases for segmentation: organizational structure, product markets served, and industry classifications. The number of segments reported varied from 2 to 9. The identification criteria based on segment turnover to group turnover varied from 3.5% to 29%. Remember the UK did not have a professional standard similar to SFAS 14 or AAS 16 which pose a 10% identification criterion here. Companies in the UK however, were voluntarily disclosing segment data in various formats on quite a high percentage.
To overcome this problem of inconsistency, Emmanuel and Garrod (1987) proposed that segment data be presented in a matrix format, showing management structure in rows, and the location of products and markets served in columns, with the relevant financial data inserted therein. Qualitative data disclosed in the Directors' Report and elsewhere in the report would then link up with the quantitative data in the segment report section, to give users a clearer perspective of each segment. "By following the management structure, the segment report and internal accounting reports presumably coincide." [Emmanuel and Garrod (1987, p.239)].

This problem of segment identification, which can cause a mismatch between the different parts of the annual report, has also been discovered in the reports produced under the Australian accounting standard AAS 16. The literature in this area will now be discussed.

Problems with AAS 16. AAS 16 adopted many of the concepts of SFAS 14, so it also adopted many of the problems discovered with this American standard. Interpretations of 'industry' and 'geographical' segments, varying levels of disclosure adopted in practice, and the lack of uniformity in these disclosures are some of these problems20. Wise and Wise (1986) were fearful that users will want to make comparisons between segments of different companies operating within the same industry, although AAS 16 (specifically, para. 4) was not designed to provide such

comparisons. The segment data disclosed under the Australian standard cannot allow comparisons between companies as no definite means of segmentation is offered by the standard. Subjective identification and allocations of expenses and the pricing of inter-segment transfers are a part of the process of segmenting consolidated data. The information to be disclosed under AAS 16 will then be, according to Wise and Wise (1986, p.15), "misleading and meaningless". More specific problems with AAS 16 seen by these writers are as follows:

(i) AAS 16 excludes shares of profits from equity accounted investments (although SFAS 14 requires this to be reported), but assets of segments must include these investments in associated companies.

(ii) AAS 16 excludes interest expense and tax from the segment expenses used in the calculation of 'segment result'.

(iii) AAS 16 excludes segment liabilities which does not allow net investment of a segment to be determined.

Matching these criticisms, MacDonald (1986) also questioned whether the compliance by companies with this new accounting standard does actually achieve its objective of providing additional information which will enable shareholders to make more informed investment decisions. MacDonald's argument was that the minimal disclosure requirements of AAS 16 achieves nothing new, that the more naive shareholder might be "persuaded that segment
reporting does give additional useful information", while the "astute shareholders will be aware that information with respect to net profit per segment is dangerously misleading.." [MacDonald (1986, p.42)]. The standard, MacDonald claims, does not really provide better information to shareholders than the consolidated data, because it does not give enough direction on the basis of defining segments, allocating costs, and other matters. MacDonald complained that the segments are not defined at the lowest building block of the organization. It is at this level that management want reports for the planning and control of the organization, so perhaps segments should be defined at this point. This raises another issue, how can the competing needs of two user groups, namely, internal management and external shareholders, be satisfied by the one type of segment report? Macdonald was one writer who believed that giving too little information to shareholders is pointless, yet providing an information overload through the supply of the managerial internal control reports on segments to external users is also unsatisfactory. It is unsatisfactory, not only for shareholders themselves, but also for the company by the fact that these internal control reports may assist the competition.

---

These are some of the previously discussed preconceived problems of segment reporting per se. They become more evident once an accounting standard has been issued and applied in practice. In sum, the many problems
with SFAS 14 and AAS 16, discussed above, stem from the initial dilemma of segment identification. All the subsidiary problems of cost allocation, joint asset allocation, administrative costs of producing the information and inconsistencies between segment data and the remainder of the annual report relate to this initial problem. The Goodwin and Goodwin (1987) study of the disclosure practices of Australian companies after the release of AAS 16, found that there were many cases of anomalies between the proprietary structure of the companies and the segments reported. Segment identification by one company in an industry may be quite different from an equivalently sized company in the same industry. These findings are also supported by the present research of selected Australian companies reporting in 1985, 1986, and 1987 (see Results Chapter, section 5.1.6 and the Conclusions and Recommendations Chapter, section 6.2.1 for the implications of this problem for the standard setting bodies).

Perhaps the solution was supplied years ago by Solomons (1968), well before any of the standards were produced on segment reporting. Solomons' suggestions would overcome the problems of identifying segments, and of providing compatibility between the qualitative sections of the annual report and the financial statements, and would reduce the extrinsic costs of maintaining records for segment data. If internally generated management accounting reports are the
"best that management can produce to guide their own decisions, then there is an initial presumption that the same statements, or less detailed versions of them, are likely to best serve the investor in making his investment or dis-investment decisions."

This point is worth keeping in mind when reading the results of the shareholders' questionnaire in Chapter 5. There, it will be discovered that the sampled shareholders identified inconsistencies between the segment data reported in the financial statements and the qualitative information on segments presented in the Directors' Report.

The discussion to follow in this section of the current chapter will contrast and compare the present study with previous studies on segment reporting.

2.6 How the Present Study Differs from Previous Works on Segment Reporting

The literature on AAS 16 and the influence of it on the reporting practices of Australian public companies is relatively new. The works described above have only identified the problems perceived with AAS 16 through conceptual appraisal by academics. Work has not been performed on how users perceive segment data and whether it has improved, or provided extra relevant information for, users' needs. The present study has taken a specific user group in a specific situation and tried to determine if this specific user is any 'better off' by the provision of segment reporting. The particular situation in question is
the environment after a takeover of another reporting
tentity has been completed and the two reports are reduced
to the one annual report. The matter of concern is that
shareholders in the post-takeover period are not being
supplied with information that will substitute for the more
detailed reports that existed in the pre-takeover period.
It is anticipated that the target company of "all but giant
acquisitions [will] be conveniently grouped within the
existing reporting segments." [Emmanuel and Garrod (1987,
p.237)]. Due to the nature of segment reporting itself
under AAS 16, and the problems recognised in the
literature, segment reporting cannot provide shareholders
with the same level of 'utility' with the post-takeover
annual report as enjoyed by the provision of the pre-
takeover independent target company annual report.

This chapter has discussed the literature relevant to
the segment reporting issue covered by the present study.
Matters discussed were the historical development of an
accounting standard on segment reporting in the major
English speaking countries; and the perceived ability of
segment reports to help improve financial statement users'
prediction and forecasting abilities, their assessment of
company risk, and their evaluations of internal controls
and the success of management's acquisition policies and
general utilization of resources. Also, it was revealed
that the majority of the empirical research identified on
the issue of segment reporting has studied the levels of
voluntary disclosures before the release of authoritative
pronouncements on segment reporting in the USA and Australia, and then also studied the level of compliance with the pronouncements after they had become operative.

As the objective of the present research is to investigate the ability of segment reports to overcome the information loss experienced by shareholders as a result of a takeover, the next chapter will discuss the identified literature on corporate takeovers. Most of this literature has been directed at the issue of whether or not takeovers create wealth for the participants in the acquisition. Hence it will become obvious that the matters of financial reporting, particularly segment reporting, and corporate takeovers have not been studied in conjunction before.
CHAPTER 3

CORPORATE TAKEOVERS AND FINANCIAL REPORTING CONCEPTS

This chapter presents an overview of the literature on takeovers and reveals a gap in the studies that relate to the impact of takeovers on financial reporting and the user utility of the financial reporting end-product of the newly expanded group created by a takeover. It is necessary to provide a general discussion of takeovers as a background to understanding the more specific objects of this research. The resulting discussion consists of three parts. The discussion of the literature will firstly, look at what factors influence the success of a takeover bid; secondly, whether or not takeovers create wealth and synergies; and finally, the importance of financial reporting after a takeover.

The identified literature on takeovers and also mergers, is chiefly directed at the economic aspects of these activities rather than their impact on financial reporting. Such aspects as, what factors influence the success of a bid, whether or not takeovers improve shareholder wealth, improve corporate efficiency and create synergies in the economy, are commonly discussed in the literature. A synergy is a situation when the outcome of an event produces benefits greater than achieved before the event took place. With respect to takeovers, synergies
could arise whereby the total revenue, profit, assets, return on capital et cetera, of the combined group exceeds the sum of the two individual companies before the takeover. Most of the research has convincingly shown such synergies are created through the takeover and merger sequence of events. This conclusion is drawn from the study of shareholder wealth before and after a takeover bid or merger takes place. If shareholder wealth of either or both of the companies has improved as a result of the takeover, then synergy is said to be created. On the other hand, some studies have condemned takeover action, believing it to be harmful for the economy, and hence, argue that controls should be established to restrict the actions of the 'corporate raider'.

Although most studies have been published in the USA, there is however recent literature published in Australia that could be identified in this area. Two generalizations may be made about the literature concerned. Firstly, in addition to providing a data base of takeover activity in Australia since the early 1970's, the published studies have also emphasised the 'worthiness' of takeovers in general. In this context, 'worthiness' is taken to mean the positive benefits that accrue to the newly expanded group and to the shareholders of the participating companies as a result of a takeover.

Secondly, very few studies have investigated the impact of takeovers on financial reporting per se and user utility of the financial reports produced after a takeover. The present study is not concerned with the mechanics of
compiling group accounts but with the financial reports emanating subsequently. It is recognised that there has been a separate body of research into consolidation accounting and the vexing problem of accounting for goodwill on consolidation. However, no mention will be made here of the vast amount of literature on consolidation and goodwill. The discussion concentrates on those aspects of the financial reports more directly related to identifying the financial attribute of identifiable segments of the corporate group, and how these are related with takeover activity.

3.1 Factors that Influence the Success of a Takeover Bid

There are five factors that have been identified as considered to improve the likelihood of a takeover bid succeeding. Hubbard (1987) performed a study of 241 bids in the period of 1979 - 1981. These bids revealed an overall success rate of 53.5%. He recognised firstly, that the form of consideration offered by the bid can influence its success. If the consideration provided a choice of cash or shares, or offered a mixture of both, then there was a greater chance that a bid with these considerations would succeed than would a bid with cash only, or shares only, as its consideration. The possible reason for this is the type of shareholder in the sample studied by Hubbard. Shareholders that are inherently investors in the stock market, as opposed to government security or
institutional investors, would prefer to retain some shareholding in the bidder company and at the same time receive an immediate monetary gain made possible through the takeover offer.

Although it has also been posited that the size of the premium in the bid consideration may be a factor in the outcome of a bid, McDougall (1974) did not find a clear relationship. He concluded that other factors, such as directors' recommendations, are more influential than the bid premium on the outcome of a bid. The support of the bid by the directors of the target company\(^1\) was considered also by Hubbard (1987) to have a major impact on the bid's outcome. Hubbard's study showed that 79.6% of the recommended bids were successful and that 91.2% of the opposed bids were unsuccessful. Although recommended bids may also be unsuccessful and opposed bids may prove to be successful, the trend was clear that, a takeover bid recommended by the target directors had more chance of being successful than a bid which is not recommended or had been opposed. This pattern of response may have some hidden causes. These may include 'interlocking boards' where a director of the target may also be a director of the acquirer. Hubbard found that the chance of success of a bid improved if there were interlocking boards. However, the existence of a bid that has both the target directors' recommendation and interlocking boards, does not

---

\(^1\) Studies refer to the company that is bid for control as 'offeree', 'acquired company' or 'target'. The study will refer to this company throughout as the 'target'.
significantly improve the chance of success of these bids over bids that did not contain interlocking boards. Hence, although interlocking boards can influence the success of a bid, the predominate factor is considered in the literature to be the recommendations made by the target directors.

Another factor influencing the success of a takeover bid is the degree of movement of the price of the target's shares during the bid offer period. There is evidence that a target's share price will rise upon announcement of a takeover bid or merger and that this rise is maintained during and after the bid is completed\(^2\). Samuelson and Rosenthal (1986) and several others have reported that the higher the relative price of the target's shares during a bid offer period (compared with the price of the shares before the bid was announced), the greater the chance of the success of the bid. They also said that the current price of these shares during the offer period is representative of the final price of the target's shares at the conclusion of the takeover.

Evidence that the chance of the success of a takeover improves if there is a rival bid is provided by studying instances where targets have had a takeover bid contested by a rival bid. Hubbard's study included 29 targets experiencing rival bids, and found that 69% of these were successful. This compared favourably with 53.5% of Hubbard's entire sample of takeovers being successful.

\(^2\) See Asquith (1983); Bradley, Desai and Kim (1983 revised 1987); Dodd (1976, 1980); Bishop, Dodd and Officer (1987); Dodd and Officer (1986); Dodd and Ruback (1977); Jensen and Ruback (1983) as examples of the studies in this area.
Other studies have investigated the upward movement of the target's share price as a second and higher takeover bid is made for their shares. These undertakings are discussed later in section 3.2.1.

The final factor that has an influence, although only slight, on the outcome of a takeover bid, is the industry relationship of the target and acquirer. Hubbard again found that bids for companies within the same industry have a slightly higher chance of success than bids for companies outside the industry of the acquirer. This is supported by the present study. This enquiry provides a segregation of the takeover sample according to the type of takeover undertaken, which is similar in concept to the segregation by industry relationship of the companies involved. It can be observed that the sample of successful takeovers contains slightly more 'horizontal' takeovers than 'diversified' takeovers. This supports Hubbard's finding that a bid is more likely to succeed if it is for a company that is in the same industry classification as that of the acquirer.

The sample of takeovers selected in the present study constitutes successful takeovers, on the basis that the acquirers achieved control of 50% or more of the ordinary share capital of the target company. The nature of the study was not to investigate the factors causing the bid to succeed, but rather, the effects of these takeovers subsequently on the market for and the use of accounting information that is generated after the takeover in the normal process of producing annual reports. The factors of
bid consideration and premium were therefore not a part of the investigation and the movement of the price of the target shares during the bid period were not followed. However, identification of the proportion of takeovers that were recommended by the target directors was an outcome of the investigations. It was found that 37% of these successful takeovers had been recommended by the target directors and only 4% were rejected and proceeded to a second or Part C offer by the acquirer. In the case of competing bids, only the latest or successful bids were studied. The earlier bids, which may have been either out-bidded, withdrawn, or rejected and failed, were not considered as part of the initial sample of successful takeovers.

---

The next section discusses the literature that supports the hypothesis that takeovers create synergies, especially in relation to shareholder wealth. The findings of this type of research — although mathematically and economically based — will provide a contrasting background and paradox to the findings of the present study.

3.2 Takeovers Create Synergies and Wealth

Studies that try to measure the degree of wealth creation resulting from takeover activity use shareholder returns as the yardstick of this wealth. Specifically, wealth is said to be created if the shareholders of the target or acquirer experience significant abnormal returns
on the shares held. Abnormal returns are measured by the difference between actual and expected share returns\(^3\).

The studies that measured positive abnormal returns for either the target or acquirer shareholders have been based on the premise that managers are seeking to perform their stewardship role by maximizing shareholder wealth through the management of the company's resources. Takeovers are then seen as providing the "competition among managerial teams for the rights to manage resources [which] limits divergence from shareholder wealth maximization by managers and provides the mechanism through which economies of scale or other synergies available from combining or reorganizing control and management of corporate resources are realized." [Jensen and Ruback (1983, p.6)].

The first of this type of research to be discussed are studies which reveal that takeovers create wealth for the target company shareholders. This will be followed by a review of the literature which is not consistent in its findings about wealth accruing to the acquirer shareholders in the short term after a takeover.

3.2.1 Wealth and the Target Shareholders

Studies have indicated that targets of successful takeovers and mergers realize quite substantial and statistically significant increases in their share prices around the time of the takeover bid announcement and up until the completion of the offer. The abnormal returns to the target company shares, a month before the announcement

---

3. Jensen and Ruback (1983, p.9). The expected return is measured conditional on the realised return on the market index which takes into account market-wide events on returns of individual shares.
of a takeover or merger bid, are usually positive even though the company may have been experiencing abnormally poor levels of performance up to two years before an offer\textsuperscript{4}. The range in the abnormal returns discovered by these studies of Australian takeovers and North American tender offers\textsuperscript{5} and mergers in the periods of 1962 - 1980, is 7.5\%, varying from positive 13.30\% to positive 21.78\% abnormal returns. Clearly it seems that the market embeds anticipations of a takeover offer into the share price of the target company as soon as the news of a bid reaches the market. This confirms the efficient market hypothesis\textsuperscript{6}.

During the offer period (which varied considerably in the studies reviewed), shareholders of the target experienced positive abnormal returns up to 34\%. The offer period referred to in these studies was the time from the public announcement of the offer to a nominated number of days proceeding from this announcement date. Dodd (1980) studied the abnormal returns of shareholders of successful mergers between 1970 and 1977 in the USA, and found that these returns were significantly positive at 33.96\% in the period of 10 days before an announcement of the merger to 10 days after the approval of the merger. Bradley (1980)

\textsuperscript{4} Asquith (1983); Asquith, Bruner and Mullins (1983); Dodd (1976, 1980); Malatesta (1983).

\textsuperscript{5} Tender offers are offers to buy shares directly to target shareholders who decide individually whether to tender their shares for sale to the bidding firm. In the present literature review, unless distinguished otherwise, they will be collectively referred to as 'takeovers'.

\textsuperscript{6} See Ball and Brown (1968) for insight into the efficient market hypothesis.
found similar results around 20 days before and after the announcement of a takeover for the shares of target companies in the 1962 - 1977 period. A more recent study by Bradley, Desai and Kim (1982) of 697 tender offers between 1962 and 1980 confirmed that target shareholders experience abnormal returns as high as positive 32% in the period of 10 days before to 20 days after the announcement of a successful takeover.\(^7\)

From a long term perspective of shareholder wealth, Bradley, Desai and Kim (1982) and Dodd and Officer (1986) found that target shareholders experience a "permanent revaluation" of their shares when the resources of the target are combined with those of an acquirer. This supports the 'synergy hypothesis' of takeovers. It should be noted that the possibility of earning permanent revaluations on a long term for the target implies that the takeover does not involve the full 100% of the target's shares and that the target still operates as a separate entity, although more than 50% voting control had passed to the acquirer in these 'successful' takeovers.

Some of the studies mentioned above have also investigated the abnormal returns experienced by the target shareholders in unsuccessful takeover attempts. On average the findings were similar to those of the successful offers around the announcement period. The abnormal returns

---

7. Other studies to support this finding of positive abnormal returns for shareholders of the target in the announcement period are Asquith, Bruner and Mullins (1983); Eckbo (1983); and Dodd and Ruback (1977). These abnormal returns ranged from +14% to +20.5% in these studies.
remain high until the outcome of the bid is known. If the outcome is a failure, then the price of the target shares will fall back to the pre-offer level; however, if a second bid is received within five years, the target share price will experience an additional significant positive revaluation [Bradley et al. (1982)].

The next section will reveal the findings in the literature about the wealth gains or losses experienced by acquirer shareholders during a takeover offer period.

3.2.2 Wealth and the Acquirer Shareholders

The market-based takeover studies have based their investigation of wealth gain to acquirer shareholders on the abnormal share price returns. The returns were also measured in the three time frames of, before the offer announcement, around the announcement date, and after the outcome of the offer.

The pre-announcement studies have shown that the acquirer, like the target, experiences positive abnormal returns. The magnitudes of these returns, however, are not as large as those of the target shareholders' returns, averaging +1.34% for all the studies identified.

During the offer period, which is taken as 20 days before the announcement through to 20 days after the announcement by most of the studies, the acquirer earns slightly higher positive abnormal returns than in the pre-

announcement period. An average of +3.35% was discovered by the studies measuring the returns in this time frame.9

Perhaps the most relevant period to investigate abnormal shareholder returns for the acquirer is the post-outcome period. All of the studies that measured the abnormal returns of the acquirer in this time period found that small negative abnormal returns were experienced. These ranged from -1.32% to -7.20%.10 Dodd (1976) studied the 48 months after the announcement date for 268 Australian takeovers in the 1960 – 1970 period and discovered that the persistent abnormal negative behaviour of securities of the acquirer after a takeover was in contrast to the efficient market hypothesis. "Any gains arising from the merger were won by the acquired firm at the expense of the acquiring firms." [Dodd (1976, p.24)]. Bradley, Desai and Kim (1987) also showed that while the rate of return and dollar gains to target shareholders were increasing over time, the returns to acquirer shareholders were declining. In particular, these writers found that

9. Bradley (1980; Bradley, Desai and Kim (1982); Dodd and Ruback (1977); Eckbo (1983). On the contrary, Dodd (1980) investigated the returns of target and acquirer shareholders in a merger, showing that while the target shareholders earned +34% 10 days after the approval of the merger, the acquirer shareholders experienced a cumulative negative abnormal return of -7.22% over this period.

10. See Dodd and Ruback (1977), up to 12 months after an announcement, the acquirer earned -1.32% abnormal returns; Asquith (1983) found that up to 240 days after the outcome date of a merger, the acquirer shareholders earned -7.20%; Malatesta (1983) found that up to 12 months after the approval of a merger, the acquirer shareholders earned -2.90% abnormal returns.
acquirers suffered abnormal losses in the 1981 - 1984 period of their study.

These results are inconsistent with both the efficient market hypothesis and the synergy hypothesis. The efficient market hypothesis relies on the timely adjustment by the market of share prices to factors that effect the market. Takeovers, according to this hypothesis, should result in the reflection of the 'true value' of the participating companies in their share prices soon after information is leaked to the market about a takeover. The synergy hypothesis, discussed earlier, implies that takeovers create wealth to the economy and to the players of the takeover. The views of Jensen and Ruback (1983) and others that support these theories are disputed by the results of these last studies on the post-outcome abnormal returns of the acquirer companies. The supporters of synergy and efficient market hypotheses believe that the large abnormal returns experienced by the target companies after the takeover or merger outweigh the negative returns of the acquirer to create an overall synergy for the takeover.

These studies are obviously ignorant of the long term effects of takeovers, both on the acquirer shareholder returns and on the economic, socio-political, and accounting aspects of the business world. It has been said, that the market based argument that shareholders benefit from takeovers "confuses the transient stock market prices with long term values. A corporation represents far more than its current stock price; it embodies obligations
to employees, customers, suppliers and communities." [Saul (1985, p.20)]. It could be suggested that the observation of the fulfilment of these obligations is made through the financial reports of the corporation. After a corporate acquisition has been completed, the audience of the financial reports, which includes employees, customers, suppliers, the community and investing shareholders, are owed the obligation of being provided with financial reports that portray the financial results of the acquisition. Therefore, the 'worthiness' of a takeover cannot be measured solely in terms of increases to shareholder wealth; utility of the financial reports subsequent to the takeover are also important measures of takeover worthiness. This is the issue addressed by the present research.

---

The discussion of the literature on takeovers will now turn to those writings that claim takeovers do not create wealth and they therefore advocate what should be done to prevent harmful corporate 'raiders'.

3.3 Takeovers Do Not Create Wealth

Although some of the studies discussed above state that takeovers create synergies through the abnormal returns experienced by target shareholders, they also claim that these gains have come "at the expense of the acquiring firm shareholders."\(^{11}\) The source of the synergy then, is

\(^{11}\) Bradley, Desai and Kim (1987, p.45) and Dodd (1976, p.15).
unique to the target firms and not the acquirer. [Asquith (1983,p.67)]. It is equally, if not more pertinent, to be aware of the returns to the acquirer shareholders than of the returns to the target shareholders subsequent to a takeover, as it is the acquirer that continues to operate as an expanded group in a successful takeover. A successful takeover results in the acquisition of control of over 50% of the target's shares which puts the newly formed corporate group in the position of being required by the accounting profession to prepare consolidated and segment reports. Users of these reports would be interested in knowing the returns on the acquirer's shares as well as being given information on the target's integration into the operations of the acquirer. This information may be readily identifiable from the segment reports if the target is reported as a separate industry or geographical segment of the acquirer. The operations and results of the target would not be so readily identifiable if the acquirer incorporates the target into existing segments. In such a situation it could be said that the takeover does not create 'wealth' from the point of view of the user of the financial reports.

Roll (1986) introduced a new hypothesis for corporate takeovers and wealth creation. His hypothesis presumed that there will be a non-positive return or loss to the combined target and acquirer from a takeover, as the average increase in the target's market price would be offset by an average decrease in the value of the bidding firm. This is in direct opposition to the market-based
studies discussed earlier, which had found the positive returns to the target shareholders to be large enough in all cases to outweigh the negative returns to the acquirer shareholders. At present there is no empirical support for Roll's "hubris" hypothesis, hence there is a need for further research into the market effects of takeovers in order to confirm or disprove Roll's hypothesis.

Other studies which claim that takeovers do not create wealth are socio-economic based undertakings. The consequences of takeovers in terms of social and economic factors have been discussed by Saul (1985) and Drucker (1986). These writers are both concerned that because takeovers involve larger and larger corporations, they can leave the acquirer heavily burdened with debt. Huge amounts of cash are usually required for the large takeovers of today, so the heavier reliance upon loans puts the debt-equity ratios of the 'survivor' companies of takeovers in a deteriorating position. Higher debt burdens may then "handicap the ability of the company in making further investments." [Saul (1985, p.20)]. Cash flows of the company tend to get dedicated to the satisfaction of the debt rather than to investment and growth. Saul goes on to say that an acquirer which is reducing its equity base in favour of debt may resort to selling undervalued assets of the target in order to secure cash inflows to service the debt. In such a situation the acquirer's credit rating may then cause the downgrading of the subsidiary just acquired through the takeover.
From the point of view of management, takeovers force managements to make decisions in haste\(^\text{12}\). Often long term strategic planning is put aside for the resolution of the more immediate situation facing the company during a takeover bid. If management is not fully proficient in the takeover defence or acquisition arenas, outside professional specialists in takeovers and mergers can be commissioned to devise strategies relevant to the case at hand. Saul (1985) is wary of the reliance placed upon outside specialists (such as investment banks and law firms) and the competitive pressures that now exist for their resources in a world of turbulent takeover activity. He says that this competitive pressure may result in takeover and merger proposals that "cater to the vanity and insecurity of corporate managers more than they aid in the execution of well-planned strategies." [Saul (1985, p.20)]. Here the argument is that managers on both sides of the takeover are so inherently concerned with their own well-being, such as promotion, security, and power, that employee and shareholder wealth and other corporate strategies may get pushed aside. For more insight into this concept known as 'agency theory', Jensen and Meckling (1976), Watts (1977), or Watts and Zimmerman (1978) may be consulted.

---

\(^{12}\) See Drucker (1986) for his views on "hostile takeovers" and how the "fear of the raider" makes targets manage for the short term.
The nature of the takeover offer period\textsuperscript{13} puts both the management of the acquirer and the target into a short term decision mode. Takeovers "create a feverish atmosphere that promotes market speculation, undue reliance on outside professionals and hastily improvised defence measures." [Saul (1985, p.22)]. Defence measures are quite often sought by the target firm as soon as a bid is imminent, even without a determination of the possible benefits that might arise from the combination of the two companies. These defences are a further example of management acting in its own interest, to save their positions perhaps, with little consideration for the positive gains that can accrue to the target shareholders as a result of a takeover\textsuperscript{14}. A lengthening of the offer period to allow more careful deliberations by the players of a takeover, according to Saul, would be a way of ensuring that boards of directors adhere more closely to the long-term objectives of the company and determine how the takeover may or may not fit in with these objectives before taking defensive action.

\textsuperscript{13} The offer may stay open for four weeks [sec. 17(2) Companies (Acquisition of Shares) Act 1981,] with extensions available of up to a maximum of six months [sec.17(12)].

\textsuperscript{14} Refer to earlier section 3.2.1: Wealth and Target Shareholders. Also, Yen, G. (1987) has produced results that indicate wealth gains of mergers where the management accepted the merger were higher than in management rejected merger proposals. He concluded that "managerial resistance to mergers may not be in the best interests of shareholders." (p.264)
The two identified anti-takeover writers are quite fervent in their attack of the hostile takeover. Drucker (1986, p.14) believes that "the hostile takeover cannot be justified as leading to more efficient allocation of resources. Most of them have no aim except to enrich the raider -- he bribes the shareholders of the target and to be able to pay the bribe he loads a heavy burden on the company that is being taken over."

Therefore, the literature opens up a conflict of ideas about the corporate takeover. On the one hand, market-based studies have substituted shareholder returns as a measure of the gains in wealth or synergy achievable through the takeover. On the other hand, socio-economic based studies condemn takeovers for the effects they have on management behaviour, on the corporation's future, and on the allocation of resources in the economy. Which line should be adopted? Market studies are based on only one aspect of the corporation participating in the takeover, share price, and this aspect is so vulnerable to the effects of speculation and bias in the market that its reliability as an indicator of wealth is dubious. The identified socio-economic based studies are predominately anti-takeover in nature, hence a logical argument for and against takeovers is lacking in this literature. To this point in time, neither of the research types has been able to convincingly prove whether or not takeovers are beneficial to the economy.

The assessment of the research outcomes may well be influenced by the form of available financial reports of
the companies involved. This is the issue of the current research, but comments on where the current research is placed in relation to the existing literature on takeovers are left to part 3.5 of this chapter.

However, at this stage it is relevant to consider reviewing some of the literature on takeovers which deals with the accounting aspects of recording the acquisition and producing the consolidated reports of the new corporate group. Embedded in this literature are discussions of the commonly encountered problems of performing these accounting duties, and of the objectives of reporting the financial affairs of companies.

3.4 Takeovers and Financial Reporting

There is a deficiency in the literature on the implications and usefulness of the financial reports produced by companies that have undertaken corporate takeovers. Much can be found on the particular problems of accounting for goodwill and consolidating the accounts of all subsidiaries in a company group. However, these relate to the accountant's duties regarding a corporate acquisition and the mechanics of financial reporting practices. These are not the issues of the present research, as the question of user utility or satisfaction of the financial reports is not addressed. The concern of this study is to identify the utility the shareholder 'user' has of the external financial reports, in particular
segment reports, produced by the acquirer company after it has completed an acquisition of another company.

It is now recognised in the literature, that there are problems in using accounting numbers to examine the effects of takeovers\(^\text{15}\). These problems stem from the lack of conformity of financial reporting practice with the underlying conceptual basis of financial reporting. The original literature on financial reporting concepts is now becoming dated. These concepts were first identified in the 1970's by the Trueblood Report of the AICPA in the United States of America, by Kenley and Staubus in Australia and the Corporate Report in the UK; and have been released recently in a refined form by the Australian Accounting Research Foundation in its Exposure draft 42A: "Objective of Financial Reporting". Literature on the usefulness of financial reports and the objective of reporting may be consulted in addition to the very few studies on takeover reporting issues, to provide a background for the present study. Firstly, the takeover-specific literature will be reviewed followed then by the 'usefulness' of financial reporting literature.

3.4.1 Takeover Studies and Financial Reporting

Bishop, Dodd and Officer (1987) in the second policy monograph released by the Centre for Independent Studies in Australia, studied over 1400 takeovers that took place between January 1972 and June 1985. They proclaimed that

---

\(^{15}\) Bishop, Dodd and Officer (1987) and Dodd and Officer (1986). These are both Australian studies commissioned by the Centre for Independent Studies.
the first problem existing with the use of accounting numbers in examining the effects of takeovers was the lack of 'timeliness' of the reporting process. The delayed release of financial reports after the end of the financial year is a universal problem of reporting itself. However, in relation to the release of takeover information in those reports, it may be several years before the full effects of the takeover on the reported accounting earnings comes through in the reports. The initial years after a takeover involve the consolidation of the operations of the merged companies in the production of one set of financial reports each year.

A second problem of financial reporting with respect to takeovers, occurs when the two companies have adopted different accounting methods of measuring and reporting items in their accounts. Even companies in the same industry may not have 'comparable' reports, as their reporting practices may vary due to the legitimately available alternative practices of accounting. A solution to this, which has never been adopted, is the recommendation that "after making a substantial acquisition, the conglomerate corporate should be required, for a period of years, to report separately the financial results of the acquired company without changing the accounting rules." [Pacter (1969, p.25)]. Consolidation, in its present form, of the target and acquirer company into the reports of the new corporate group, does not involve the presentation of the target separately or under the accounting methods used previously by the target before
the acquisition. The inclusion of the target as a separate segment in the segment reports of the acquirer after the acquisition could be said to be a step in this direction. The present study's objective is to determine if segment reporting is an adequate substitute for the separate reporting practice that took place before an acquisition. If it is not, then what Pacter has to say might be considered with more seriousness by the profession in refining the standards on financial reporting.

Another problem, identified in the literature, of using accounting numbers as an indication of the effect of the takeover on the company, is the practice of amortizing the 'goodwill on consolidation' arising from the acquisition, over a long period of time, viz. 20 years. There is a body of accounting literature which argues the case in support of this amortization. However, according to Bishop, Dodd and Officer (1987) this practice produces artificially low reporting earnings for these 20 years after the takeover. These writers express doubt that, with the inclusion of such amortization charges, the reported earnings of the acquirer company after its acquisition may not present a 'true and fair view' of the company's earnings or the impact of the target company on these earnings. The financial reporting characteristics of 'reliability' and 'relevance' may be questioned here. ED42B produced by the Australian professional accounting bodies on the qualitative characteristics of financial information, states that information is 'relevant' to the user of this information if it has "value in terms of
assisting users in making decisions of an economic nature...and it must assist users in their assessment of the rendering of accountability by preparers." [para. 7, ED42B]. Also, 'reliability' requires that the "information can be depended upon to represent faithfully...the transactions or events that it either purports to represent or could reasonably be expected to represent." [para. 4(d), ED42B]. If, as a result of the accounting practice of reporting the acquisition of a company, the financial reports do not provide information that is relevant and reliable, then there indeed is a problem in the way in which accounting practice tries to capture the financial effects of a corporate acquisition. This is part of the justification and motivation of the present research.

Bishop, Dodd and Officer (1987) contend that financial reports may have some element of bias or non-objectivity in their preparation. Certainly there is a large degree of flexibility available from the standards in the selection of accounting methods. There is also a large amount of discretion placed on the management and accounting department of a company with regards to the identification of the segments of the company (see Chapter 2, section 2.5.1 for a further discussion on this point). One of the objectives of financial reporting put forward in the previously mentioned Trueblood Report, the Corporate Report, Kenley and Staebus, and now implied in the Exposure Drafts 42A and B, is 'freedom from bias'. According to Bishop, Dodd and Officer (1987) the bias that is inherent in accounting numbers is not necessarily self-correcting.
The value of the company is not represented by the accounting numbers presented to shareholders and other users, but rather the market price of the company's shares. Although shareholders and users are supplied with accounting numbers to measure the value of the company, evidence has shown that these users do not consider accounting numbers as the dominant source of their financial information for investment decisions.\textsuperscript{16} The functioning of an efficient market will, according to these Australian writers and others, correct any of the biases in accounting numbers as they are detected, by the adjustment of the share market price of the company's shares. Therefore, there seems to be a need for shareholders to turn to the capital market during a takeover and at other times, for information about the value of a company and the return they are getting on their investments; rather than reliance upon untimely, incomparable, and subjective accounting data.

These points have been further studied and confirmed for company takeovers by the 1973 Australian Accounting Research Foundation (AARF) commissioned study into the usefulness of published financial disclosures during a takeover bid. Here, Walker (1973) investigated the importance of accounting data to those involved in takeover bids from 1960 to 1970, with the intention of indicating the existence of "fundamental problems in accounting". Walker found that there was a "widespread disregard for the

\textsuperscript{16} See Baker and Haslem (1973); Chenhall and Juchua (1977); Lee and Tweedie (1974).
data contained in accounting reports in favour of figures which may be a better indication of the contemporary 'net worth' of firms." (1973, p.50). Informed investors were found to not rely on published data during a takeover bid, but instead speculate about the actual position and performance of the firm under attack by a bidder. 'High' bids are usually related to the bidder's access to information not generally available to the securities market, and the occurrence of price rises after the bid suggests that the published accounting data were not relied upon by the market in appraising the position and prospects of the target firm. Walker then proposed that investors must be deluded by published accounting data in times other than during a takeover bid, as the data are not relied upon during the bid. It needs to be noted that the AARF study was performed in the early 1970's. What is important to the present study is whether shareholders, in the special circumstance of a takeover, have a disregard for the data contained in accounting reports that have been produced under current reporting practice.

The next section will now discuss the literature that addresses this related issue of financial reporting usefulness.

3.4.2 Usefulness of Financial Reporting

Conceptual discussion has taken place in the past twenty years on the issue of establishing a statement of the objectives of financial reporting. The general basis behind these conceptual discussions is the 'usefulness' of
the information in the reports. In order to determine whether or not the reports are useful and what the needs of the 'users' are, it is imperative to have a knowledge of who the users of the reports are. 'Users' of financial reports consist of shareholders and other investors in the company, creditors and suppliers of goods and services to the company, financial intermediaries, trade unions and employees, government bodies such as the taxation department and the Corporate Affairs Commission, the general public, and the internal management of the company.

The first statement of the objectives of financial reporting was produced by the American Institute of Certified Practicing Accountants (AICPA) in 1973. This professional body stated that financial statements should "provide information useful for making economic decisions." There was no definition of 'usefulness' nor a mention of for whom the financial statements were supposed to be useful and what their needs are.

Benjamin and Stanga (1977) concluded that there were heterogeneous needs among the different user groups. Approaches have been taken to identify the different user needs and ways of satisfying them. The 'general purpose approach' assumes that financial reporting can satisfy the needs of all types of users. However, Benjamin and Stanga recognised the different objectives of different user groups and admitted that a general purpose financial report could not satisfy the needs of all of these user groups. The 'data expansion approach' assumes that supplying increasing amounts of financial information will be useful
to report users. This approach was disputed by Revsine (1970) who realised that such a situation would produce an overload of information to users rather than improve their investment decision making ability. The third approach to establishing user needs is the 'specific user approach'. This requires an understanding of all the different needs of each category of user, and involved the satisfaction individually, of the needs of each user group. Baker and Haslem (1973) found that within one user group, namely the private investor, there are diverse information needs and that financial reports should be consistent with the needs of the various classes of investors. Nonetheless this is something that is unlikely to occur, simply for the sheer immensity of reporting required to satisfy each of the financial information needs of the different users.

An alternative statement of objectives of financial reporting specified the users as "present and potential investors and creditors". The other users mentioned above seemed to have been ignored by this statement of objective. This narrowing of the user group for the purpose of defining an objective of financial reporting is supported by Stone (1967). He said that if the interests and resultant information needs of users are in conflict, then a selection of the "dominant user group" is required. This dominant user group is the shareholder group, simply due to

17. FASB Statement of Financial Accounting Concept No. 1, (1978) stated that the objective of financial reporting is to "provide information that is useful to present and potential investors and creditors in making rational investment and credit decisions."

its sheer magnitude and the relationship between it, the management, and the assets of the company. Baker and Haslem (1973, p.69) however, concluded that the reporting of financial information "should not be brought down to the lowest common denominator" by servicing the needs of the average shareholder rather than satisfying the needs of several classes of users. Demski (1973) saw the need to trade off the needs between different users as it is impossible to design reports to suit individual preferences. Thus general purpose reports are the only practical approach to financial reporting. The latest statements of objectives of reporting (ED42) have also adopted this view. They contend that financial reports should be of a 'general purpose' nature as "general purpose financial reporting focuses on providing information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular needs." [AARF: ED42A, para. 5].

Once the purpose of financial reporting has been clarified, the question of user understandability and usefulness of financial reports per se can be addressed. This has been performed at considerable length in the literature of the 1970s. Behavioural studies have tried to determine the degree of use made by selected user groups, such as the financial or security analyst, the stockbroker, and the 'dominant' user group, the shareholder, of the information in financial reports.

Pankoff and Virgil (1970) studied the demand for information by security analysts, the effect of the
information on the predictions and decisions they made about the company they analysed, and the extent to which information in annual reports led to "good decisions". They found that accounting information is not used as much as macroeconomic and general industry information by these analysts. Also, the quality difference of forecasts made by the analysts who used financial information in the company reports and forecasts made by analysts who did not have this financial information, was not great. Overall, Pankoff and Virgil concluded that there was no support for the premise that accounting information improves decision making.

An Australian study of stockbrokers and other 'sophisticated' users produced similar results. Clift (1975) discovered that annual reports are generally underused by these users. Accounting information extracted from the reports by investment advisors is of "low quality" and requires thorough analysis to be relevant to their needs.

Additionally, the studies by Baker and Haslem (1973) and Lee and Tweedie (1974) of the use of financial reports made by the 'private investor' user group (the shareholder), discovered that this user group is primarily concerned with expectations about the future of their firm and the outlook of the industry in which the firm operates. The Australian study to replicate Baker and Haslem's study of the USA, Chenhall and Juchua (1977), found that financial statements are not the dominant source of information for shareholders' investment decisions.
Information not disclosed in corporate annual reports is important to investment decision making, and the non-accounting sections of the annual report are of more interest to the private shareholder user than the financial statements themselves.

The behavioural studies, and it must be noted that they are somewhat dated now, have not provided any positive evidence that financial reports satisfy the needs of users. The more recent literature on the usefulness of financial reports during and after a corporate takeover (previously discussed in section 3.4.1) have also revealed that there is a problem with accounting figures in being able to provide 'relevant', 'verifiable', 'timely', 'comparable' and 'objective' reports which will assist the users in making their investment decisions.

---

The next section will outline the recognised 'gaps' in the takeover and financial reporting literature and will disclose how the present study considers from a different aspect, the impact of corporate takeovers on the user utility of current financial reporting.

3.5 The Gaps in the Literature and the Present Study

This chapter has identified the literature on corporate takeovers and on the issue of financial reporting. It is quite evident that most of the studies of corporate takeovers have been market-based. The results of these studies have also conflicted on the question of
whether takeovers create wealth to the shareholders of the participating firms. The very few identifiable studies on the use of accounting numbers to evaluate takeovers have shown the overwhelming inability of financial reports to present the true and fair view of the nature of the new corporate group after the acquisition. According to these studies, accounting reports have the inherent limitations of being untimely and subjective in their preparation. Interviews of the dominant user groups, the shareholder and the investment analysts, have indicated the lack of reliance upon accounting numbers within financial statements by these user groups, both during a takeover and at other times. The conclusions drawn here stem from the deeper issue of financial reporting per se. It is the specific problem of reporting takeovers, including the integration of the target company into the acquirer, that continues to raise the underlying problems of financial reporting itself.

The present study, is trying to marry the two areas of corporate takeovers and financial reporting and test if there is an inter-relationship between the two. The literature identified in the past two chapters has not addressed the question of the impact of corporate takeovers on the reporting needs of users.

Also, most of the identified studies were performed before the recent release in the United States of America and Australia of accounting standards that affect financial reporting, respectively, SFAS 14 (1976) and AAS 16 (1984). It is the purpose of the present study to take the
corporate takeovers of a 28 month period as a base, and investigate the utility of financial reports that have been affected by the recent reporting requirement of the accounting professional bodies, to those shareholders that were common to the target and acquirer firms during the takeover.

The reporting requirement in question here is that of segment reporting. Chapter 2 has discussed the literature on the need for segment reporting, the benefits expected to accrue to readers of financial statements containing segment data, and the recognised problems that exist with the implementation of this reporting requirement. The present study will establish if the reporting practice of segment reporting in the context of takeover bids, has improved the utility of financial reports per se. It will also provide updated evidence on the issue of usefulness of financial reports with particular reference to the absorption of a previously independent entity into one or more segments of an expanded corporate group. By the use of a sample of shareholders of the participating firms in a takeover, it will also be investigated whether this segment reporting can act as a substitute to these shareholders for the information loss they incur as a result of a takeover.

---

Having now discussed in the past two chapters the identified literature on the two topics of relevance to the present study, namely, segment reporting and corporate takeovers, and the place amongst that literature for research that brings the two issues together, the next
chapter will detail the methodology taken in this research. This will be followed by a chapter outlining the findings of the study.
CHAPTER 4

METHODOLOGY OF THE RESEARCH

The purpose of this chapter is to describe the sample to be addressed, the time frame within which data were collected for this sample, the methods or tools used in collecting data, and the steps taken in the identification of the sample and the data collection.

4.1 The Sample

The sample selected and the aspects of financial reporting investigated make this research different from any other identified and reported research into the financial reporting issue of segment reporting. Prior works in Australia¹ have investigated the segment reporting practices of either the top 100 or 150 public companies or city-based public companies, both prior to and after the promulgation of AAS 16 as the accounting standard for segment reporting practice in Australia. Researchers have not addressed specifically the related reporting practices of companies that have formally taken over another company. What is considered herein is how these 'acquirer' companies have disclosed the financial and qualitative data of the integrated 'target' company in their post-takeover annual reports. Some of these acquirer companies may be found in

previous researchers' samples of the top 100/150 Australian public companies, but the objective of the present research (discussed in the Introduction) has never been addressed by any identified previous works. The main concern of the earlier Australian studies has been the compliance or non-compliance with the AAS 16 standard. They have not sought to identify any correlation between this reporting practice and other variables such as user utility, report preparers' needs versus user needs and pre- and post-takeover information loss.

The sample investigated in this study is made up of two market groups. The first, 'corporate acquirers', is the group of public, non-mining, Australian companies that have been acquirers, in formal takeovers, of other Australian non-mining, public companies, over a selected time period (see part 4.2 of this chapter). Compliance with the AAS 16 accounting standard by these companies maybe considered imperative in terms of providing information to shareholders about the post-takeover integration, performance, and contribution to the new corporate group of the target company. In the absence of such a standard, voluntary reporting is unlikely to provide this information. Depending on the type of takeover undertaken\(^2\), the acquisition may or may not create additional segments to the number of pre-takeover segments reported by the acquirer. It is the treatment of these potential additional segments in the financial reports to

\(^2\text{Vertical integration, horizontal integration or a diversified takeover.}\)
which this research is directed. Following on from this, the research asserts that takeovers themselves create an environment whereby accounting information is continually being reduced, consolidated into the reports of the remaining companies that were the 'victor' of the takeover.

This assertion is also tested through the second sample group, the 'common target-acquirer shareholders'. As a step towards identifying the second sample group, it was necessary to identify details of the target companies as well as the acquirers. These companies do not constitute a sample themselves but assist in identifying the individuals who constitute the second sample group. This group is the identifiable 'Top 20' shareholders that are common to both the target prior to the takeover and the acquirer after the takeover. These shareholders were surveyed with the objective of providing the answer to the question: "Does segment reporting satisfy the accounting and descriptive information needs of shareholders regarding the performance and activities of the acquired company of a takeover?"

4.2 The Time Period

AAS 16 was promulgated in March 1984, to become effective as applying to financial reports for periods ending on or after March 31, 1985. That is, public

---

3. See pages 3 to 4 of the Introduction for explanation herewith.
companies with a balance date on or after March 31, 1985 and complying with professional standards, are required to disclose segment data in their annual reports. This professional standard was made legally compulsive a year later by the issue of approved accounting standard ASRB 1005 by the Accounting Standards Review Board on April 29, 1986. The investigation was directed at takeovers that took place no earlier than January 1, 1985. All corporate acquirers of these takeovers would then be required by law to provide segment data in their 1986 annual report. Annual reports produced after March 31, 1985 and subsequent to the completion of a takeover in 1985, would be professionally expected to follow the guidelines outlined in AAS 16.

As the study was commenced in May 1987, takeover bids included could be made no later than April 1987. This gave a 28 month time period during which takeovers by Australian non-mining public companies were completed and subsequent reporting practices, which were subject to ASRB 1005 and AAS 16, could be studied. Fortunately for this study, Australia underwent at that time, a period of rapid change in corporate ownership, resulting in a reduction of companies within some industries and an increase in the number of conglomerate giants. This generated a sufficient number of takeovers from which a study could be based.
4.3 **Tools for the Investigation**

The two sample groups, corporate acquirers and the group of common target-acquirer shareholders, were surveyed separately by using two questionnaires. (Copies of these and their covering letters are included in Appendices A to D). Annual reports of the acquirer for the years prior to and after the takeover were also studied to confirm the responses from the questionnaires regarding disclosure and reporting practices, and to allow judgements to be made about the quantity and quality of information supplied to shareholders about the company acquired. These annual reports were also used as a proxy for unreturned questionnaires and for the completion of a data base on the sample takeovers.

4.4 **Stages in the Determination of the Sample and the Collection of the Data**

4.4.1 **The Initial List of Takeovers: the first round of eliminations**

To obtain a list of takeovers made by Australian corporations during the period selected, the National Companies and Securities Commission (NCSC), the Sydney Stock Exchange, and the Corporate Affairs Commission were contacted. However, not one of these bodies could provide a listing of all bids that had been successful in that time period. Only bids that were contested for illegalities were known by the NCSC; and only takeovers of one hundred
percent of the issued shares of the target, creating a delisting of the target were recorded by the Stock Exchange. The Corporate Affairs Commission were unable to offer any further assistance.

However the latter advised of an investment and research house in Melbourne\(^4\) which keeps records of all takeover bids involving Australian companies. From their listing was extracted 151 takeover bids that were successful, or the outcome unknown, during the time period selected. Takeovers of Australian companies by overseas acquirers, non-corporate institutions, or mining companies were eliminated from the list. The number of these companies and the reasons for excluding them were as follows. Five foreign takeovers were excluded as they do not fall under the auspices of Australian reporting requirements and three non-company takeovers (banks, building societies, and trusts) were eliminated as the professional reporting guideline, AAS 16, does not apply to non-company organisations. Many mining companies are highly speculative and have their own reporting requirements, hence, for this reason 14 mining company takeovers from the sample were subsequently removed. This left 129 takeovers in the sample.

\(^4\) Investment & Business Research Limited, Flinders Lane, Melbourne.
4.4.2 Identification of the Companies and Their Top 20 Shareholders: second round of eliminations

Details of the registered office and relevant features of each company was then sought by searching the Sydney Stock Exchange Review Services, Jobson's Business Directory, and Business Who's Who in Australia. This led to the elimination of 52 further takeovers from the sample. For similar reasons as outlined above, the following were excluded from the sample; nine were takeovers by foreign acquirers, four involved mining companies not revealed as mining companies in the first eliminations, 26 were takeovers involving proprietary acquirers which could not be identified as takeover vehicles for a public company and capable of identification of the necessary information about their top 20 shareholders in the event of them falling under the applications of AAS 16. Seven further takeovers involved an unidentifiable target and/or acquirer, five were buy-backs of a less-than-one-hundred-percent owned subsidiary, and for one other takeover the business of the acquirer had failed since the sample period and the company was suspended from trading.

The sample at this stage contained 77 takeovers.

The Sydney Stock Exchange Review Service files on these companies were again consulted to obtain, where available, the listing of the top 20 shareholders of the target company before the takeover and a listing of the top 20 shareholders of the acquirer company after the takeover. It maybe noted that the review service file for each company also contained information on the progress of the
related takeover bid throughout the takeover offer period and a copy of the latest company annual report.

This search resulted in the elimination of ten more takeovers, nine because the acquirer itself had been taken over by another company during the sample period and one, due to the divestment of the interest held by the acquirer in the target company since the takeover had closed.

The sample was then 67 takeovers.

4.4.3 Determination of the "Common" Shareholders and their Addresses: third round of eliminations

To gauge which of the takeovers required direct contact with the share registries of the companies involved in order to obtain the necessary details of the common shareholders, the 66 takeovers were divided into four categories, depending on the level of shareholder data available in the review service files on each company.

The four categories of data were:

1. 50 target companies for which a list of the top 20 shareholders existing before the takeover was known.

2. 41 acquirers for which a list of their post-takeover top 20 shareholders was known. These companies represented 53 takeovers in the sample.\(^5\)

3. 17 targets without any shareholder lists available.

---

5. Some companies were involved in more than one takeover in the sample period. These were: Ariadne (4), Chase (3), Hecon (2), IEL (4), Linter Group (2), News Corp.(2), S.A. Brewing (2).
4. 12 acquirers without any shareholder lists available. These acquirers represented 14 of the takeovers surveyed.

The shareholder lists held for categories (1) and (2) were examined to identify the common shareholders. It was highly possible that common shareholders existed as institutional investors such as AMP Society, Colonial Mutual Life, MLC, ANZ Nominees, and Bank of NSW Nominees have diversified portfolios.

The share registries of the 50 category (1) target companies were written to, asking for the addresses of the particular 'common' shareholders, whose names were listed and enclosed with the letters. 25 registries responded, 10 giving the required addresses willingly whilst 15 were either not willing to disclose the information or suggested the use of telephone directories.

There was no need to correspond with the share registries of the category (2) acquirers. The shareholders that were common with these companies and their respective targets were to be identified through the correspondence with the share registries of the respective target companies.

Share registries of the 17 category (3) target companies were then written to, seeking the names and addresses of the target's top 20 shareholders prior to the takeover bid by the respective acquirer. Six responded, with two providing the information, two explaining that the takeover was by an overseas company, and another two
suggesting that the Stock Exchange be consulted for the information.

Both the names and addresses of the post-takeover top 20 shareholders of the 12 remaining category (4) acquirers were sought from the companies' share registries. Six registries responded, but they all qualified their reply indicating either that the acquirer was an overseas company, as it was in 3 cases; the company was no longer trading; the company had reduced its holding in the target to less than fifty percent since the takeover; or that the offer had lapsed. No extra shareholder information was then received from this last investigation. This did not affect the number of questionnaires required as the related target companies' shareholders were known in all cases.

Once it seemed that all responses from these series of correspondences with share registries were complete, a final attempt to discover the addresses of the remaining shareholders was made through telephone directories of the major Australian capital cities. A shareholding list for five group (3) target companies\(^6\) had still not been obtained. The top 20 shareholders of the relevant acquirers were used as a proxy for these shareholders. This was justified because if any of these shareholders were also pre-takeover owners of the target, their answers to the questionnaire would be relevant.

\(^6\) These target companies were: Allens Confectionery Limited; Barry and Roberts Limited; Herald and Weekly Times Limited; Mirror Newspapers Limited; and Perpetual Trustees WA Limited.
At this stage it was possible to identify 56 takeovers, for which addresses of both companies involved, and the relevant shareholder lists, were available for at least the acquirer company.

4.4.4 The Mail Survey

Two questionnaires, which had been designed in the later months of 1987, were typeset and printed through Deakin University and ready to be sent by April 1988. To make each questionnaire takeover specific required adhesive labels to be printed the required number of times with the names of each target and acquirer company. These were then adhered to the questionnaires at the appropriate positions.

The corporate acquirers: the fourth round of eliminations. 56 questionnaires were sent to 43 corporate acquirers. At the same time the annual reports for 1985 - 1987 were requested from these acquirers, so that compliance with the AAS 16 standard could be observed directly and then compared with the responses by the shareholders about the utility to them of the reported segment data.

24 responses to the acquirer questionnaire were received. Ten were completed questionnaires with which was enclosed the acquirer's annual reports. Fourteen replies consisted only of the acquirer's annual reports.

Further eliminations of seven takeovers were required at this stage. Three were eliminated because the acquirer had been taken-over since the sample period; two as the
targets underwent a name change only and not a takeover; one because it was an acquisition of the remaining preference shares of a subsidiary and one which involved a company that voluntarily liquidated in 1988. The sample of takeovers was now 49. A complete listing of the acquirers and targets making up this final sample is provided in Appendix E.

Searches through the microfiche of annual reports held at Deakin University and Monash University, along with visits to the Graduate School of Management attached to Melbourne University and the head offices of Melbourne-based acquirers, were required to collect the remaining acquirer annual reports not obtained through the correspondences with the companies. This added another 20 reports to the file of reports received from the companies directly and to a personal file of reports maintained since 1984 on major Australian companies.

Common target–acquirer shareholders. 307 of the second questionnaire were distributed to the identified matching target and acquirer shareholders. A total of 91 responses were received, with 24 of these useable. 47 responses had to be eliminated as the shareholders were companies which explained that they were unable, due to disclosure reasons, to supply the information. Australia Post returned 11 questionnaires as it was unable to trace the addressee, whilst eight questionnaires were returned marked that the selected person/company was not a shareholder of the target and/or the acquirer.
4.5 Summary

The study began with a list of 151 takeovers for the period January 1985 - April 1987 that were either known to be successful or the outcome had not been determined at the outset of the study. As already explained, a number of these was eliminated for a variety of reasons. This resulted in a final sample of 49 takeovers. The reasons for the eliminations are now summarised in Table 4.1 below and a complete listing of the targets and acquirers falling into these categories of eliminations is provided in Appendix F.

This chapter discussed firstly what the purpose of the study was and how it differed from other Australian research on similar topics. The two sample groups that were to be studied in order to satisfy the research's objective, and the time frame of the research, were also outlined. It was also mentioned that two mail questionnaires were the investigative tools. The chapter then traced the steps taken in identifying the sample groups and in reaching the final 'useable' sample. The purpose of presenting each of the steps was to demonstrate the continuity and logic used in the research procedures. It was pointed out that 56 questionnaires were sent to 43 acquirer companies in April 1987 and 24 responses were received. Seven takeovers were eliminated from the sample at that stage of the research. The results from the final
'Useable' sample of 49 takeovers (and 36 companies) will be presented in the next chapter.

**Table 4.1**

**Useable Responses**

<table>
<thead>
<tr>
<th>Eliminations</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original sample size</td>
<td>151</td>
</tr>
<tr>
<td>Eliminations:</td>
<td></td>
</tr>
<tr>
<td>i) Mining company takeovers</td>
<td>18</td>
</tr>
<tr>
<td>ii) Non-company takeovers (banks, trusts)</td>
<td>3</td>
</tr>
<tr>
<td>iii) Foreign acquirers</td>
<td>18</td>
</tr>
<tr>
<td>iv) Proprietary acquirers not identified as takeover vehicles for a public company</td>
<td>26</td>
</tr>
<tr>
<td>v) Intercompany buy-backs of subsidiaries</td>
<td>6</td>
</tr>
<tr>
<td>vi) Acquirer failed, delisted, suspended</td>
<td>3</td>
</tr>
<tr>
<td>vii) Unidentifiable acquirer and/or target</td>
<td>7</td>
</tr>
<tr>
<td>viii) Takeover offer lapsed</td>
<td>2</td>
</tr>
<tr>
<td>ix) Target underwent a change in name only</td>
<td>2</td>
</tr>
<tr>
<td>x) Acquirer had divested its interest in the target since sample period expired</td>
<td>5</td>
</tr>
<tr>
<td>xi) Acquirer had been acquired by another company since sample period expired</td>
<td>12 102</td>
</tr>
<tr>
<td>Final Useable Sample</td>
<td>49</td>
</tr>
</tbody>
</table>
CHAPTER 5

RESEARCH RESULTS

The previous chapter gave a detailed account of the procedural steps taken in identifying the sample groups investigated and the processes of eliminations made from an initial list of takeovers in the selected time period to reach a 'useable' sample. This chapter will outline the findings of the investigations made about the segment reporting practices and disclosures in the post-takeover annual reports of corporate acquirers in this useable sample. The questionnaires used in the two surveys were designed to provide information about the nature of the takeovers, the diversification of the sample companies, the degree of shareholder knowledge of segment reporting, and the type of information required by shareholders about the activities of the acquired company after it has been integrated into the operations and the reports of the acquirer.

The chapter is divided into three parts. The first part details most of the results from the questionnaires returned by the corporate acquirers. These were supplemented by answers obtained from the investigation of the annual reports of companies which did not return the questionnaires. The second part of this chapter details the results of the second questionnaire sent to the common target-acquirer shareholder sample group. The third part details the answers to Part D of the corporate acquirer questionnaire. This is the part which addressed the issue
of segment reporting *per se*, requiring answers to hypothetical questions about the preferred segment reporting practices of these companies.

5.1 The Corporate Acquirer Questionnaire

This first part of the chapter gives details obtained from the 24 useable responses received from the final useable sample of 49 takeovers. These responses consisted of completed questionnaires and/or the 1985, 1986 (and sometimes, 1987) annual reports for these companies. For the remaining 25 takeovers, searches of annual reports provided the required information to enable an analysis of post-takeover segment reporting. The details that will be revealed about the corporate acquirers of the sample are such things as the type of companies making up the sample; the reporting practices of these companies; the nature and types of takeovers undertaken during the time frame of the study; and the changes in the pre- and post-takeover segment reporting practices made by these corporate acquirers.

5.1.1 Types of Companies in the Sample

The sample of 36 corporate acquirers consisted of a diverse group of companies operating in 19 of the 27 industry classifications\(^1\) of the Sydney Stock Exchange.

---

1. *The A.S.E Index Chart Book*, Stock Exchange Research Pty Ltd, Sydney, 1987. The 27 industry classifications includes 2 mining/exploration categories: "Oil & Gas" and "Solid Fuels". Companies from these categories were deleted from the sample in the first and second stages of eliminations.
Using the Exchange's classifications as a base, it is noted that eleven companies were considered "Entrepreneurial Investors", two "Miscellaneous and Diverse Industrials" and one fell into the "Miscellaneous Services" classification. It follows that, as almost one third of the sample of companies are diversified organisations, they would be expected to report many segments within their operations. The response of these companies to the requirement to present segment data is examined later (Sections 5.1.4 and 5.1.5 disclose the number of segments these conglomerates do report in the pre-and post-takeover periods).

Apart from the companies described above, the remainder of the surveyed companies were regarded by the Stock Exchange Industry Classifications as operating in single industries. Interestingly, from an operational viewpoint, many of these single-industry companies have several intra-industry 'activities' as outlined by the Sydney Stock Exchange Review Service files. (Five companies had two activity bases; five had three bases; and two had four bases of activity). Again it would be expected that companies with several operational activities might provide financial segment data in their reports, given that each activity passed the 10% revenue-

2. Activities referred to here represent the intra-industry products and services produced by the company. They do not represent distinct industry classifications but match the organizational structural divisions discussed in the company's Review of Operations section of their annual report.
contribution criterion for identification as a segment, as required by paragraph 11 of AAS 16.

5.1.2 Preamble of the Reporting Practices of the Acquirer

Three questions of the survey asked the balance date, format of the interim reports produced, and the regularity of the interim reports of the corporate acquirer. Most of the data on interim reports, however, had to be derived from the Stock Exchange Review files. The information became important in determining whether or not the takeover could be reported in the first annual report subsequent to the closing date of the takeover.

In the useable sample of 49 takeovers, 27 bids were made in the calendar year of 1985, 19 in 1986, and three in the selected time period of 1987 (January – April). Eight of the 1985 bids were completed and reportable in the 1985 annual reports, and 14 could be disclosed in 1986 while the remainder of the 1985 takeover bid outcomes could not be disclosed fully until the 1987 annual report for those companies. A similar investigation was performed on the 1986 and 1987 bids and the results are shown in Table 5.1 below.

---

3. The frequency of balance dates used was revealed to be: June 30 (25 takeovers); March 31 (5); September 30 (3); and July 31 (3).
TABLE 5.1

NUMBER OF TAKEOVERS EACH YEAR
AND THE YEAR OF FIRST DISCLOSURE

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Takeovers</th>
<th>Year of First Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1985</td>
</tr>
<tr>
<td>1985</td>
<td>27</td>
<td>8</td>
</tr>
<tr>
<td>1986</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>1987</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>8</td>
</tr>
</tbody>
</table>

It is noticeable that a lead time of almost a year occurs between the timing of the bid and the disclosure of the takeover and of the operations of the acquired company in the post-takeover annual reports of the acquirer.

This expected level of disclosure about the takeover will be later compared with the actual degree of segment reporting and the level of disclosure of the takeover made in the post-takeover annual reports in section 5.1.5.

From the questions on interim reporting, it was discovered that only two companies provided more detail than is required by the Associated Australian Stock Exchange (Bond, Finemore). One of these companies (Bond) also provided segmented data in the interim reports.
5.1.3 A Background to the Takeovers

This section considers the types of takeovers undertaken by the sample group of corporate acquirers; the methods of financing the acquisitions; the degree of opposition to the bid by the target and capital restructuring actions taken by the acquirer before, during, and after the takeover. An overview of these points provides, among other things, an understanding of how the target company will be integrated into the operations, and hence, into the reports of the acquirer. The significance of this for the present study is the comparison that can be made with the post-takeover segment reporting practices of the acquirer companies and the perceived 'utility' of those reports felt by the shareholder users.

The types of takeovers undertaken by the sample.

Question 25 of the corporate acquirer survey asked the acquirer representative what type of integration was applicable to their respective acquisition/s, viz. 'horizontal', 'vertical', or 'diversified'. The sample of 49 takeovers consisted of 26 horizontally integrated actions by the acquirer, two vertical integrations, and 21 actions directed at diversification (see Appendices I & J).

Referring to the Stock Exchange Industry Classifications discussed in section 5.1.1, it was found that the types of takeovers involved in by the "Entrepreneurial Investors", "Miscellaneous and Diverse Industrials", and "Miscellaneous Services" acquirers were consistent with the nature of these companies. That is, they are more likely to increase diversification rather
than develop vertical or horizontal integrations. As stated earlier, there were 14 of these companies in the sample and they were involved in 25 takeovers. These takeovers included 15 diversified acquisitions and 10 horizontal integrations.

The single-industry companies were involved in 24 takeovers, 16 achieving horizontal integration, six diversifying the company's activities, and only two being aimed at vertical integration.

This point will be discussed again in section 5.1.5, when the post-takeover segment reporting practices are studied and compared with the type of takeover undertaken.

The type of takeover and expected segment reporting practices. In takeovers that are horizontal integration types, it is expected that the target company would become a part of the existing reported segments of the acquirer. It is postulated that, as across-an-industry acquisitions reduce the number of companies within that industry, they would result in a loss of information available to shareholders about the target company. In these situations, a newly reported segment would rarely be required in the post-takeover reports of the acquirer. The integration is simply a swallowing up of a competitor, whose profitability, risk, and asset backing may be similar to that of the acquirer.

A vertical integration takeover would also lead to a reduction of companies within an industry and a
corresponding reduction of accounting information reported to the market. AAS 16 (paragraph 7) states that:

"This Statement does not require the segmentation of vertically integrated operations where most or all of the output of one company, or section of a company, is the input of another within the same reporting entity."

Therefore, for the two takeovers in the sample that were considered by the respective companies to be vertical integrations, no new industrial segments are expected to be created as a result of the takeover. This does not of course, discount the creation of geographical segments in the situations of vertical integration takeovers.

Diversified takeovers, on the other hand, are acquisitions of companies beyond the principal activities of the acquirer. 57% of the "Entrepreneurial Investors" group of companies was involved in diversified takeovers (see Appendix I); as well as 27% of the single-industry acquirers (see Appendix J). In these cases, it is expected that the creation of new industrial (and perhaps geographical) segments would be necessary to report the integrated target in accordance with AAS 16. It is hypothesized that these types of takeovers would not necessarily lead to an information loss or lowered shareholder utility of the post-takeover annual reports, if the acquirer created a new segment for the target.

Section 5.1.5 of this chapter reveals the results of these postulations and Chapter 6 discloses the implications for accounting standard setting and financial reporting.
Methods of financing the takeovers. Purely for the sake of interest, question 26 of the company survey provided for the respondents to disclose the forms of financing used in the acquisition. Many companies did not answer this question. However, an investigation of the Stock Exchange Review Service files and the annual reports revealed some of the answers. 23 of the 49 takeovers were financed by an issue of new shares to the market. Four companies undertook a loan for 40-80% of the acquisition cost and issued shares, sold off assets, or used available cash resources to finance the other portion of the cost. One takeover was financed solely by a loan from an Australian institution and another involved an exchange of shares. Six of the remaining takeovers were cash offers but the methods of financing could not be ascertained (see Appendix I).

Capital movements before and after the bid. Bonus share issues are sometimes made around the time of a takeover bid. From questionnaire responses and from investigation of the annual reports of the acquirers in the current sample, two companies had issued bonus shares shortly before their takeover bids. Another three takeovers were accompanied by bonus share issues made by the acquirer during the offer period. In the first few months after the takeover, nine other companies issued bonus shares and two companies underwent major capital reconstructions. Asset revaluations after the takeover took place in 14 cases, some writing down the assets
acquired or completely restructuring the company organization as a result of the takeover (see Appendix I).

Having outlined the background to the takeovers covered by the study, the next section will outline the segment reporting practices of the acquirer before the takeover. The following section 5.1.5, expands upon the points raised here and compares post-takeover reporting with pre-takeover reporting practices.

5.1.4 Pre-Takeover Segment Reporting Practices

Questions 7 - 23 of the corporate acquirer questionnaire were aimed at uncovering the pre-takeover segment reporting practices of the acquirers. Specifically, information was sought of the number of segments reported in the years before 1985, in 1985, and in 1986.

It was pleasing to find that 30 of the 36 sample companies reported segment data in some form before their takeover bids of 1985 or 1986 (see Appendices G and H). Hence six companies failed to comply with AAS 16 in either 1985 or 1986 and those companies with balance dates after June 30 also failed to comply with ASRB 1005 in 1986. The average number of industry and geographical segments reported by each of the types of companies in the sample that complied with AAS 16 before the takeover are now discussed.
Industry segments. In section 5.1.1 the industry classifications of the corporate acquirers were discussed; namely, "Entrepreneurial Investors", "Miscellaneous and Diverse Industrials", and "Miscellaneous Services" or single-industry companies. The former types will be hereafter called Group 1 acquirers, and the latter single-industry companies will be called Group 2 acquirers. In this section of the study, the number of pre-takeover reported industry segments for each group of acquirers, are noted.

There were 14 Group 1 acquirers in the sample. The average number of takeovers they were involved in was 1.78 and the average number of industry segments they reported before the takeovers was 2.75. Four companies in this group did not report segment data in 1985 and 1986. In view of the nature of these companies it is reasonable to conclude that they failed to comply with the professional standard AAS 16 in these years and also with the approved standard ASRB 1005 in 1986. A complete list of the Group 1 acquirers, their takeover involvement, and the number of pre- and post-takeover industry segments can be found in Appendix G.

There were 22 Group 2 acquirers in the sample. Analyses were made of the number of separate 'activities' listed for each of these single-industry companies in their Sydney Stock Exchange Review files; and of their segment reporting practices. These companies, being classified as single industry companies would not justify a presumption that they should be found to issue segment data, unless
their intra-industry 'activities' met the AAS 16 materiality guidelines required to report each activity as segments. The latter was found to be the case, with the single-industry corporate acquirers, as a whole⁴, disaggregating their company operations into segments before their takeover. However, it should be noted that five of these companies did make the minimum disclosure necessary for AAS 16 compliance, that they operate predominately in the one industry. Considering this form of disclosure as representative of one segment for these companies, an average of 3.00 pre-takeover industry segments was reported for this group of so-named single-industry acquirers. The practice of voluntarily reporting segments by the single industry companies is contrary to the fact that the accounting standard on segment reporting, AAS 16 paragraph 26, states that any company operating predominately within the one industry need only disclose this fact and the products and services it provides, and does not have to present financial segment data. A complete listing of the single-industry companies, the number of 'activities' they are involved in, and also the number of pre- and post-takeover segments can be found in Appendix H.

Combining the two groups of corporate acquirers, the average number of pre-takeover industry segments was 2.91.

---

⁴ 2 companies failed to segment report (see Appendix H).
Geographical segments. A similar study was made of the reporting in the pre-takeover period of geographical segments, and revealed that, where industrial segment data were reported, geographical data were also reported in most cases (see Appendices G and H). It is noted however, that seven companies did not even disclose the geographical location of their principal activities, as distinct from identifying the company's registered office. For many of the companies in the sample, geographical segment disclosure meant a statement that the company operates predominately in one location, viz. Australia. Accepting that this is a legitimate interpretation by the company of its activities, it follows that no additional segmentation is then needed under AAS 16 (para. 28).

For this analysis of the impact of geographic location disclosure requirements, the companies were treated as a single group, without regard to the industry classification used above. The average number of pre-takeover geographical segments per company was 1.83.

The post-takeover segment reporting practices are now discussed and compared with these pre-takeover practices, to illustrate improved compliance with AAS 16, and also the expansion policies of the acquirers in the sample.

5.1.5 Post-Takeover Segment Reporting Practices

The timing of the takeover closing date and the acquirer's balance date play an important role in determining the first year in which the takeover could be reported subsequent to its completion. For each takeover,
this analysis was performed and the results were tabulated earlier in Table 5.1 (see section 5.1.2).

The annual reports for all corporate acquirers and the returned questionnaires revealed that only one company from the number that were expected to report their takeovers in 1985, failed to segment report and hence, disclose the acquisition, in that year. In 1986, only three of the expected companies failed to supply segmented data; and in 1987, three companies (which were involved in five takeovers) failed to segment report and also disclose the acquisition (see Appendices G and H for company names). These results are provided in Table 5.2 below.

As explained before, AAS 16 paragraph 26 requires that single-industry or one geographically-located companies state that the company operates within one industry or location, and a break down of the company's operations into segments is then not required. Therefore, included in the "Actual Frequencies" column of Table 5.2 are companies that claimed that they fit into this category (see notes ii, iv and v of Table 5.2). An example of this would be a horizontal takeover of a single-industry target. The

---

5. Table 5.1 in section 5.1.2 shows the number of takeovers in each year of the sample period and the expected year of first disclosure in the segment reports of the financial statements. In 1985, 26 takeovers took place but only 8 could be reported in that same year.

6. In 1986, the total number of takeovers expected to be reported is the addition of the 1985 and 1986 columns of Table 5.1 (8 + 17 = 25). Similarly, in 1987, there was expected to be the total of 1985, 1986 and 1987 first disclosed takeovers (8 + 17 + 24 = 49).
implications of the information loss in these situations are discussed in Chapter 5.

**TABLE 5.2**

**EXPECTED AND ACTUAL FREQUENCY OF POST-TAKEOVER SEGMENT REPORTING**

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected Frequency</th>
<th>Actual Frequency</th>
<th>No Segment Data Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Companies Takeovers</td>
<td>Number of Companies Takeovers</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>8</td>
<td>7(ii)</td>
<td>1</td>
</tr>
<tr>
<td>1986</td>
<td>21</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>1987</td>
<td>36</td>
<td>33</td>
<td>5(vi)</td>
</tr>
</tbody>
</table>

(i) 4 could be reported as a post-balance day event only
(ii) includes 2 takeovers by companies claiming single-industry status after the takeover
(iii) 2 could be reported as a post-balance day event only
(iv) includes 8 takeovers by 7 companies claiming single-industry status after the takeover
(v) includes 8 takeovers by 8 companies claiming single-industry status after the takeover
(vi) takeovers involving 3 companies (2 single-industry)

The point of this exercise is to highlight only those cases whereby segment reporting was not complied with. The analyses of the takeover closing date and the reporting entity's balance date and the type of company making the acquisition, indicates that segment reporting should have been performed. Therefore, the number of segment reporting cases can partially be justified by single-industry status of the acquirer after the takeover.

Takeover activity in a segment reporting environment implies that disclosure of the target company acquired will be made in some way in the segment reports of the acquirer.
The discussion to follow on the number of post-takeover segments reported is an important one for this study.

The average number of post-takeover segments reported. A comparison of the average number of post-takeover segments with the pre-takeover segments reported by the acquirer indicates that expansion activities have taken place through the takeover. If the number of segments has increased since the takeover, then there is the likelihood that a new segment has been created in which the target acquired could be reported. 30 companies reported segment data in some form before making their takeover acquisitions in 1985 or 1986 whilst 33 reported segments after completing their takeover acquisitions. The average number of pre-takeover segments per company reporting segments in this period (see section 5.1.4) was 2.91. The post-takeover average number of segments was 3.36. A generalisation of the significance of this increase in averages is not justified unless segregation of the sample into the two acquirer groups is made.

Looking firstly at the Group 1 Entrepreneurial Investors acquirers, it is found that this type of acquirer tends to diversify through company takeovers. The average industry segments rose from 2.75 before the takeover to 3.46 after, which is a larger increase than that experienced by the entire sample. An assumption could be made from this calculation that the entrepreneurial investors, because they were involved more frequently in diversified takeover actions than horizontal, have
increased the number of segments they report as a result of the takeover (see Appendix G). This practice of new segment creation is later discussed in section 5.1.6.

On the other hand, the single industry companies were less involved in diversified actions than horizontal integrations. The involvement in horizontal takeovers by this type of acquirer would not necessarily require an increase in the number of segments reported, regardless of whether or not these single-industry companies had broken down their operations into segments representing different activities. The findings of the study on this matter are that their pre- and post-takeover industry segment averages were 3.00 and 3.30 respectively. This is in line with the earlier presumption that these companies, by their nature and the type of takeover they were chiefly involved in during the investigation, do not lend themselves to the creation of new industry segments as a result of the takeover (see Appendix H).

There was also little change in the number of pre- and post-takeover geographical segments reported by the entire sample of corporate acquirers. The pre-takeover average was 1.83 whilst the average number of post-takeover geographical segments was 1.91. Appendices G and H indicate which companies complied with AAS 16 by reporting the geographical location/s of their operations. The majority of acquirers stated that they predominately operate within Australia, hence these operations were not geographically segmented. However, for the average to be
above one, some of the companies in the sample had to contain geographical segments outside Australia.

The evidence gathered in this study of the pre- and post-takeover segmentation practised by the acquirers is further analyzed below in terms of the qualitative and quantitative segment data reported, and then later in section 5.1.6, in terms of the type of takeover undertaken and how this influences the practice of expanding the number of segments reported through a takeover action.

**Qualitative segment information.** Disclosure of the nature of the products and services produced by each segment is a requirement of paragraphs 14, 26, 27, and 29 of the Australian accounting standard on segment reporting. Questions 6, 9, and 12 of the company survey provided information on this level of compliance with the standard. In all cases, company products and services were described, with the placement of this information exclusively in the 'Review of Operations' section for 42.9% of the takeovers and 20% of the takeovers disclosed qualitative segment information exclusively in the footnotes. While 10% used the Directors' Report, 6% (two companies or three takeovers) used a separate statement in the 1987 financial statements to describe the products after changing from the footnotes placement of the previous year. Some additional companies disclosed qualitative information in both the Review of Operations and the footnotes. This occurred in 26% of the surveyed takeovers. Hence, the percentage of the takeover sample reporting qualitative segment data in
the Review of Operations, both exclusively and jointly with another placement in the annual report, was 71.4%; and likewise in the footnotes, 51% (see Appendix L).

Quantitative Segment Information. Questions 15 - 23 of the questionnaire looked at the actual level of financial segment disclosure and placement of this information within the annual reports of the sample companies. The results of this investigation deal with those companies that provided some form of quantitative segment data after the takeover. That is, 27 companies. This eliminates eight companies claiming single-industry status, such that their segment reporting disclosure was limited to a statement in the Notes to the Accounts section of their annual reports, that they operate in a single industry (see Appendix L). The following results were revealed for the 27 companies that were diversified and supplied quantitative segment data.

1. All companies reporting financial segment data disclosed segment revenues, result, and carrying amount of assets (This constitutes full compliance with paragraph 30 AAS 16).

2. Only 13 companies complied with subsection (d) of paragraph 30, by providing details of the bases of inter-segment sales. Eight of these 13 companies complied by stating that there were no inter-segment sales made or that "no material inter-segment sales" occurred. Two other companies gave the financial
amount of these sales but not the base on which it was calculated.

3. In all cases the totals of the segment revenues, results, and assets were aggregated with the consolidated financial statements -- which is a requirement of paragraph 31 of AAS 16. This meant that, in most cases, a segment named "other" was usually reported, to make up the difference between the consolidated figures and the aggregate of the reportable segments.

4. The annual reports disclosed extra information on the contribution each segment made to the consolidated profit of the group in only four cases. These cases used either a pie graph, stacked histogram, or a discussion paragraph to display this information. However, only one provided additional financial percentage-of-profits figures. In answer to the question on the presentation of the relationship of the segments to the consolidated profit, the company representatives marked "as financial totals only" in preference to "as a graph/diagram/chart" or "as

7. AAS 16 paragraph 12 requires that reportable segments should constitute a substantial proportion of the total operations of the company. A guideline test is that the total revenue from sales to outside customers of all the reportable segments is to constitute 75% or more of the total revenue of the entity derived from outside customers. This test can often lead to the creation of an "other" segment which makes the activities of the company beyond those entrenched in the reportable segments, up to 100%.

8. Email, National Permanent Finance, NZI Insurance, Parry Corporation.
percentages of the consolidated figures. The respondents appear to have assumed that presenting their segment data in the table format, as illustrated in Appendix 1 of AAS 16, adequately discloses the contribution of each segment to the group. This form of presentation may provide information on the segment-consolidated profits relationship to an investor with some mathematical knowledge. The aim of Question 22 in the survey was to discover if any extra information had been voluntarily provided by the companies about a segment's contribution to the group. The results appear to suggest that such additional voluntary disclosure did not occur.

This was considered important in light of the sample of corporate acquirers and the possibility that some might separately segment the acquired company. That is, if companies do supply percentage-of-profits contribution or percentage-of-total assets held by each segment, then this would be one factor in considering how segment reporting can be improved to help compensate for the information loss caused by takeovers.

Placement of quantitative segment data. A probe into the placement of quantitative segment data in the annual reports of the sample companies, showed clearly the popularity of the Notes to the Accounts section of the annual report. All of the companies reporting quantitative segment data adopted this placement in their annual
reports, although one company switched from the Notes to the Accounts to the Financial Statements in 1987. Another three companies used a separate schedule in the financial statements for presentation of financial segment data (see Appendix L for company names). Hitherto, segment reporting has not been considered 'important enough' by the profession or industry, to be an additional financial statement. This development may be contrasted with the way the Statement of Sources and Applications of Funds became a readily recognisable additional financial statement after the release of the standard AAS 12 in March 1983.

Now that the degree and level of compliance with AAS 16 has been determined for the sample acquirers studied, and the extent of expansion of segmentation taken by the respective groups of acquirers has been realised, it is important to look at the specific practice of segment creation caused by the takeover itself.

5.1.6 The Creation of New Segments after the Takeover

Perhaps the most important finding of the study is the frequency of segment creation in the post-takeover period. The sample is again divided into the industry classifications used in sections 5.1.1 and 5.1.4 to look at the trend in pre-and post-acquisition segment reporting. These groups are divided further into the type of takeover undertaken to see if there is the link between takeover-type and the frequency of new segments created as
postulated in section 5.1.3. The results are set out below in Table 5.3.

**TABLE 5.3**

**THE TYPE OF TAKEOVER, ACQUIRER, AND FREQUENCY OF NEW SEGMENT CREATION FOR THE TARGET COMPANY IN THE POST-TAKEOVER REPORTS**

<table>
<thead>
<tr>
<th>Type of T'over</th>
<th>Single-Industry Co.s</th>
<th>Diversified Investors</th>
<th>Total reporting a new segment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of T'overs</td>
<td>New ind'ry segment</td>
<td>New geogr'l segment</td>
</tr>
<tr>
<td>Horiz</td>
<td>16</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vertical</td>
<td>2</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Diversified</td>
<td>6</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>24</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

(i) This only recognises the reporting of a new segment in the first annual report produced after the takeover had been completed. Therefore, ignored is the instance of one company failing to report the target in a new segment until the second year subsequent to the takeover.

(ii) One diversified takeover created both a geographical and industry segment for the integration of the target acquired into its reports. Therefore, the number of diversified takeovers creating a new segment is one less than the sum of the row of figures pertaining to diversified takeovers.

This table reflects the following findings:

1. Out of 26 horizontal takeovers, only two had new segments created in the post-takeover reports of the acquirer (7.7%). This supports the expected outcome postulated in Section 5.1.3.
2. The two vertical takeovers did not create industry segments although one created a geographical segment for the target. The lack of industry segment creation was expected to be the case and is in accordance with the requirements of AAS 16 (para. 7).

3. Of the 21 diversified takeovers, eight created new segments (38.1%). These companies were expected to do so, but the number doing so is lower than expected. This indicates that the target's results and assets have been absorbed into the acquirer in the remaining 61.9%, reducing the amount of accounting information disclosed on the target once it has been acquired.

The influence of such a low level of new segment creation in post-takeover periods on the shareholder 'utility' of the segment reports produced subsequent to the takeover are revealed during the discussion on the shareholder responses in the second part of this chapter and again in the Conclusions and Recommendations Chapter.

A listing of the acquirers, divided into the "Entrepreneurial Investors" group and "single-industry" companies, their takeover types, and whether a new industry and/or geographical segment was created can be found in Appendices I and J respectively.
5.1.7 The Anomalies in the Presentation of Segment Information and the Remainder of the Annual Report

The analysis of the segment reporting content of the annual reports of the corporate acquirers involved not only the financial statements and segment reports, but also the descriptive sections of the Directors' Report and the Review of Operations. Goodwin and Goodwin (1987) and Emmanuel and Gray (1977a, 1978) are among some of the writers to have recognised the problems of segment identification and lack of consistency of the segments reported with the organizational structure of the reporting entity. The discussion of this issue can be found in Chapter 2, part 2.4 and the implications for standard setters in Chapter 6.

In the current investigation, there were several cases of inconsistencies within the annual report relating to segment identification. 14 companies (38.9%) reported different industry segments in the financial statements from those organizational 'divisions' discussed at length in the Review of Operations. In all cases, there were fewer segments disclosed in the Notes to the Accounts than the divisions discussed in the Review of Operations section of the annual report. The variance between the reported segments and the discussed divisions in the annual report ranged from one to four divisions.

The most striking cases occurred where the company claimed 'single-industry' status according to the statement in their annual report regarding segment reporting and AAS 16. Notwithstanding the divisional detail reported
elsewhere, this situation allows companies to not report financial segment data under paragraph 26 of AAS 16. This occurred in five of the 14 cases showing these inconsistencies. However, these same companies discussed several organizational divisions in the Review of Operations section of the annual report.

These matters are worth noting and comparing with the AAS 16 definition of an industry segment; namely, "a distinguishable component of a reporting entity, where such component is engaged in providing a product or services, or a collection of related products or services..." (para. 2). It would seem highly probable that the organizational divisions discussed by single industry companies are "engaged in providing a product and service..." in line with being considered an industry segment.

Appendix K lists the companies of the sample that were involved in these cases of inconsistency between the qualitative and quantitative sections of their annual report. The classifications of these companies into single industry or entrepreneurial investors plus the number of their reported pre- and post-takeover divisions and segments are also listed in Appendix K.

It was found that in nine cases, where no new industry segment was created as a result of the takeover, a new organizational division was established in the Review of Operations section of the annual report. In this new division the target's contribution to the group was usually discussed. In one of these takeovers, both a new segment and a corresponding new division were created in the report
of the acquirer after the acquisition. Nonetheless, the inconsistency between the segments and the divisions still existed in this case.

A few of the more notable cases are worth expanding upon here. John Fairfax and Sons Limited is identified by the Stock Exchange Industry Classification as being involved in the "media" industry and its approach to segment disclosures is apparently based on this fact. That is, in the years studied financial segment data were not reported as the Notes to the Accounts stated that the company operates predominately in the media industry. However, its Review of Operations section of the annual report revealed that the company considered that it provided the five different products or services of "newspapers", "magazines", "television", "radio" and "other". Interestingly, News Corporation Limited, which is also in the media industry, reported distinguishable segments of "newspapers", "magazines", "television", "commercial printing", "filmed entertainment" and "other". This comparison is made to highlight the differences in identifying segments by companies of the same industry. The differences lie in the bases of segmentation used.

Whilst Fairfax used the 'industry classification' basis, News Corporation used the 'product line' basis. The former is a very broad basis for segmenting the operations of a diversified company and can hide the fact that an industry classification may consist of several 'product lines', each constituting a "...distinguishable component of a reporting entity...producing a product or service..."
Another case of inconsistency was found in the reports of S.A. Brewing Limited. It claimed that it operated in the single industry of "the manufacture and sale of beer, wine, spirits and aerated waters" (1985 and 1986 Annual Reports). The Stock Exchange Industry Classification for S.A. Brewing Limited is "Alcohol and Tobacco". Due to this fact, the company did not present segment reports before either of its two takeovers. However, in the corresponding Review of Operations sections of the annual reports of those years, S.A. Brewing Limited discussed three organizational divisions, "brewing", "packaging", and "wines and "spirits". After its takeover of J. Gadsden it created two new segments which were duly identified in the Notes to the Accounts, thus making the acquirer a diversified company that now complied with AAS 16. However, in this same post-takeover year the annual report revealed that the company considered that it had five, not three, operational divisions.

One of the entrepreneurial investor companies falling into this group of companies reporting inconsistencies in their annual report with respect to segment identification, was Linter Group Limited. In the years prior to its two takeovers, it did not report any segment data. In 1985, it was a single industry company operating in the textile industry. In 1986, after its takeover of Broadcast Communications, it had diversified its activities and could not justifiably claim single-industry status as an exemption from segment reporting. The annual report for that year dismissed the relevance of AAS 16 by stating that
the company "considered segment reporting not appropriate". The annual report also discussed two industry/organizational divisions named "media and communications" and "textiles", which indicates that the company does have two very "distinguishable components...each engaged in providing a product or service..." (para. 2 AAS 16 definition of an industry segment). In 1987 Linter Group Limited provided segment reports which matched this divisional organization, and the 1986 comparative segment figures were incorporated in the 1987 report in spite of the non-disclosure of the previous year. However, this disclosure was maybe a year too late for the investors concerned.

---

This part of Chapter Five looked at the types of companies that were acquirers in the sample takeovers of this study, the nature of the takeovers, and the extent of post-takeover segment reporting and new segment creation. These things should be kept in mind when reading the responses received from the common target-acquirer shareholder questionnaire in the next part of the chapter. The discussion there will reveal the level of satisfaction/dissatisfaction shareholders feel with the segment reports of the acquirer in a post-takeover period.
5.2 The Common Target-Acquirer Shareholder Questionnaire

In the preceding part of this chapter, all the details pertaining to the questionnaire directed to the corporate acquirers were recorded. The sections on the segment reporting practices of these companies before and after their respective takeovers and the types of takeovers undertaken, provide a background to the presentation of the responses to the second survey.

307 shareholders, who were common to both the target and acquirer during the takeover bid period, were mailed a questionnaire in 1987. In the Methodology chapter (section 4.4.4), it was explained that 91 responses were received but after the various elimination detailed earlier, only 24 remained as useable. In the following sections, discussion will take place on the types of shareholders making up the initial mailing list, and the results received from the 24 useable responses. The discussion on the useable responses will include the shareholders' degree of awareness and understanding of segment data terminology, their general attitude to the takeover they were involved in, and their attitude to the acquirer's disclosure of the acquisition. Information about the attitudes leads into an identification of the needs of shareholders for information regarding segments of a company and takeovers the company has been involved in. Finally the section outlines the responses concerning shareholders' satisfaction or 'utility' with the post-takeover segment disclosure of
their target company which had been acquired in the 1985 –
1987 period.

5.2.1 Makeup of the Shareholder Sample Group

When identifying the names and addresses of the common
Top 20 target-acquirer shareholders (see section 4.4.3) it
became obvious that this shareholder group would be largely
made up of institutional investors, such as the life
offices, nominee companies of banks, and trustee companies.
Individual personal shareholders were less common. After
completing the steps previously described in identifying
the shareholders, 307 questionnaires were mailed to a
total of 132 different shareholders. Institutional
investors were involved repeatedly in the 49 takeovers of
the sample \(^9\), so at least in concept, several of the
takeovers could be studied from the point of view of the
one shareholder. However, this opportunity was subject to
limitation because many of the institutional investors
could not respond for reasons they considered important.

Nominee company shareholders and trustee companies act
merely as agents for their clients, who were the 'real'
investors in the target and acquirer companies. In these

---

9. ANZ Nominees Ltd. was a shareholder 24 times in the
group of 36 companies of the sample; Bank of NSW
Nominees (15 times); National Mutual Life (15);
National Nominees Ltd (15); AMP Society (14); MLC Life
(13); Eagle Star Nominees (6); Mercantile Mutual Life
(6); Permanent Trustee Nominees (Canberra) (6);
Perpetual Trustee Co. (5); NRMA Investments (5);
Colonial Mutual Life (5); Wardley Australia (4);
Pendal Nominees (4); Public Authorities Superannuation
Board (4); Portfolio Services (3); Winchcombe Carson
Trustee (3).
cases, the identity of the clients could not be revealed by
the trustee or nominee companies, so direct contact by a
mail questionnaire was not possible. 47 of the 307
questionnaires were returned from nominee, trustee, and
private investment companies acting in this agency
capacity. Non-responses from a further 75 shareholders
were also explained by this reason. Therefore, the total
number of times a nominee, trustee, or private investment
company was identified as a shareholder in the 49 takeovers
studied, was 122. It may be noted that only 30 individual
nominee and trustee companies were involved in these 122
investments.

The 24 useable responses were received from only eight
identifiable shareholders. The life investment office,
Australian Mutual Provident Society, supplied answers in
respect to each of its 14 investments in the selected
target or acquirer company included in the study's sample.

The following discussion will concentrate on the 24
useable responses. These responses covered 21 separate
takeovers among the 49 sampled. Notwithstanding the low
response rate possible from this shareholder sample group,
trends discovered in the responding portion will be taken
as being indications of the likely trends that might occur
in the entire group. As previously explained, the study
commenced from all reported takeovers in the period
selected. The study therefore has taken steps to include
every possible identifiable respondent.
5.2.2 Shareholder Knowledge of Segment Data Terminology


The respondents were asked to indicate whether or not they considered themselves to understand the technical meaning of these terms. 22 respondents indicated that they considered themselves to understand all of these terms, and two understood all but term number 4. These responses suggest that the selected respondents are technically informed about these aspects of financial reporting. Therefore, it was assumed that further questions in the survey on segment reporting would be understood by the shareholder sample group. The results of their attitudes to segment reporting and how their investment needs are satisfied by segment data are then assumed to reflect the attitudes and needs of 'sophisticated' rather than 'naive' investors\textsuperscript{10}.

\textsuperscript{10} Clift (1975), Benston & Krasney (1978) studied the satisfaction of financial reports held by "sophisticated" investors in their decision making processes. Sophisticated investors were financial analysts, bankers, and stockbrokers.
5.2.3 General Attitude to the Takeover and to the Manner of its Disclosure in the Annual Reports of the Acquirer

Question Two of the survey asked the respondents to identify, on a five point scale, their attitude to the takeover activities of their company (the acquirer). This scale permitted them to indicate a measure of favourable support or opposition as the case might be. The following information was received from the 24 respondents:

**TABLE 5.4**

<table>
<thead>
<tr>
<th>General Attitude Held by Shareholders Toward the Takeover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Much in Favour With</td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

An attempt was made to further explore this shareholder opinion about the takeover. The respondents who answered "Indifferent To", "Not in Favour With", or "Strongly Against" were asked in Question Three to explain this dissatisfaction with the takeover. Unfortunately no explanations were received from these dissatisfied shareholders. Question Three seemed to have been ignored by the respondents.

It could be expected that shareholders in an acquiring company would be concerned with the extent of disclosure about the acquisition made by the company. The survey then required an answer to a question on the level of satisfaction gained from the acquirer's disclosure in its
annual report, of the acquisition it had made in the year of that report. A six point scale, plus provision for an "other" alternative, was provided for answering. The following results were generated from the study:

**TABLE 5.5**

**GENERAL ATTITUDE HELD BY SHAREHOLDERS TOWARD THE ACQUIRER'S ANNUAL REPORT DISCLOSURE OF THE ACQUISITION**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>4</td>
<td>-</td>
<td>4</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Unfortunately, 13 other shareholders asserted in their reply that they could not remember their attitude to the annual report disclosure of the takeover in the year following the takeover. One other shareholder responded that they did not read the annual report and another stated that the annual report subsequent to the takeover had not been released at the time of questioning.

The questionnaire further investigated these responses although there were only nine responses which could lead to further detailed enquiries. For answers that fell into the "Fairly Adequate" answer scale or any scale to the right of "Fairly Adequate" in Table 5.5, the respondents were asked firstly, what further information they would prefer to be disclosed about the takeover and secondly, where they would like to see this "additional" information placed in the
annual report (Questions 6 and 7 of the questionnaire respectively). Five possible answers plus an "other" alternative were supplied and the shareholders were required to rank their preferences for this additional information. Six takeovers were covered by the answers to the first question (the type of additional information desired about a takeover) whilst eight takeovers were referred to in the second question (the placement of the additionally desired information about a takeover).

Additional information desired by shareholders about a takeover. The results of the questioning of the shareholders who were dissatisfied with the existing post-takeover disclosure practices of their acquirer companies, provide an insight into the perceived information needs of these respondents. The additional information sought mostly related to details of the bid rather than the accounting results of the acquisition, which would be a possible subject of segment reporting. All of the dissatisfied shareholders wanted information on the "details of the bid consideration", the "method of financing" and the "acquirer's intentions for the target". One third of these shareholders also wanted the "total acquisition price" disclosed by the acquirer and one other shareholder would like to have been given the "price per share offered in the bid". Two respondents to this questioning did not answer.
The shareholders' preferred placement within the annual report for the desired additional information about a takeover. Question Seven of the shareholder survey asked these dissatisfied shareholders for the preferred placement of the additional information they would like reported about a takeover in the first annual report of the acquirer after the acquisition. The questionnaire provided for four alternative positions within the annual report and the respondents were asked to rank their preferences. Table 5.6 below shows the results received from the eight respondents to this question.

**TABLE 5.6**

<table>
<thead>
<tr>
<th>SHAREHOLDERS' PREFERRED ANNUAL REPORT PLACEMENT OF ADDITIONALLY DESIRED TAKEOVER INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of Operations</td>
</tr>
<tr>
<td>1st Pref</td>
</tr>
<tr>
<td>2nd Pref</td>
</tr>
<tr>
<td>3rd pref</td>
</tr>
<tr>
<td>4th Pref</td>
</tr>
</tbody>
</table>

The results show a preference, in the first and second instances, for the extra details of the bid consideration, acquisition price, method of financing the takeover and the acquirer's intentions for the target, to be disclosed in the "Review of Operations" section of the annual report. Whether or not the respondents were conscious of the fact, this placement would generally place the additional
information outside the formal accounts covered by the audit report. On the other hand, segment information is to be reported according to the relevant professional and statutory requirements for segment information in the 'Notes to the Accounts' which are, by definition, part of the formal audited accounts. These results can be noted for later comparisons with the shareholders' desired placement of segmented data (section 5.2.4).

The activeness of the takeover pursuit by the acquirer. The aggressiveness and persistence exhibited by the corporate acquirer in pursuing a particular takeover is referred to in this context as the "activeness of the pursuit of the takeover". A measure of the degree of this takeover activeness taken by the acquirers in this study was determined by assessing the method in which the acquirers informed the target shareholders of the worthiness of the takeover bid. It appeared in the answers received from the 24 respondents to the shareholder questionnaire, that the "media" was the most common means for the shareholders to become aware of the progress of the takeover. "News Releases" received "occasionally" from the acquirer ranked as the second most popular form of communication with the shareholders during the offer period. In four cases stockbroker reports provided additional information for the more takeover-interested shareholders of the group.

These results indicate that very few of the sampled corporate acquirers undertook an active pursuit of the
shareholder vote. If section 5.2.3 is referred to again, it can be seen that 12 out of the 16 shareholders who could remember the takeover well enough to answer Question 2 of the survey, considered the takeover as a friendly one ("Very Much in Favour With" or "In Favour With"). These results also confirm the earlier discussion in section 5.1.3 on the target companies' attitudes to the takeover and their overall lack of objection to the bid.

The discussion thus far on the common target-acquirer shareholder questionnaire has concentrated on what shareholders expect from financial reporting in respect to the acquisition per se. The following sections deal with what the shareholder group perceives about their needs in respect to segment data in post-takeover periods.

5.2.4 The Type of Segment Information Shareholders Would Like Disclosed in the Annual Report

Completion of an acquisition of a target company creates a new or expanded corporate group. At this stage, the study investigates the information sought by the shareholders about the segments of the newly established group. According to the sample of common target-acquirer shareholders, if qualitative information was the only information disclosed in the annual reports about the individual activities of the segments of their company, this was considered "quite inadequate" or "very inadequate" by 19 of the 24 respondents. The remaining five

11. Question 9 of the questionnaire (see Appendix D).
shareholders interestingly, found that qualitative information was "partially adequate" or "fully adequate" for their investment needs. This diverse consideration for qualitative segment information is an example of the diverse needs of "users" of financial statements, studied much in the past by Revsine (1970), Demski (1973), and Benjamin and Stanga (1977).

AAS 16 seeks to satisfy these needs by providing a specified form of quantitative segment information. What is of major importance to the present study is, if some shareholders (even if it is only a small minority of the sample) consider that the optimal type of segment disclosure is qualitative rather than quantitative, then we should ask ourselves, whether or not AAS 16 can satisfactorily supply these users with their desired investment information.

The survey then continued asking the shareholders who had responded to the above issue on qualitative segment information in a negative fashion, what type of segment information they require from the annual reports. The survey provided the respondents with a list of financial items that are presently required to be disclosed about the segments of a public company, and some additional items not mentioned in AAS 16. Provision was also left on the survey form for any "other" segment information desired by the common target-acquirer shareholders. The objective of this form of questioning was to see if shareholders desire the segment information that shareholders are currently
supplied within annual reports that comply with the AAS 16
standard on segment reporting, or if they desire more.

The list of segment information additional to
qualitative-only information was provided in Question 10 of
this survey, and is repeated here:

1. Revenue generated and its source
2. List of Expenses
3. Segment Results
4. Intersegment billings for the cost of shared assets
5. Assets held by each segment
6. Assets shared by a number of segments
7. Production details of manufacturing units.

The 24 respondents revealed the following preference
for segment data:

1. For 18 of the takeovers, the common target-acquirer
shareholder wanted all of the above seven listed items
about the segments of the acquirer.

2. Segment Revenue and Result alone were considered
desirable by two of the respondents, whilst "Segment
Result" was sufficient for one shareholder.

3. Items 1, 2, 3, and 5 were quite adequate segment data
for two respondents.

4. The information about the "employment of a segment's
funds" was sought in addition to the seven listed
items by one shareholder.
In summary, it can be noted that the majority of the shareholder respondents wanted financial information in respect to segments of a company exceeding that required by AAS 16. In addition to the items of segment revenue, result and assets, these shareholders also desire the reporting of segment expenses, the commonly shared assets identified separately to the total segment assets, and details of the production costs if the segment is a manufacturing unit.

The shareholders' preferred placement of segment data within the annual report. Having discovered, in most cases, that shareholders desire more than just qualitative segment information, the survey asked the shareholders to mark the preferred placement within the annual report for this additional quantitative segment information. Preferences were sought to this question, and the following tabled rankings were revealed. Some shareholders failed to provide a second or third preference, so the responses shown here do not match the total number of responses received to the question.

<table>
<thead>
<tr>
<th></th>
<th>Financial Statements</th>
<th>Footnotes to Fin. Stmts</th>
<th>Separate Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Pref</td>
<td>-</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>2nd Pref</td>
<td>2</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>3rd Pref</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**TABLE 5.7**

**SHAREHOLDERS' PREFERRED ANNUAL REPORT PLACEMENT OF SEGMENT DATA**
The numbers are lower in the second and third preferences because only six of the 21 shareholders who answered this question gave their second or third preferences. Looking at the first preferences for the placement of quantitative segment data within the annual report, the results show that the "Footnotes to the Financial Statements" (often called Notes to the Accounts) is the most preferred placement. Even in the second preferences, shareholders still desired the footnotes for segment data reporting. These results may be contrasted with the previously discussed preferred placement for additional information about the takeover bid itself. The shareholder respondents stated that they prefer to have the information about a bid disclosed in the unaudited Review of Operations section of the annual report, whilst the additionally desired segment data are to be reported in the audited Notes to the Accounts. Again the question of consciousness by the shareholders of this paradox is mentioned. Although the questionnaire was able to determine that these shareholders were technically informed about the terminology used in segment reporting, the responses received to this issue seem to cast doubt on the degree of sophistication of these shareholders.

The survey asked more specific questions about the shareholders' level of satisfaction with the post-takeover segment reporting practices of the acquirer pertaining to the target acquired. The actual reporting practices are the result of professional and statutory reporting
requirements and additional voluntary disclosures made by the companies concerned. These results are detailed in the next section.

5.2.5 Shareholder Satisfaction with the Post-Takeover Disclosure of the Target within the Segments Reports of the Acquirer

The study endeavoured to discover if the specific corporate acquirers, in adopting the measures of reporting suggested by AAS 16 and required in ASRB 1005, provide the information shareholders want disclosed about a recent takeover. Of particular concern was whether the integration of the acquired company into the acquirer is obvious to the reader of the financial segment data and the qualitative sections of the annual report. Question 15 of the common target-acquirer shareholder survey asked shareholders if they considered that the acquirer had "adequately" disclosed the integration of the target company into its operations. The interpretation of 'adequately' here was left to the individual shareholders. However, it is assumed that 'adequacy' implies that the financial reports are 'useful' to the shareholders concerned. It has been stated also that the 'usefulness' of financial statements is directly related to the "relevance" and "understandability" of these statements to the investment needs of the particular user [Morton (1974)]. Therefore, if the shareholders consider the disclosure to be inadequate for their needs, then the 'usefulness' of the financial statements is also questionable.
In spite of the potential definitional problem in Question 15 of the questionnaire, the results indicated considerable dissatisfaction with the segment reporting disclosure of the target in the acquiree's post-takeover reports. In 20 of the 21 responses received to this issue, the common target-acquirer shareholder thought the disclosure by the acquirer of the integration of the target into the acquirer was "inadequate". Only one shareholder felt that the acquirer had adequately disclosed the target's integration into the acquirer. The general tenor of these responses is to suggest that the shareholders believe there is a lack of specificity and precision in reporting consequential to the completion of the takeover. Later this level of shareholder dissatisfaction will be compared with the actual degree of post-takeover segmentation undertaken by the acquirer. This will determine if an explanation for this inadequacy of segment reporting for takeover actions can be made from the study's results.

The shareholders' stated reasons for their dissatisfaction. With such a high degree of dissatisfaction with the disclosure of the target's integration in the post-takeover annual reports of the acquirer, it is important that the shareholders reveal their reasons for this dissatisfaction. In the survey, the shareholders were asked to mark from a supplied list, their possible attitudes to the current level of disclosure adopted by the
acquirer, or provide their own comment if the list was not applicable.

In four takeovers, the shareholders marked "it is difficult to locate information about the acquired company in the annual report" and "very little information is given about the maintenance or deployment of staff and/or resources of the acquired company since the takeover" as their explanations. For two other takeovers, the shareholders marked "the information about the acquired company is usually brief and mainly descriptive or qualitative in nature" and "very little financial information is provided about the acquired company's contribution to the 'new' company". Finally, in 14 takeovers, the shareholder concerned stated that they "distrust segment numbers as they are often fiddled and misleading...takeover information is scant and Part B reports are 90% appalling".12

Such strong responses to this question casts doubt on whether or not segment reporting has been achieving what it was designed to achieve -- "...to enable users of financial statements to make a better analysis of an entity's past performance." (para. 3, AAS 16). This assessment suggests that the accounting profession faces the dilemma of whether to persist with existing professional and statutory requirements or whether to adopt an entirely different approach to this area of reporting. Companies, although they are conforming with the requirements of the

12. The identity of this shareholder will remain nameless.
professional and statutory standards on segment reporting, may not be assisting in providing the information that shareholders want about the segments of the company, especially after a takeover has occurred.

The possible explanation for this dilemma. The two questionnaires were designed to provide information from two very different sources about the post-takeover disclosures made about the takeovers sampled. In this way, the types of responses received from one questionnaire were hoped to be explained by the responses from the other.

On the issue of shareholder satisfaction or dissatisfaction with the post-takeover disclosure of the integration of the target into the annual report of the acquirer, a link was made between the creation of new industry or geographical segments and this level of satisfaction. As explained at the beginning of this section of the chapter, a "no" answer to question 15 of the shareholder survey indicated a degree of dissatisfaction with the disclosures made about the target company in the annual report of the corporate acquirers subsequent to their takeover activity. In each of these instances the annual reports and returned acquirer questionnaires were analyzed to see if the target had been incorporated in the reports as within an existing industry or geographical segment, or whether a new segment had been created as a result of the takeover.

In all of these cases, the acquirer had adopted full segment reporting according to AAS 16, so a lack of formal
compliance with the standard was not the cause for the shareholder dissatisfaction. It is highly relevant to note that very few takeovers had a new segment created to report the target's performance and contribution to the group. In only six takeovers of this mini-sample of 21 takeovers, did this occur. In one of these instances, the shareholder was satisfied with the post-takeover reporting, so this takeover was not further analyzed. The shareholders of the other five takeovers, where a new segment had been created, stated that they were nonetheless dissatisfied with the post-takeover reporting of the integration of the target into the acquirer's activities. In the 15 takeovers where no new segment was created and the target had been integrated into the existing segments of the acquirer, the shareholders also expressed dissatisfaction with the acquirer's reporting practices.

Intuitively it might be asserted that for horizontal takeovers, this result was expected (see section 5.1.3). Shareholders of this type of takeover can expect that less information will be supplied to the market about the activities of the target company after it has been horizontally integrated into the acquirer company because of the similarity of the activities before and after the takeover.

To see if this is the case, a breakdown of the type of takeover and the frequency of new segment creation for the takeovers, where the shareholders were dissatisfied with the disclosure of the target's integration, is set out in Table 5.8.
TABLE 5.8

POSSIBLE EXPLANATIONS FOR THE SHAREHOLDER DISSATISFACTION
WITH POST-TAKEOVER DISCLOSURE OF THE INTEGRATION OF THE
TARGET IN THE ACQUIRER'S ANNUAL REPORT

<table>
<thead>
<tr>
<th>Type of Takeover</th>
<th>Number of takeovers where:</th>
<th>Total No. of Dissatisfied Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No new segment created</td>
<td>New segment created</td>
</tr>
<tr>
<td>Horizontal</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Vertical</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Diversified</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

The results displayed in this table suggest a possible explanation for the shareholder dissatisfaction. Notwithstanding the limited sample, there seems to be a relationship between dissatisfaction and a lack of new segment creation. Of the 20 takeovers where the common target-acquirer shareholder considered the disclosure of the target in the acquirer's annual report to be "inadequate", 15 did not create a new segment for the target. The affected shareholders stated that they found it difficult to locate information on the target's contribution to the group in the reports completed after the acquisition.

The above table only shows the level of segment creation in the takeovers where the shareholders were dissatisfied with the post-takeover segmentation and the acquirer's disclosure of the target's integration into the company. However, it is noteworthy that, even in the
takeovers where a new segment was created (this occurred in 5 of the 20 takeovers covered by the responses received from the shareholder survey) that the affected shareholders were still dissatisfied with the post-takeover integration of the target.

The above table also shows that this restriction of disclosure is compounded further if the takeover was a horizontal integration type. Here, the target becomes absorbed into, say, the "manufacturing" segment or the "brewing" segment, with little or no disclosure made of the previously independent company's operations. As expected at the outset (see the Introduction and section 5.1.3 of Chapter 5), horizontal and vertical takeovers would be less likely to create new segments after the takeover than a diversified takeover. In these circumstances, the market is forever denied the same level of accounting information after a takeover than it enjoyed before the takeover.

It can then be said that the lack of segment creation in the post-takeover period exacerbates the shareholders' overall dissatisfaction with the post-takeover annual reports.
5.2.6 A Summary of the Common Target-Acquirer Shareholder Questionnaire Responses

The shareholder questionnaire was designed to supply information about the financial reporting needs of shareholders in a post takeover situation and to be used in conjunction with the acquirer questionnaire in determining if cause and effect parallels appear in the shareholder utility of the post takeover annual reports.

The first result extracted from the shareholder questionnaire was that the majority of the shareholders sampled felt that qualitative segment information alone is inadequate for their investment needs. As for quantitative segment data, the shareholders expressed varied information needs. Some shareholders were quite satisfied with as little as 'segment result' for their financial data, whilst others desired all that AAS 16 offers plus financial segment data additional to this minimum, to satisfy their need for information about investments. This type of response supports the continuation of segment reporting and a possible enhancement of the range of information required in respect to segments. The survey also found that the most popular placement within the annual report for this segment information was the "footnotes to the financial statements".

The second and most important result extracted from this second questionnaire was the high level of shareholder dissatisfaction with the manner in which the acquirer disclosed the operations of the target within its segment reports and its annual report. This level should be regarded as alarming for those involved in developing
financial reporting. These dissatisfied shareholders asserted that they found it difficult to locate information on the target in the acquirer's annual report and thought that there was not enough financial information relating to the target's contribution to the new company group.

The study endeavoured to find a possible cause for this level of dissatisfaction. A link was identified between dissatisfaction and the lack of new segment creation in the post-takeover reports. The results of the study also revealed that horizontal and vertical takeovers, by their nature, do not require that a new segment be reported for the target, and that this situation compounds the level of dissatisfaction held by shareholders of the post-takeover segment reporting practice. In the mini sample of 20 takeovers having dissatisfied shareholders, it is noteworthy that 80% consisted of horizontal takeovers.

The sample of dissatisfied shareholders was small but a reference back to the frequency of new segment creation in the larger sample, and the type of takeover undertaken, shows an overall low level of new segment creation in the post-takeover period. Table 5.3 should be consulted again for details of new segment creation by each of the types of companies and takeovers in the sample. The table reveals that only 11 of the 49 takeovers created a new segment to integrate the target into the acquirer; therefore, 38 or 77.6% did not. Analysing this in terms of the type of takeover undertaken, it can also be noted that 63% of the takeovers not creating a new segment, were horizontal takeovers. The implications of these results for the
accounting information market, for standard setting, and for financial reporting are discussed further in the Conclusions and Recommendations chapter to follow.

---

The next part of the current chapter will detail the results of the questions asked of the corporate acquirer companies assuming the hypothetical situation where no accounting standard exists on segment reporting to restrict the way in which companies may seek to satisfy shareholder information needs.

5.3 The Corporate Acquirers' Preferred Forms of Segment Reporting

The first part of this chapter outlined all the details extracted from the corporate acquirer questionnaire and annual reports that pertain to the segment reporting practices of these companies before and after their respective takeover actions. The second part of the chapter outlined the responses received from the common target-acquirer shareholders relating to their attitudes to the takeover, the investment information requirements they seek from the annual report, and their level of satisfaction with the manner in which the acquirer reported the integration of the target into its operations.

The corporate acquirer questionnaire contained four parts and the fourth, "Part D", is explained here. It was necessary to leave the discussion of the results of this part of the questionnaire until after the discussion of the
shareholders' needs for segment data, so the present discussion of the acquirers' own desired level of qualitative and quantitative segment reporting and placement thereof in the annual report, can be directly compared with the shareholder responses.

5.3.1 The Acquirers' Preferred Bases of Segmentation

AAS 16 provides directions for public companies to "disclose in their financial statements information on industry and geographical segments..." (paragraph 1). The definitions of both industry and geographical segments are supplied in the standard along with an explanation of how the operations and results may vary between different segments. However ASRB 1005 and AAS 16 do not permit any bases other than these two for companies to segment their business.

The present study offered the representatives of the corporate acquirers the choice between four bases, including the two required by ASRB 1005, and provision was left for any "other" bases the companies might desire themselves. (See Question 44 of the questionnaire in Appendix B for details). The respondents to the questionnaire (9 in all) were also asked to give a ranking for their preferred bases of segmentation. The results are displayed in Table 5.9.
TABLE 5.9

ACQUIRER COMPANIES' PREFERRED BASES OF SEGMENTATION

<table>
<thead>
<tr>
<th>Industry Classif.</th>
<th>Geographical Location</th>
<th>Product Line</th>
<th>Other</th>
<th>No Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Pref</td>
<td>7</td>
<td>2</td>
<td>-</td>
<td>1(i)</td>
</tr>
<tr>
<td>2nd Pref</td>
<td>-</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

(i) "Divisional Grouping"

'Industry' segmentation proved to be the most popular form of segmentation for the small number of corporate acquirer respondents. Geographical segmentation was the obvious second preference. These responses suggest a degree of conditioning arising from the extant standard. Perhaps the fact that all but one of the companies had not thought beyond the suggested bases in AAS 16 to answer this question, accounts for the reduced popularity of alternative bases for segmentation, such as "product line produced or sold".

5.3.2 The Acquirers' Preferred Types of Reportable Segment Data

Compliance with AAS 16 requires companies to provide both qualitative and quantitative segment data in their financial statements. The qualitative data consist of a "general description of the products and services from which each reportable industry segment derives its revenue..." (paragraph 27) and the identity of each country or groups of countries comprising each geographical segment (paragraph 29). The quantitative data consist of
disclosure, for each "reportable industrial and geographical segment", of the following information: segment revenue, segment results, carrying amount of segment assets and the basis of intersegment pricing (paragraph 30). In addition, this financial information is to be "aggregated to agree with the related information in the consolidated or main financial statements." (paragraph 31).

The corporate acquirers questionnaire asked the respondents to identify their preferences for the types of segment data they would like to present, given that the AAS 16 standard did not exist. These preferences are shown below in Table 5.10.

**TABLE 5.10**

**ACQUIRER COMPANIES' PREFERRED TYPES OF REPORTABLE SEGMENT DATA**

<table>
<thead>
<tr>
<th></th>
<th>Qualitative</th>
<th>Quantitative</th>
<th>Not Answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Pref</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>2nd Pref</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

The response rate to this question was low amongst the corporate acquirers which returned the questionnaire. However, indications from the small number of responses, seem to be that some difference in the preferred types of segment data acquirers would disclose in the absence of a segment reporting accounting standard. The difference lies
in the fact that approximately half of the present sample would rather present qualitative segment data than calculate the financial figures required for full quantitative disclosure. What the sample acquirers define as quantitative segment data is explained in the next section.

5.3.3 What Financial Segment Disclosure Acquirers Consider is Adequate for User Needs

The corporate acquirer representatives were also asked about the extent of financial segment data they would provide shareholders, if there was no accounting standard to direct them. A choice between segment results, segment revenue, and segment assets was provided, with space for insertion of an "other" desired form of financial segment data.

The following outcomes to this question were received:

TABLE 5.11

<table>
<thead>
<tr>
<th></th>
<th>Segment Revenue</th>
<th>Segment Assets</th>
<th>Segment Result</th>
<th>All 3 items</th>
<th>No Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Pref</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>2nd Pref</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

The results show that, in the absence of an accounting standard on segment reporting, a majority of the acquirers
would prefer to disclose "Segment Result" as the only financial data considered adequate for shareholders' needs. The column "All 3 items" was the number of responses received from the corporate acquirers which had given equal importance to the alternatives by ticking the boxes of the questionnaire rather than ranking their preferences 1, 2 or 3. This indicates that these acquirers would not wish to disclose one type of financial segment information in preference to the others. All three items, that is, segment revenues, segment results, and segment assets were considered important for shareholder needs by these three acquirers. One other company added "corporate costs/assets" as another desired piece of financial segment information it would disclose. This piece of information was interpreted as being the amount of corporate overhead costs and common assets shared by the segments. This was the only "other" piece of financial segment data voluntarily disclosed by the respondents.

5.3.4 The Acquirers' Preferred Annual Report Placement of Qualitative and Quantitative Segment Data

Having investigated the types of financial segment data acquirers prefer to disclose, the questionnaire then sought to determine where in the annual report the acquirer would disclose this information in the absence of an accounting standard. The survey provided four alternative placements within the annual report to rank plus an "elsewhere" alternative. The results are detailed below.
### TABLE 5.12

**ACQUIRER COMPANIES' PREFERRED ANNUAL REPORT PLACEMENT OF QUANTITATIVE SEGMENT DATA**

<table>
<thead>
<tr>
<th></th>
<th>Review of Operations</th>
<th>Directors Report</th>
<th>Financial Statements</th>
<th>Footnotes</th>
<th>No Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Pref</td>
<td>3</td>
<td>-</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2nd Pref</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

Few of the companies gave a second preference, indicating a firm desire for one placement within the annual report for their quantitative segment data. However, this small sample gave equal weighting to the "Review of Operations" and the "Footnotes" sections of the annual report in their responses. The preference for disclosing financial data in the Review of Operations, indicates that these companies do not like presenting segment information in the table format suggested by AAS 16, nor in the "financial statements" section, also suggested by AAS 16. The Review of Operations is also a section of the annual report that is not audited. Perhaps these responses indicate that there is some degree of preference on the part of the acquirers in keeping segment data out of the audited financial information of the annual report. On the other hand, the shareholders common to the target and acquirer, indicated their preference for quantitative segment data to be disclosed in the audited
Notes to the Accounts, or even as a separate financial statement in its own right.

The questionnaire also asked the corporate acquirers where in the annual report they would prefer to disclose qualitative segment data. The results are tabled below.

**TABLE 5.13**

ACQUIRER COMPANIES' PREFERRED ANNUAL REPORT PLACEMENT OF QUALITATIVE SEGMENT DATA

<table>
<thead>
<tr>
<th></th>
<th>Review of Operations</th>
<th>Directors Report</th>
<th>Financial Statements</th>
<th>Footnotes to Acc'ts</th>
<th>No Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Pref</td>
<td>3</td>
<td>-</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2nd Pref</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

Again the companies seemed to have a firm preference for one location in the annual report in which to present qualitative segment data as more than half of the respondents did not give a second preference response to this question. The "Review of Operations" section as well as the "Footnotes" section of the annual report proved to be the most popular placements amongst the group of responding corporate acquirers. AAS 16 does not suggest an annual report placement for the qualitative descriptions of the products and services produced or sold by a company, and the countries where these operations take place. Paragraph 1 states that segment information -- but not specifically qualitative -- is to be disclosed in the
company's "financial statements"\textsuperscript{13}. However, the companies surveyed seemed to prefer equally the "Review of Operations" (which is unaudited) and the "Footnotes" (audited) parts of the annual report to present qualitative segment data. Looking back to section 5.1.4 of this chapter shows that the actual placement of these types of segment data, adopted by a majority of the surveyed corporate acquirers, was in the "Review of Operations"\textsuperscript{14}. These companies also supplied the brief statements about the products and services produced and the locations of operations, as required by AAS 16, at the bottom of their tabulated financial segment data that were presented, in most cases, in the Notes to the Accounts.

The next section reveals the results of the questioning about the impact of the decline and potential failure of the segment operations in the post-takeover period, on segment reporting per se, and on the company's attitude to future corporate acquisitions.

\textsuperscript{13} This reference to financial statements may be anachronistic. In the first of a series of Exposure Drafts on concepts, ED42A, the AARF decided to refer to the objectives of "financial reporting" rather than "financial statements". Financial reporting encompasses all facets of 'accounts' which, under the Companies Code, are defined as including Financial Statements and the Notes appended thereto.

\textsuperscript{14} These results may be contrasted with actual practice governed by the existing ASRB 1005 and AAS 16. The standards have achieved a greater emphasis on the non-audited Review of Operations form of reporting.
5.3.5 The Influence of Post-Takeover Results of the Target on Future Segment Reporting and Acquisitions

Two questions were asked of the corporate acquirer representatives concerning events subsequent to the takeover. The first objective of these was to see if the company would refrain from reporting the target as a separate segment in the future if that target/segment displayed post-takeover declining results. The second objective was to determine if a company, which had experienced a post-takeover decline in results for the target company acquired, would be deterred in making future acquisitions. This line of questioning was prompted by the findings of Schmidt (1987). He stated that since segment reporting creates for the first time the disclosure of individual business segments that are unprofitable, companies in America in the 1980s have adopted divestiture strategies to sell off failing segments in order to make the group look more profitable. The survey questions of this matter were asked to determine if the sample of Australian corporate acquirers felt the same way as the American companies obviously do about disclosing segments that are suffering a loss.

Six companies answered the first question, four stating that they would not refrain from disclosing, as a separate segment, a target which was experiencing declining results after its integration into the acquirer; and two stating that they would.

The same six companies answered the second question, five thought that their future acquisition policy would not
be affected by the situation discussed above. However, one company said that the fact of having acquired a target, that was now experiencing declining results, would deter their future acquisitions.

---

The following section provides a summary of the research findings.

5.4 **Summary of the Main Research Findings**

The study of 49 company takeovers that took place in the period of January 1985 - April 1987, revealed some noteworthy points about the companies and their reporting practices, in particular, segment reporting.

The present chapter firstly outlined the types of corporate acquirers making up the sample, the types of takeovers these companies undertook in the period studied, and the segment reporting practices adopted by the acquirers before and after the takeover. The sample consisted of two thirds 'single-industry' acquirers and one-third, 'Entrepreneurial Investors'; although each type of company was involved in approximately half of the total number of takeovers studied. These takeovers consisted of 26 horizontal integrations, 21 diversified actions, and two vertical integrations.

Investigation of the pre- and post- takeover segment reporting practices revealed that the average number of industry segments reported per company before the takeover was 2.75, while the average number after the takeover was
3.36, indicating a tendency by some acquirers to expand the number of segments they reported after the takeover had been completed. In the 49 takeovers of the sample, only 11 had created a new segment as a result of the takeover and reported it in the first annual report subsequent to the takeover. It was expected that horizontal type takeovers and vertical type takeovers would not necessarily lead to a new segment creation. However, it was expected that diversified takeover actions would require the targets to be reported as a new industry segment of the acquirer. The results showed that only two of the 26 horizontal takeovers and only eight of the 21 diversified takeovers produced a new segment in the post-takeover annual reports.

In the second part of the chapter these specific reporting practices were analyzed in relation to the attitudes shareholders had about the takeover itself, and what types of investment data and segment data they required about the takeover and the integration of the target into the acquirer. These shareholders stated in their replies to the questionnaire, that the consideration for the takeover bid, the total acquisition price, the method of financing the acquisition, and the acquirer's intentions for the target, are the data they expect to be supplied within the post-takeover annual report of the acquirer. These shareholders also stated, in most cases, that qualitative segment information alone was insufficient for their investment needs. The types of quantitative segment data desired by these shareholders was found to be, all that AAS 16 standard suggests to be disclosed plus a
listing of segment expenses, assets commonly shared with
other segments, and production details of a segment if the
company is a manufacturing one.

In all cases but one of the 21 takeovers, where the
respondents were shareholders common to both the target and
the acquirer, the shareholders felt that the acquirer had
inadequately disclosed the integration of the target into
the acquirer's activities in the annual report subsequent
to the takeover. The reasons given by these shareholders
for their dissatisfaction were linked to the difficulty
they found in locating the information about the target in
the annual report, and the usual descriptive nature of the
information supplied rather than financial information
about the contribution of the target to the group. The
dissatisfied shareholders also produced some unprompted
comments about their attitudes to segment data per se.
Some stated that they distrust segment numbers and that
they believe these numbers are "fiddled and misleading" 15.

The study tried to determine if there was a parallel
between a shareholder's dissatisfaction or low 'utility' of
post-takeover segment reports, and the frequency of post-
takeover segment creation in the acquirer's annual report.
In 75% of the cases of dissatisfied shareholders, the
annual reports of the acquirer did not report a new segment
for the disclosure of the revenue, result, and assets of
the target company. It was also found that 80% of these
cases consisted of horizontal takeovers, takeovers for

15. The identities of these shareholders will remain
nameless.
which segment reporting does not provide added disclosure about the target's integration into the acquirer. The implications of this important finding are discussed in the next chapter.

The final part of the results chapter outlined the responses received from the acquirer to questions of a hypothetical nature. The purpose of this questioning was to determine what level of disclosure corporate acquirers would provide shareholders about the segments of their organisation, and the target acquired, in the absence of the AAS 16 professional standard and the ASRB 1005 approved standard. The results showed that differences from what is currently expected of companies by these statements would become the preferred level of voluntary segment disclosure. The variations consisted of a preference for industry-based segments rather than geographical, an equal preference for the preparation of qualitative and financial segment data by the sample companies, with a preference for "segment results" as the only financial segment information needed to be presented to shareholders.

The next chapter will explain the main conclusions drawn from this study; what implications they may have for the general market of post-takeover accounting information, for segment reporting, and for the financial reporting of aspects of a takeover. The chapter will also outline the limitations of the research and the possible openings for further research.
CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

As a culmination of the previous five chapters, this chapter will present a summary of the major findings of the research, the limitations faced by the study, and suggested avenues for further research opened by the study.

6.1 Major Findings of the Research

The nature of the research has lead to the discovery of three major findings on segment reporting in Australia. Firstly, the degree of compliance with the recently released accounting standard on segment reporting; secondly, the level of segment disclosure that the sampled companies would voluntarily make in the absence of AAS 16; and finally, whether or not segment reporting can compensate shareholders for the loss of information they experience because of the takeover.

6.1.1 Compliance with the Professional and Statutory Segment Reporting Requirements

Although it was not the primary purpose of the study to determine the level of compliance with the Australian professional and statutory segment reporting accounting disclosure requirements AAS 16 and ASRB 1005 in the years studied, it was necessary to discover this level of compliance in order to evaluate the responses returned by the common target-acquirer shareholder sample group.
The study was performed in the accounting reporting environment of Australia that requires companies to segment their operations on an industrial and geographical basis. The companies of the sample studied are all compelled to comply with this requirement of AAS 16, by the existence of a similar approved accounting standard, ASRB 1005. The first finding of the research is that the selected Australian public companies have, on a whole, complied with AAS 16 and ASRB 1005, on the matter of the disclosure of segment assets, revenue and results. The extent of this disclosure in some of the cases of the single-industry companies, consisted merely of a statement that the company operates predominately within one industry. This is quite permissible under paragraph 26 of AAS 16. However, only 22.7% of these single-industry companies opted for this minimal required disclosure about segment activities in the years of 1985 and 1986. By the 1987 annual report, only 13.6% of these companies were not breaking up their principal activity into subsidiary activities for segment reporting purposes. Therefore, a large proportion of the single industry companies chose to voluntarily present segmented data on the basis of their intra-industry activities.

Unfortunately for report users seeking segmented information, paragraph 26 of AAS 16 was also utilised by companies the Stock Exchange classifies as 'Entrepreneurial

1. Only six of the 36 sampled companies did not present segment data in their 1985 and 1986 annual reports. By 1987, only three companies did not segment their activities.
investors' or 'Miscellaneous and Diverse Industrials'. The expected segment reports were not provided by 21.4% of this group of companies studied. They stated in their 1985 and 1986 annual reports that they predominately operate in the one industry. However, in 1987 the percentage of these types of companies making this minimal segment disclosure had dropped to 14.3%.

On the point of geographical segmentation, 50% of the combined sample of single industry and entrepreneurial investors groups stated that they predominately operate within Australia. These companies did not further segment their operation within Australia on the basis of physical location in the States or Territories. AAS 16 does not suggest that the different locations in Australia be considered separate geographical segments. Considering the size of the Australian continent and the diversity of business conditions, this is perhaps something that needs to be addressed by the standard setters when defining a geographical segment.

Compliance with AAS 16 on the matter of pricing inter-segment sales was fairly poor by the sample of 36 companies. Of the entrepreneurial investor type companies (which would be expected to engage in intersegment transactions), and of the single companies reporting more than one segment, 28.6% disclosed that there were no material intersegment sales made, 17.8% gave the basis used in pricing their internal sales and 7% gave the financial amount of the sales but omitted reporting the required basis used in calculating this figure. This low level of
disclosure of intersegment sales matches the findings of Steedle (1983) in USA after the accounting standard SFAS 14 became effective.

Studies of compliance with AAS 16 in Australia\(^2\) soon after its release and then again nearer to the time of the release of ASRB 1005 found that the 137 sampled public companies displayed an improvement in full compliance with AAS 16 from 27.7% in 1985 to 61% in 1986. Those results may be compared with the fact that full compliance by the present sample of 36 acquirer companies was 91.7% in the 1987 annual reports. The earlier studies showed that awareness and application of AAS 16 was initially poor but after the release of the approved standard in April 1985, Australian companies showed an improvement in the level of compliance with mandatory professional accounting standards. The present study confirms this trend, and provides firm evidence that the accounting profession is becoming more attuned to the requirements of the standards and more responsible in its speedy application of new reporting requirements.

---

2. See Carnegie, Davies and Gavens (1986) and Gavens and Carnegie (1988) or the discussion in section 2.4.3 of Chapter 2.
6.1.2 What Corporate Acquirers Would Segment Report in the Absence of Professional or Statutory Reporting Requirements

One part of the questionnaire directed at the corporate acquirer companies sampled was to discover the extent of voluntary segment disclosures they would make in the absence of the professional or statutory segment reporting requirements. The companies sampled in the present study were fairly evenly divided on the questions of the extent of segment disclosures that they would be willing to make without AAS 16 or ASRB 1005 and placement of these disclosures. Generally, they displayed a desire to disclose less segment financial data than is presently required by the standards.

Although the response rate was low on this aspect of the corporate acquirer questionnaire, the responses showed trends evident enough to reveal the preferences about segment reporting disclosures held by the sample of companies involved in takeovers. Firstly, the responses were evenly divided on the matter of the types of segment disclosures (namely, qualitative or quantitative) preferred in the absence of AAS 16 or ASRB 1005. Secondly, 57% of the companies showed the desire to only disclose segment result for shareholder reporting, whilst the remainder were quite willing to disclose the aspects required by AAS 16 -- segment revenue, result and assets. Thirdly, the companies' preferred placement of this disclosure within the annual report was evenly divided between the audited Notes to the Accounts and the unaudited Review of Operations. This is similar to the findings of Miller and
Scott (1980) about the voluntary disclosures in 1979. There, the greater proportion of companies sampled preferred to provide qualitative segment data in the Review of Operations section of the annual report.

These answers may give a key to the reasoning behind the low adoption of the requirements of AAS 16 in 1985 and 1986 revealed in the earlier Australian studies. Ronen and Livnat (1981) may have been justified in saying that making accounting standards mandatory is the only way of ensuring conformity in practice and of overcoming the inherent concerns of management about the competition and cost consequences of providing segment disclosures on a voluntary basis. In Australia voluntary disclosures before AAS 16 were relatively low compared with the disclosures made in the USA and UK before the discussion or release of their respective accounting standards on segment reporting in the 1970s. The manner in which compliance improved from the initial year after the release of AAS 16 to the year in which the approved standard was released shows that companies are more likely to provide these new disclosures if legislative backing is given to a professional accounting standard and it becomes mandatory.
6.1.3 Can Segment Reporting Compensate Shareholders for the Loss of Information they Experience as a Result of a Takeover?

The evidence of the research results indicates that common target-acquirer shareholders suffer a drop in the 'utility' of the financial reports produced by the acquirer after a takeover has been completed. Utility would not be lower if the shareholders were satisfied with the disclosure made in the acquirer's annual report after the takeover about such things as the target company's contribution to the new group, the assets, revenues and profits of the target now under control of the acquirer, and the maintenance of staff and resources. The section of the annual report which may indicate to report readers how the target company acquired has been integrated into the activities of the acquirer is the segment report note to the accounts. The shareholders surveyed, however, displayed a less than satisfied attitude toward the post-takeover segment reports of the acquirer. This leads to the conclusion of lower utility of financial reports in light of a takeover.

The advent of segment reporting was designed to enable users of financial reports to make better informed decisions about the past performance, risk and future potential of the company being analyzed. Studies have demonstrated that segment information improves forecast-ability, assessment of risk, allocations of economic resources, the operational efficiency of management, and
the market for information. If it is supposed to do all these things, it should be axiomatic that segment reporting can satisfy shareholders of their financial information needs after the event of a takeover. The hypothesis of the study however, is that segment reporting will not overcome the loss of accounting information experienced by shareholders of companies involved in a takeover. This hypothesis is confirmed as the results of the shareholder survey revealed an overwhelming dissatisfaction by shareholders of the manner in which the target company had been integrated into the segments of the acquirer after the takeover had been completed and had become capable of being reported on.

A link was established between this level of dissatisfaction and the practice of new segment creation for the reporting of the target. In 75% of the takeovers where shareholders showed this dissatisfaction, the acquirer had not created a new industry or geographical segment for the target.

It was expected at the outset that the type of takeover would influence the practice of new segment creation for reporting the target into the expanded acquirer.

Vertically integrated companies are not required to segment their operations under AAS 16, paragraph 7; so it was expected that vertically integrated takeovers would not

be likely to create a new segment for the target. Nonetheless, of the two vertical takeovers in the sample, one created a new segment. This was a geographical segment.

Diversified takeover actions were considered to be the type of takeover that would require the creation of a new industrial, and possibly a new geographical, segment for integration and reporting of the target in the acquirer's activities and annual report respectively. Of the 21 diversified takeovers in the sample, only 38% created a new segment, 25% of these were geographical segments.

Horizontal takeovers comprised 53% of the sample of takeovers. In the present sample of 26 horizontal takeovers in 1985 - 1987, only 7.7% created a new industry segment in the acquirer's post-takeover annual report for the reporting of the target company acquired. This level of non-segment creation was expected at the outset, as horizontal takeovers, by their nature, involve companies within the same industry. AAS 16 permits companies to use the Australian Standard Industry Classification as a basis for identifying industry segments. Therefore, a takeover of another company from the same industry classification as the acquirer would not require the creation of a new industry segment in order to accurately report the

4. This is in line with the trend of takeover activity in Australia since the 1960s. In the decade since 1960, 64% of takeover bids were horizontal or vertically integrated actions; whilst 66.7% of the 1970 bids were of companies in the same industry or vertically related. [Walker (1973, p.20)]
activities and contribution of the target acquired under the present requirements of AAS 16.

In this environment of relatively low levels of new segment creation, as was expected, shareholders responded with feelings of dissatisfaction with this post-takeover reporting practice. The fact that the responding shareholders were less than satisfied with the post-takeover segment reports of the acquirer indicates a fall in 'utility' of those reports. Therefore, what might be named the 'utility' of annual reports, dropped from the level experienced by shareholders prior to the takeover. This utility could not be measured by the present study. It is something that is very subjective and personal. If a conclusion of this kind could have been anticipated at the outset, it would have been possible to consider alternative methodologies which would measure this utility.

Of the takeovers in which shareholders demonstrated this fall in utility of the post-takeover segment reports of the acquirer; 80% constituted horizontal takeovers, 15% diversified takeovers, and 5% vertical integrations. Therefore, the shareholders that cared to respond to the questionnaire were concerned that researchers be made aware of their low utility of segment reports in light of particular types of takeovers. The fact that the majority of cases involved horizontal takeovers (of which it should be known, 87.5% did not create a new segment after the takeover for the target) makes one all the more concerned that horizontal takeovers are not creating accounting information 'wealth' for shareholders or the economy. The
after effects of horizontal takeovers are more evident in
the economy and the industry in which the takeover
occurred, than the after effects of diversified or vertical
takeovers. One of the more visible after effects of
horizontal takeovers is the reallocation of resources such
as corporate assets and employees. It also seems that
shareholders feel that horizontal takeovers are not being
reported adequately enough for them to be able to evaluate
what has happened to the target company after the takeover.
Segment reporting was not able to provide these details for
the shareholders responding to the study survey.

This dissatisfaction with segment reporting was not
just peculiar to horizontal takeovers, as 20% of the cases
with dissatisfied shareholders were vertical or diversified
takeovers. Therefore the fact that shareholder utility of
post-takeover segment reports is chiefly low in the
takeovers where no new segment was created for the target,
makes one question whether or not the segment reporting
requirements at present, can compensate shareholders for
the loss of information experienced after a takeover and
for the lowering of the utility of the accounting
information produced subsequent to a takeover. The
implications of these findings for standard setters and the
reporting of takeovers are now discussed.
6.2 Implications of the Findings

The major findings of the research have several implications for the standard setting bodies of Australia and for the practice of financial reporting of public companies in the years subsequent to corporate takeover. Each of these implications will now be discussed in turn.

6.2.1 For Accounting Standard Setters

The evidence points to the lack of 'usefulness' of the relatively new accounting standard on segment reporting in the sense of ensuring that the relevant investor's needs in the event of a takeover are satisfied. Shareholders of both the target and the acquirer have demonstrated that they are dissatisfied with the way in which the acquirer has reported the target in its segments, even though the acquirer has complied with the provision of AAS 16 on segment reporting. Why is this so? The fact that the acquirer had, in 75% of the cases of shareholder dissatisfaction, not created a new segment for the target, raises the question of what is a segment, and how are segments identified initially? The most evident criticism of segment reporting in Australia and also in the USA\(^5\), is the lack of direction given by the professional reporting standards on the criteria and bases to use when identifying segments. AAS 16 requires segmentation on the bases of industry involvement and geographical location. Factors that would be considered by management in the determination

---

5. See part 2.5 of Chapter 2 for full discussion on this point.
The materiality guidelines provided in paragraphs 11 and 12 of AAS 16 for determining 'reportable segments', also need addressing by the standard setters. The practice of reporting parts of an entity under the 'other' segment category could be disconcerting for report users. What actually comprises this 'other' segment? It could comprise the newly acquired target company, or parts thereof, if the target does not fit into the existing segments and does not constitute 10% of the entity's revenue, result or assets to warrant separate segment disclosure. The fact that only 22.4% of the takeovers of the sample studied had a new segment created in the reports of the acquirer to report the target acquired, means that the remainder must have integrated the target into the existing segments, or into the 'other' segment. This may be alarming to the common target-acquirer shareholders, as they may never be able to determine the contribution that the target company has made to the new group. Under the guidelines of AAS 16, segment reports do not have to supply report readers with details of the products and services of this 'other' or residual segment, even though it can constitute up to 25% of the revenue derived by the entity from outside customers. Hence it is of no surprise that the evidence from the study shows that shareholders are presently dissatisfied with the segment reporting of the target's integration into the expanded group. This is chiefly due to the lack of separate disclosure of the target as a segment.

Integrating the target into the existing segments or into the 'other' segments only compounds this
dissatisfaction. In the event of a horizontal takeover, where there is less likelihood of new segment creation compared with a diversified takeover, the target may be embedded in some of the existing segments or lumped in with the residual. The question needs to be asked, should the "substantial proportion of total operations" used for the identification of segments be raised above the current 75% guideline suggested in paragraph 12 of AAS 16? Raising this guideline to say 90% would match the percentage of total revenue, profit or loss and assets that an entity must earn within Australia to be identified as predominately operating in Australia. With this higher guideline for the determination of the total number of industry segments to be reported, it is likely that a diversified company might report more industry segments and overcome the problem for shareholders of not being able to decipher the content of the quite substantial 'other' segment category under the existing guidelines.

It is also highly likely that with more reported segments, the company's segment reports might match (in quantity at least) the organizational divisions reported in the Review of Operations section of the annual report. This point not only raises the issue of quantity of segments reported and the 'substantial proportion of operations' guideline, but also the basis used in identifying the segments initially. It was found in the study that 38.9% of the companies sampled discussed more organizational divisions than they reported segments.
These cases are detailed in Appendix K and have been discussed in section 5.1.7 of Chapter 5.

The inconsistencies were chiefly brought about by the lack of direction supplied in AAS 16 for identifying segments. The factors suggested in AAS 16, paragraph 5, to be considered when identifying industry segments may or may not lead to a parallel between the two sections of the annual report, the Review of Operations, and the Notes to the Accounts. The literature has discussed at length this problem with the professional accounting standards on segment reporting in Australia and the USA\textsuperscript{6}. A suggested solution is to have the standard provide some defined bases on which companies may segment their operations. Such a base might be the Standard Industry Classification system plus the company's internal organizational structure. This mixture would create a more readable, logical and consistent annual report across all of its sections. Shareholders would then not become confused over the titles and quantity of industry segments reported as they would be able to match the names and quantities of the organizational divisions discussed in the Review of Operations or Directors' Report with the names and quantity of segments reported in the Notes to the Accounts. It is worthwhile to quote the conclusion of Emmanuel and Gray

\textsuperscript{6} See Emmanuel and Garrod (1987), Emmanuel and Gray (1977a), Steedle (1983). In these studies financial analysts complained that the accounting standards on segment reporting failed to provide adequate definitions of segments. They also saw that there was an overall inconsistency in the annual report between the segment data and the comments in the Chairman's Report.
(1978, p.172), that "segmental disclosure on other than organizational lines can misguide the external users as to the extent to which the company is actively following a diversification strategy." In some of the cases studied in the present research, shareholders stated their dissatisfaction with the disclosure of the target in the annual report of the acquirer and yet the Review of Operations section of the annual report discussed the activities of the newly acquired company and what it had to offer the existing company. Nonetheless, shareholders in these instances were concerned that the financial aspect of the report did not correspond with the qualitative aspect; and that the annual report did not disclose the contribution of the target to the existing company, which would be possible through separately reporting the target as a segment. Segmentation on the basis of organizational lines would ensure that the audited financial section of the annual report would correspond with the unaudited review of operations section.

In the case of diversified takeovers, this segmentation basis would also ensure that the target appeared as a new organizational division and also as a new industry segment. Although it was anticipated at the outset of the study that diversified takeovers would lend themselves more readily to new segment creation than the horizontal or vertical takeover, there were still cases (62% of the diversified takeovers) where this did not occur. Standardization of segmentation bases by the standard setters would overcome this problem by
facilitating the separate disclosure of the target company as a segment.

However, for horizontal and vertical takeovers, this standardization of segmentation would not ensure new segment creation for the reporting of the target in the post-takeover reports of the acquirer. Horizontal and vertical takeovers may never result in the situation whereby a shareholder will be able to identify in the acquirer's reports, how the target has integrated into the acquirer's activities under the present method of defining segments, or even under the suggested organizational lines basis. A target that neatly fits into the existing segments and activities of the acquirer will only be able to have its contribution to the group's profits revealed in the statutory required listing of subsidiaries of the holding company in the annual report. Segment reporting, if consistently applied and segments consistently defined on a yearly basis, would give shareholders and other annual report users some indication of the growth in the revenue, result, and assets of the segment/s in which the target was entrenched. However, the shareholder would have no way of knowing whether the growth in these aspects were solely due to the acquisition of the target or due to market forces and economic demand for the products of that segment. Therefore, even if the main problem recognised with the segment reporting standards (namely the lack of segment identification guidelines) is overcome by enforcing an organizational lines segmentation basis, segment reporting may never compensate shareholders for the loss of
information they experience as a result of a horizontal or vertical takeover. A suggested solution to this dilemma is discussed in the subsequent Implication for the Financial Reporting of Takeovers section.

There are also implications for the standard setters of segment reporting in the finding of the present study about the level of segment reporting desired by shareholders of companies involved in takeovers. The sampled shareholders providing the answers here could not be considered unique to acquirer or target companies (if there is such a shareholder group); they are predominately institutional investors holding diverse portfolios. Hence, it could be safely assumed that they represent views of the larger group of institutional investors or 'sophisticated' users. The present study discovered that, not only were shareholders dissatisfied with the segment reporting of the target company in the acquirer's annual report, they also stated that they desire more financial information about segments than AAS 16 presently provides them.

They demonstrated, by a majority of 79%, that qualitative segment data is insufficient by itself, for their investment needs. This confirms the continuation of financial segment reporting. Seventy five percent of the shareholder sample wanted to see, in addition to segment revenue, results, assets, and intersegment sales pricing bases, financial details of the assets shared by a number of segments and the cost of the billings for the use of these shared assets, a full list of segment expenses, the source of the revenue earned by a segment (perhaps
something like the disclosure of major customers and government sales required in America by SFAS 14), and production data of a manufacturing segment. Four percent of the shareholders responding also required a full Statement of Sources and Applications of Funds for the segments of an entity. As early as 1978 Buckley was suggesting that funds flow statements on the basis of geographical area would be a worthwhile improvement to financial and segmental reporting. In the present study, there is convincing evidence that institutional shareholders are interested in receiving more detailed financial information about the segments of a company than they are currently receiving under the guidelines of AAS 16. This matter is considered independent to the needs for better segment disclosures of the target acquired in a takeover action, which has been discussed above.

A complementary finding of the study on this point about the future of segment reporting, is the shareholders' desired placement of segment data in the annual reports of their company. Seventy six percent of the respondents required that segment reports stay a part of the Notes to the Accounts, whilst 24% saw the need to present segment data in a separate financial statement or schedule. A parallel may be drawn with the introduction of funds flow analysis in 1984. This saw the presentation of funds information in a separate financial statement known as the Statement of Sources and Applications of Funds. It appears that the responses by some of the shareholders indicate a desire to have segment reporting designated to a higher
profile than it receives currently in the Notes to the Accounts. Maybe these responses from shareholders are examples of the conclusions drawn by Smith and Smith (1971) about the readability of footnotes. They believed that the readability of footnotes of annual reports are "restrictive", hence this lowers the understandability and relevance of the financial statements as a whole. The small group of sampled institutional shareholders who prefer segment reports to be a separate schedule obviously feel that the main body of the financial statements are more readable and relevant to them. On the other hand, the majority of shareholders of the present study who prefer to see segment data in the Notes to the Accounts, do not have the problem of restrictiveness in the readability of footnotes discussed by Smith and Smith. The fact remains though, that the balance of the shareholder user group studied want to see segment reporting continued with a greater emphasis on financial detail rather than a reduction.
6.2.2 For the Financial Reporting of Takeovers

This section will discuss some implications the research findings have for the external reporting of acquisitions made by a company.

Two findings of the shareholder survey that affect the financial reporting of takeovers are the findings of a demand for more detailed financial information about the bid itself and about the future intentions of the acquirer for the target, including such things as the deployment of staff and resources. Another relevant outcome of the shareholder survey results is the desire by most of the shareholders to have these extra pieces of information about a takeover placed in the Review of Operations section of the annual report.

The added information about a takeover bid was required by shareholders who saw that the current disclosure by acquirer companies was too brief and lacking in the area of statements of intentions and planned maintenance of staff and resources. It is also interesting to realise that these same shareholders were those who were also dissatisfied with the manner in which the acquirer had reported the integration of the target into its operations.

It is worth noting again that horizontal takeovers constituted 80% of the takeovers in which these dissatisfied shareholders were involved. This is important as it is concluded that shareholders of horizontal takeovers are generally worse off regarding financial reporting information after the takeover than shareholders of diversified takeovers. Shareholders of horizontal
takeovers want to know the details about staff relocations, retrenchments or growth, resource relocations, sell-offs or expansions -- information about how the target integrates logistically into the reporting entity. Horizontal takeovers are generally those types of takeovers that create more public interest and exposure about these matters than a diversified or vertical takeover. The latter two may take place without great disturbance to the location and resources of the individual target companies acquired. This is because the nature of these takeovers does not permit significant merging of activities as might the horizontal takeover.

Therefore, the fact that the majority of responding dissatisfied shareholders were owners of companies involved in horizontal takeovers makes one question whether financial reporting can satisfy the needs of shareholders in these situations. Segment reporting does not permit better assessments of the integration of the target of a horizontal takeover into the newly expanded group, nor does it provide shareholders with the information they seek about the takeover bid itself. Shareholders of the present study of 1985 - 1987 takeovers in Australia seem to display the same disregard for accounting numbers and reporting practices after a takeover that shareholders displayed in

---

7. By way of example, the study produced evidence that 26.5% of the takeovers involved revaluations of the assets acquired and 4% underwent major capital reconstructions involving write-downs of assets or restructuring of the new company's organization.
Walker's study of 1960 - 1970 Australian takeover bids. At that time he believed that there had been

"little acknowledgment that takeover and merger activity frequently point to the inadequacy of accounting and corporate reporting practices...the central accounting problem revealed is that the products of the accounting process are unsatisfactory and for the simple reason that they do not represent the changing fortunes of firms...the [professional] rules and recommendations are as suspect as the product..." [Walker, ARS No. 4, (1973, pp. 74-6].

In the days of this accounting research study of the AARF there was no professional standard on funds statements, to disclose the "changing fortunes of firms", nor on segment reporting. However, the present study indicates for segment reporting, that shareholders of certain types of takeovers are no better off by the provisions of the added segment disclosures required of all Australian companies under AAS 16. Maybe the answer lies with an earlier researcher who said, that for a number of years after a takeover, the acquirer should separately report the target in its annual report without changing the methods of accounting used by the target before the takeover [Pacter (1969)].

---

The discussion of the implications for standard setting and financial reporting may be summarised as follows.

It seems that shareholders of diversified takeovers may not be any worse off with respect to accounting information if the post-takeover segment reports of the
acquirer show the target company as a new industry or geographical segment. This is probably more likely to occur if the standard on segment reporting, AAS 16 specifies the basis of defining segments viz. organizational structure.

However, shareholders of horizontal and vertical takeovers appear to have a lower utility of post-takeover segment reports of the acquirer than shareholders of diversified takeovers. This is primarily due to the infrequency with which horizontal and vertical takeovers present the target in a new segment. The activities of the target in this case blend with the existing segment, making it difficult for the shareholders to recognise the influence and importance of the takeover on the acquirer's results and assets.

Therefore, it is recommended that a new approach to reporting take place for the presentation of the results, assets, revenues, and expenses of the target company acquired in a horizontal or vertical takeover, in order that satisfaction of the shareholder needs for financial information in these special circumstances can be made.

---

Next will be outlined some of the recognised limitations faced during the research and what influence they had on the findings.
6.3 Limitations of the Research

Upon reflection on the original objective and the methodology required to achieve that objective, one major limitation becomes clear: the size of the final usable sample of takeovers. The study began by investigating the total population of takeovers that took place over the selected time frame. However, for the reasons explained earlier in Chapter 4, several eliminations were required to obtain a sample for which all the necessary data about the target and corporate acquirer companies particular to each takeover, were available. Although it was intended to work with a sample of more than 150 takeovers, it was unfortunately necessary to be content with 49.

A secondary problem emanates from this limited sample size: the response rate to the survey conducted. Despite the fact that 43% of the corporate acquirers responded and 30% of the common target-acquirer shareholders responded, many of these were not usable. With the shareholder survey, a barrier to the discovery of the shareholders' identity and hence access to them through a questionnaire, was created by the existence of many nominee and investment companies in the Top 20 shareholders of the target and acquirer companies. This was a cause for the problem of not being able to pursue the questioning any further than was performed and hence the low response rate. For further discussion of the factors making the responses not usable Chapter 4 should be consulted.

Another limitation of the survey approach was the reliance upon full responses to each questionnaire issue.
In some cases the respondents omitted answering certain questions, making the response rate on these issues even lower. Perhaps personal interviews with shareholders who could be identified and contacted would have gleaned further information pertinent to the study. Also, some of the responses can be suspected of displaying conditioning to the existing AAS 16 standard. Very rarely were unprompted answers supplied in the space provided for these on the questionnaire. This makes it difficult for the researcher to propose all of the possible alternatives that shareholders might consider when evaluating segment reports.

---

These are some of the recognised limitations faced by the study. To assist future research in this area recommendations for avenues of further study are made as follows.

6.4 Recommendations for Future Research

The results of the study and the limitations experienced in performing the study open up possible avenues for further research on this area of corporate takeovers and segment reporting.

A larger sample of takeovers and survey of individual shareholders rather than those acting as agents for others, may provide more convincing evidence for the trends that appeared in this study. However, there is doubt as to whether or not an expanded study would provide any
additional information that would be worthwhile to standard setters and financial reporting per se. The trends that were produced by the present study are evidence confirming the existence of the problems that are considered to exist with segment reporting by several previous writers. The point that comes from this study is that further research must take place on the ways to improve segment reporting and the financial reporting of takeovers.

There needs to be a study of the ways that could enhance AAS 16 or produce new financial reporting methods that would satisfy the shareholders' needs for information about takeovers. One factor that could be considered is the possibility of enforcing a standardization in the method of defining industry and geographical segments. A test of the usefulness of the Standard Industry Classification and the organizational structure bases to shareholders and other users of segment reports may be a start to the improvement of segment reporting.

Another factor to be considered in further research is the financial reporting policy that targets acquired through a diversified takeover be disclosed as a separate segment in the reports of the expanded acquirer for the first immediate annual report after the takeover. This might also permit the reporting of the percentage-of-profits contributed by these target companies to the newly expanded group. A survey of the opinions held by acquirer companies and the shareholders of the target and acquirer about this policy might help standard setters to evaluate this policy for future implementation.
Ways to improve the reporting of the outcome of horizontal and vertical takeovers also need attention in future research. Segment reporting has demonstrated its inability to satisfy shareholders of companies involved in these takeovers, so it is necessary that a study be performed on how the usefulness of financial reporting, with respect to shareholders' needs about takeovers, can be ensured in these circumstances.

Studies could also be undertaken on the willingness of acquirer companies to report the additional details about a takeover shareholders have demonstrated a desire for in this study. Takeovers are a more common occurrence in the world of business today than they have been in the past, so there should be continued research into the ways in which financial reporting can present in a true and fair form, the features and results of takeover actions of the companies involved.
APPENDICES
21 April 1988

Company Secretary/Accountant,
(Acquirer
Address1
Address2
optionalAddress3)

Dear Sir/Madam,

I am a lecturer of Accountancy carrying out research for a Master of Commerce degree. The topic of my investigation is the accounting practices of companies involved in takeovers in the 1985/1986 and 1986/1987 financial years. I understand that your company was involved in a takeover during these periods.

Enclosed is a questionnaire, in which a few simple questions are necessarily asked to facilitate my research. This information, I point out, will be processed in a systematic and numeric manner, with no disclosure of either your comments or the company Directors' actions since the takeover.

The questionnaire should not take a great deal of your valuable time and its completion and return at your earliest convenience would be very much appreciated. In conjunction with this request I ask of you to forward me a copy of your Annual Reports for 1985, 1986, and 1987, any News Releases sent to your shareholders regarding the bid (directors' recommendations, asset revaluations, independent valuations of the bid's worth, etc.) and also any interim reports prepared in the 1985/86 and 1986/87 financial years.

Only through the co-operation of companies and shareholders in the completion of such questionnaires can the usefulness of our accounting reporting be assessed. Research by academics often form the basis for the review of existing standards or assist in the establishment of new accounting standards with which organizations must comply.

Hoping you will see it worth your while, if not now, but to the future accounting practices of your company, to complete this questionnaire and my other requests. Thank you for your co-operation.

Yours sincerely,

Michele A. Sims
Lecturer of Accountancy
APPENDIX B

QUESTIONNAIRE

The Takeover of

<Target>

by

<Acquirer>

-----------------------------------------------

Please Return to:

M.A. Sims

c/- Dr. R.W. Gibson,
Assoc. Prof. in Accountancy,
School of Management,
DEAKIN UNIVERSITY,
Geelong, VIC. 3217
Most of the following questions require only a 'tick' to either a [YES] or [NO] response; or the selection of the most appropriate answer from the offered alternatives.

**PART A**

1. What is the company's balance date for preparing financial reports?
   - March 31 ☐
   - December 31 ☐
   - June 30 ☐
   - Other......................

2. What is the form of interim reports?
   - Statement of sales and profits as required by the AASE ☐
   - Full Income Statement, Balance Sheet etc. ☐

3. How regularly are these interim reports prepared?......................

4. What is the industry classification of the company as stated in the Annual Report? .................................................................

5. What geographical location is stated in the annual report as to where the company operates? ..............................

6. Does the Annual Report describe the nature of the products and services from which the company derives its main revenue?
   - Yes ☐
   - No ☐

7. How many 'industrial segments' or divisions did the company report
   Prior to 1985 .......; in 1985 .......;  in 1986 .......

8. Please list the names of these segments:
   Prior to 1985 in 1985(if different) in 1986(if different)
   ................................. ................................. .................................
   ................................. ................................. .................................
   ................................. ................................. .................................
   ................................. ................................. .................................

9. Where the company operates in more than one industry, are products and services generating revenue in each of the identified segments, described in the Annual Report?
   - Yes ☐
   - No ☐

10. How many 'geographical segments' were reported by the company
    Prior to 1985 .......; in 1985 .......;  in 1986 .......

11. Please list the names of these geographical segments:
    Prior to 1985 in 1985(if different) in 1986(if different)
    ................................. ................................. .................................
    ................................. ................................. .................................
    ................................. ................................. .................................
    ................................. ................................. .................................

12. Where the company operates in more than one geographical segment, does the Annual Report disclose each country or group of countries in which the identified geographical segments are located?
    - Yes ☐
    - No ☐

13. Where in the Annual Report is this information in Questions 4 - 12 placed?
    - "Review of Operations" section  ☐
    - Directors' Report ☐
    - The Financial Statements ☐
    - Footnotes to the Financial Statements ☐
    - Elsewhere, (give details):.................................
14. How many reportable 'segments' does the company now have since the takeover?
   Industry segments/divisions? ...........
   Geographical segments/locations? ...........

15. In relation to the financial information about each industry or geographical segment of the company, do the annual or interim reports disclose:
   Segment Revenue, i.e. revenue from both outside the entity and from other company segments
   Segment Result, i.e. revenue less expenses
   The carrying amount of segment assets, including jointly used assets
   The basis of inter-segment pricing
   Other (give details): ................................

16. Where in the Annual Report is this financial information presented?
   Financial Statements
   Footnotes to the Financial Statements
   Director's Report
   Review of Operations
   As a graph or chart in the Review of Operations
   Elsewhere ........................................

17. If a segment/division shares some of its facilities with another division and bills that division, are these inflows offset against the segment's expenses? 
   Yes ☐ No ☐

18. If 'No', how is this inflow treated? .................................................................

19. Does the preparer of the financial statements try to relate the information on the segments' revenues, results and assets with the information in the consolidated financial statements? 
   Yes ☐ No ☐

20. If 'No', what was the cause for this? .................................................................

21. Do the segment/divisional results and assets aggregate with the consolidated results and assets? 
   Yes ☐ No ☐

22. Do the Annual Reports disclose the contribution each segment/division or corporation of the group makes on the consolidated profits of the company group? 
   Yes ☐ No ☐

23. How was this relationship presented in the Annual Report?
   As financial totals only
   As percentages of the consolidated figures
   Using a graph / diagram / chart
   Other .............................................

PART B

The following questions relate to the acquisition of

24. What was the completion date of the takeover of this company? 
   (i.e. when control was deemed achieved by the Corporate Affairs Commission) ............

25. Which of the following would you apply to this takeover:
   Vertical integration (up/down the chain of processes) ☐
   Horizontal integration (acquisition of a competitor) ☐
   Diversification action (moving into a new activity) ☐

26. Indicate the approximate percentage of total funds used in the takeover that were provided by the following sources of finance:
   Loan from an Australian financial institution ..................
   Loan from an overseas financial institution ..................
   Issue of ordinary shares ..........................................
   Issue of debentures ...............................................
   Sale of company assets ............................................
   Exercise of Rights Options in Target company .............
   Other, please specify briefly .....................................

27. During the takeover, did your company Directors offer recommendations to the target shareholders, other than those given in the Part A Statement? 
   Yes ☐ No ☐ GOTO Q.30

28. Were these recommendations based on published and revised accounting data issued by the target company? For example, the target may have provided its shareholders with a revised 'current' market value of its net asset backing per share; earnings per share or predicted future financial performance.
   Yes ☐ No ☐

29. If the recommendations by your Directors to the target shareholders were made on the Director's own initiative, approximately at what stage in the takeover did these take place?
   Towards the closing date of the takeover ☐
   Soon after the release of the Part B Statement ☐
   About mid-way through the takeover offer period ☐
   Other ...........................................

30. Were bonus share issues made during the takeover bid? 
   Yes ☐ No ☐

31. Have bonus share issues been made since the completion of the takeover? 
   Yes ☐ No ☐

32. Has the company reported the revaluation of any assets since the takeover? 
   Yes ☐ No ☐

33. Did the revalued assets include those acquired in the takeover? 
   Yes ☐ No ☐

PROCEED TO PART C PLEASE
APPENDIX C

21 April 1988

(Shareholder
Address1
Address2
optional Address3)

Dear Sir/Madam,

I am a lecturer of Accountancy carrying out research for a Master of Commerce degree. The topic of my investigation is the accounting practices of companies involved in takeovers in the 1985/1986 and 1986/1987 financial years. I understand that your company was involved in a takeover during these periods.

Enclosed is a questionnaire, in which a few simple questions are necessarily asked to facilitate my research. I am particularly interested in your perceived utility or usefulness of the published reports of the acquiring company since the takeover has been completed. This information, I point out, will be processed in a systematic and numeric manner, with no disclosure of your identity.

The questionnaire should not take a great deal of your valuable time and its completion and return at your earliest convenience would be very much appreciated.

Only through the co-operation of companies and shareholders in the completion of such questionnaires can the usefulness of our accounting reporting be assessed. Research by academics often form the basis for the review of existing standards or assist in the establishment of new accounting standards with which organizations must comply when preparing their Annual Reports. The ultimate purpose of these reports is, after all, the satisfaction of the needs of the users of those reports. My aim is to try to discover if accounting reports are satisfying users such as yourself with their financial information needs in post-takeover situations.

Thanking you for your co-operation.

Yours sincerely,

Michele A. Sims
Lecturer of Accountancy
APPENDIX D

QUESTIONNAIRE

The Takeover of

<Target>

by

<Acquirer>

-----------------------------

Please Return to:

M.A. Sims
c/- Dr. R.W. Gibson,
Assoc. Prof. in Accountancy,
School of Management,
Deakin University,
Geelong, VIC. 3217

-----------------------------

PART A

1. You have been identified as a past or present shareholder of
   <Acquirer>

   which has acquired <Target>

   Please identify your shareholder position prior to these events:

   a shareholder in AN
   Yes ☐ No ☐

   a shareholder in TN
   Yes ☐ No ☐

If answered YES to either of the above PROCEED IMMEDIATELY TO PART B
otherwise THANK YOU for participating, please return the questionnaire
answered so far, to the above address.
PART B: FOR ALL SHAREHOLDERS OF THE ACQUIRER

2. Please identify your attitude to the recent takeover activities of your company?

   Very much in favour with [ ] GOTO Q.4
   In favour with [ ]
   Indifferent to [ ]
   Not in favour with [ ] GOTO Q.3
   Strongly against [ ]

3. Which of the following are possible reasons for this? (TICK any that are appropriate)

   You prefer to be with a 'smaller' firm. ................. [ ]
   You believe the price per share paid by the acquirer was below the value of the firm. ........... [ ]
   The acquisition made the company belong to a new industry or be associated with a group that "hides" the activities of the company. ........... [ ]
   The takeover removes a degree of competition in the industry of your company. .................. [ ]
   Other, (give details): ........................................ [ ]

4. By which of the following were you made aware of the events during the takeover?

   Regular 'News Releases' from the company [ ]
   Occasional 'News Releases' from the company [ ]
   Mainly informed through the media [ ]
   Not informed at all [ ]
   Other (give details): ........................................ [ ]

5. How would you describe your company's Annual Report disclosure of the acquisition made in the year?

   Very adequate level of disclosure [ ]
   Adequate level of disclosure [ ] GOTO Q.8
   Fairly adequate disclosure [ ]
   Disclosure was of minimal importance [ ] GOTO Q.6
   Not enough detailed financial data [ ]
   Very inadequate in quantity [ ]
   Other (give details): ........................................ [ ]

6. What further information would you like to see disclosed about this takeover? (Please rank your preferences)

   The price per share offered in the bid. ................. [ ]
   The other details of the consideration of the bid (eg. share for share basis, options, etc) ........ [ ]
   The total acquisition price. ............................... [ ]
   The method of financing for the takeover ................ [ ]
   The company's proposed intentions for the acquired company. ........................................... [ ]
   Other, ........................................................ [ ]
7. Where, in the company's Annual Report would you like to see this detail about the takeover, placed? (Please rank your preferences)

- The Director's Report
- The "Review of Operations" section
- The Financial Statements
- Footnotes to the Financial Statements
- Elsewhere, ........................................

8. Do you understand the terms:

- Segment Revenue
- Segment Expenses
- Segment Result/Profit
- Carrying amount of assets
- Inter-segment pricing or transfer pricing
- Inter-segment costs offset against expenses
- Goodwill on consolidation

9. How adequate, for your investment decisions, do you find the provision of only qualitative/descriptive information about the individual activities of each of your company's segments or divisions?

- Fully Adequate
- Partially Adequate
- Quite Inadequate
- Very Inadequate
- OMIT Q.10-11
- GOTO Q.10

10. What 'other' information would you like disclosed about the operations of each of the company's segments?

- Revenue generated, and its source
- Expenses listed
- Segment result/profit
- Inter-segment billings for the cost of shared assets
- Assets in each segment/division
- Assets shared by a number of segments
- Details of production, if a manufacturing unit
- Other (give details):...........................................

11. Where in the Annual Report would you like to see this information? (Please rank your preferences)

- The Financial Statements
- Footnotes to the Financial Statements
- In a separate Schedule for each segment
- Other (give details):...........................................

If you were ALSO a shareholder with the target before the takeover, PROCEED TO PART C PLEASE

Otherwise, THANK YOU for your co-operation, PLEASE RETURN THE QUESTIONNAIRE TO THE ADDRESS ON THE FRONT
12. Do you recall the Directors of the target company making any recommendations to you as a shareholder during the takeover bid?  
Yes ☐  No ☐  OMIT Q.13-14

13. If those recommendations were accompanied by revised accounting data and calculations, which of the following were provided?: (TICK those applicable)  
- Current market value of net asset backing per share ☐  
- Earnings per share ☐  
- Financial performance and future prospects ☐  
- The bid was 'inadequate' ☐  
- A competing bid was 'more attractive' ☐  
- Revalued assets to reflect current worth of the company ☐  
- No calculations were provided in the recommendation ☐  
- Other, ................................................................. ☐  

14. How were you made aware of the events of the takeover as they were proceeding?  
- Received regular 'News Releases' from your company ☐  
- Received a few 'News Releases' ☐  
- Heard about the takeover mainly through the media ☐  
- Was not informed at all ☐  
- Other ................................................................. ☐  

15. Having now received or read the Annual Reports of <Acquirer>  
since the takeover, do they provide you with adequate information about how your 'old' company has been integrated into the divisions/segments of the 'new' company?  
Yes ☐  No ☐

16. If 'NO', what is your opinion of the information that is disclosed in these Annual Reports?  (Tick any that are appropriate)  
- It is difficult to locate information about the acquired company in the Annual Report.................. ☐  
- The information about the acquired company is usually brief and mainly descriptive or qualitative in nature ☐  
- The information about the acquired company is mainly numerical and presented in a tabular form, which is difficult to understand....................... ☐  
- Only very little financial information is provided about the acquired company's contribution to the 'new' company........................................... ☐  
- Very little information is given about the maintenance or deployment of staff and/or resources of the acquired company since the takeover.......................... ☐  
- Other................................................................. ☐  

17. Please list any details you would like to have disclosed in Annual Reports about the continued operations of your acquired company as a segment/s of the new company group.  
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
APPENDIX E

LIST OF THE SAMPLE ACQUIRER AND TARGET COMPANIES

**Acquirer**

ANI Corporation Ltd.
Ariadne Australia Ltd
- per Ariadne Holdings Pty Ltd
- per Impala Pacific Corporation
- per Queensland Aggreg. Pty Ltd
  - per Smilkameen Pty Ltd

Australian Merchant Holdings Ltd
Barlile Corporation Ltd.
Bond Corporation Holdings Ltd.
- per Actraint No. 15.
Bond Corporation Ltd.
Boral Limited
Boral Limited
Bow Investments Limited
Chase Corporation Ltd
- per Bivane Pty Ltd

Chase Corporation Ltd.
Coles-Myer Limited
Email Limited
Fairfax (John) & Sons Ltd.
Fielder Gillespie Davis Ltd.
(now Goodman Fielder)
Finemore Holdings Limited
Hecron Limited
- per National Investment Corporation Pty Ltd

Hecron Limited
Hills Industries Limited
IEL Ltd
- per Cascade Brewery Co. Ltd
IEL Ltd per Cascade Tasmania Ltd
IEL Ltd per Condraulics Pty Ltd
- per Pastoral International P/L

IEL Ltd. per ACMEX Holdings
Interwest Limited
Jack Chia (Australia) Ltd
Koitaki Limited
(now Clayton Robard Ltd)
Lend Lease Corporation Ltd.
Linter Group Ltd

Linter Group Ltd.

**Target**

Comsteel Vickers Ltd
Repco Corporation Ltd.
Impala Securities Ltd.
Carricks Holdings Ltd
(now in IRT Ltd.)
Walter Reid & Co. Ltd
(now Renouf Corp. Aust)
A.T.S. Resources Ltd.
Martin Bright Steels Ltd

Castlemaigne Tooheys Ltd.
Queensland Television
Johns Perry Ltd.
Blue Circle Southern Cement
Claradeen Limited
Jonray Holdings Ltd.
Walter E Heller Aust Ltd
(now Botena Investments)
Haminex Corporation Ltd
Myer Emporium Limited
Simpson Holdings Ltd.
Syme (David) & Co. Ltd.

Allied Mills Limited
Fleetways (Holdings) Ltd

Lipton Macquarie Securities
(now Securities & Financial Equity)
Dawes Australia Ltd.
Korvest Ltd.

Four Seasons Ltd.
Cascade Brewery Co. Ltd.
Barry & Roberts Ltd.
Adelaide & Wallaroo Fertilizers Ltd.
(now Top Aust Ltd.)
Cheetham Limited
Olims Consolidated Ltd.
Long Corporation Ltd.

Keywest Investments Ltd.
MLC Ltd.
Broadcast and Communications Ltd.
Speedo Holdings Ltd.
National Permanent Finance Corporation Ltd.
News Ltd
News Corporation Ltd.
Nicholas Kiwi Australasia Ltd

Parry Corporation Limited
Pennant Holdings Ltd.
Perpetual Trustees Aust. Ltd
Pine Vale Investments Ltd
Rothmans Holdings Limited
S.A. Brewing Holdings Ltd
- per SAB Investments Pty Ltd
Sunshine Australia Limited
Temples Limited
The Victoria Holdings Ltd.
Unity Corp Limited
- per Flameline Securities
Universal Telecasters Limited

Woodroffe Limited
(now Harvest Corp. Ltd)

Trade Credits Ltd.
Mirror Newspapers Ltd.
Herald & Weekly Times Ltd
R.M. Gow & Co. Ltd.
(ex. overseas operations)
Rockhampton Television Ltd
John Holland Holdings Ltd.
Perpetual Trustees WA Ltd.
Selected Securities Ltd.
Allens Confectionery Ltd.
Seppelt, B. & Sons Ltd.
J. Gadsden Australia Ltd
Enacon Limited
Allwood Furniture Holdings
Grosvenor Hotel Limited

APA Holdings Ltd.
Wide-Bay Burnett Television Ltd.

Malcolm Reid & Co. Ltd.
APPENDIX F

REASONS FOR ELIMINATIONS OF TAKEOVERS FROM
THE ORIGINAL LIST

Acquirer

i) Mining company takeovers:

A.O.G. Exploration Ltd
Western Mining Corporation Ltd,
Renison Goldfields Consolidated
Australian Consolidated Minerals
Square Gold & Minerals Ltd

Australian Overseas Investment
Limited
Base Resources Ltd
Timor Oil Ltd
Aust Oil & Gas Corp. Ltd
- per A.O.G. Pacific Pty Ltd
Devex Limited
Pilgan Mining Pty Ltd
Heller Overseas Corporation
BHP Petroleum Pty Ltd & Shell

Australia Ltd
Poseidon Ltd
- per Poseidon Investments P/L

W.R. Carpenter Holdings Ltd
Charterhall Australia Ltd
(Westmex Ltd)
Santos Ltd
White Industries Ltd.

ii) Non-Company Acquirer:

Perth Building Society
SGIO (QLD)
Industrial Equity Ltd

Target

Australian Interstate
Pipeline Ltd
KSGM Ltd
Allied Venaabba Ltd
Austamax Resources Ltd
Australian Coal & Gold
Holdings Ltd
Commonwealth Mining
Investments (Aust) Ltd
Great Victoria Gold Ltd
Griffiths Resources Ltd

Oil Drilling & Exploration
Southland Mining Ltd
Vultan Minerals Ltd
Walter E. Heller

Woodside Petroleum Ltd
Minerals Minings &
Metallurgy Ltd
The Griffin Coal Mining Co.

Pancontinental Petroleum Ltd
Vamgas Ltd
Mareeba Mining Ltd

National Permanent Finance
Corporation Ltd
Permanent Finance Corp.Ltd
IEL Property Trust
iii) Foreign Acquirers:

John Swire & Sons Pty Ltd
Sedlan Holdings Pty Ltd NZ (wholly owned subsid. of Corporation Investments)
Nationale-Neders-landen (Aust) Ltd
Signet Group Pty Ltd
NV Phillips Gloeilampen-fabrieken (Holland)
Kelly-Springfield Tyre & Rubber Co. Aust Ltd (Goodyear USA)

A.A. Scott Pty Ltd
( Angus Group Ltd NZ)
Amev (Aust) Ltd
Bestobell PLC (UK)

Amev Australia Ltd
Carrier Corporation

I-M Australia NZ Pty Ltd
(Internatio Muller NV)
Interco Incorporated
East Asiatic Company Ltd (Denmark)
Brinsby Ltd (wholly owned subsid. of Reckitt & Colman PLC)
Transdev Pty Ltd (wholly owned subsid. of Transport Devel’t Group PLC)
Natwest Australia Bank Ltd.

Prudential Assurance Co. Ltd

Transwest Haulage Hldgs Ltd
White River Corporation Ltd
Mercantile Mutual Hldgs Ltd
Davis (Charles) Ltd.
Philips Industries Hldgs Ltd
Goodyear Tyre & Rubber Co. Australia Ltd

Reid Bros. Holdings Ltd.
Amev -UDC Finance Ltd
Bestobell Australia Ltd.
(now Euro-National Aust)
VACC Holdings Ltd
Carrier Air Conditioning (Holdings) Ltd

Bryce Robert & Co. Ltd.
Julius Marlow Holdings Ltd
Kauri Holdings Ltd.

Reckitt & Colman Aust Ltd.

Transport Development Aust Ltd
National Westminster Finance Australia Ltd.
Network Finance Ltd.

iv) Proprietary Acquirers not identified as takeover vehicle for a public company:

Gloucestershire Investments P/L
Max Frost Pty. Ltd.
Balverona Pty. Ltd.
BRK Investments Pty Ltd (wholly owned subsid. of Brenmoss Group Holdings
Tauranga Pty. Ltd.

Bedari Pty Ltd.

Yintharra Investments Pty. Ltd.
Retford Pty Ltd.
G.S.H. Investments Pty. Ltd.
Tacuru Pty. Ltd.
Lensiz Pty. Ltd.
Lynette Robyn Holdings Pty. Ltd.
The Paul Ramsay Group

SLB Properties Pty. Ltd.

Independent Resources Ltd
A.F.M. Developments Ltd
Ateco Holdings Ltd

Bruck (Australia) Ltd.
Bundabah Limited
(now Westmark Corp)
Byrne & Davidson Industries Ltd
(now Aust Investors Corp.)
Gold Securities Australia Ltd
Golden West Network Ltd.
Hooker Corporation Ltd.
Manrovite Industries Ltd.
National Investments Ltd.
Osborne Metals Ltd.
Riverina & North East Victoria TV Ltd.
Southern Cross Properties Ltd
K.H. Holdings Pty. Ltd.
Sabel Pty. Ltd.
Dumoine Holdings Pty. Ltd.
Araglin Pty. Ltd.
Goldhill Industries Pty. Ltd.
G.B. White (Queensland) Pty. Ltd.
Chevenix Pty. Ltd.
S.C. Johnson & Sons Pty. Ltd.
Richard & Carr Pty. Ltd.
Jazotti Pty. Ltd.
Chippenham Nominees Pty. Ltd. &
Turoc Nominees Pty. Ltd.
Victoria Street Holdings Pty. Ltd.
Stramit Limited
Sunraysia Television Ltd
United & Commercial Hldgs Ltd
United Motors Holdings Ltd
Walter Wright Industries Ltd
White Industries Limited
Tour Finance Limited
E.B. Hair Products Pty Ltd
Southern Broadcasting
Systems Ltd
Trans-Pacific Finance Corp.
Court Marine Limited
DWI Limited

v) Inter-company buy-back of subsidiary:

News Limited
News Corporation Limited
Kelly-Springfield Tyre
Co. (Aust.) Ltd.
Competitive Foods Aust Ltd.
Philip Morris International
Finance Corporation Ltd
Roxbury Investments Pty. Ltd.
Mirror Newspapers Ltd.
News Limited
Goodyear Tyre & Rubber
Co. (Aust.) Ltd.
Competitive Foods Ltd.
Philip Morris (Aust) Ltd.
Entrad Holdings Ltd.

vi) Acquirer failed, suspended, delisted:

Raleigh Nutritional Products Ltd
Bow Investments Limited
Western Continental Ltd.
- per Matthew James Pty. Ltd.
Life Savers (Aust.) Ltd.
Claradeen Limited
Fremantle Gas & Coke Co Ltd

vii) Unidentifiable Acquirer and/or Target:

Anglo-Australian Foods Ltd.
Potts West Trumbull & Co.
Stirling Properties Ltd.
Queensland Press Limited
Ariadne Australia Limited
- per Keprose Pty. Ltd.
Australian Overseas Investments
Restech International Ltd.
Peters (WA) Limited
Johnson Corporation Ltd.
Australian Venture Capital
Lanzay Industries Limited
Base Resources Ltd.
Commonwealth Mining
Investments (Aust) Ltd
Technomin Australia Ltd
viii) Takeover offer lapsed:

Beltech Corporation
Pak-Poy & Kneebone Pty. Ltd.
Australian Tourism Property Trust
East End Market Company Ltd

ix) Target underwent a change in name only:

Moresgrow Pty Ltd
(McDonnell Dowell Corp)
Sime Darby Australia Ltd.
Acrow Australia Limited
Mortlock Bros. Limited

x) Acquirer had divested interest in target since sample period expired:

Hanimex Corporation Limited
Lintex Group Limited
Smith & Lane Holdings Ltd.
Equico Finance Corp Pty. Ltd.
(I.P.H. Securities Pty. Ltd.
Palcolor Ltd.
(now World Wide Assets Ltd)
Ralph Symonds
Direct Acceptance Ltd.
Hygienic Lily Limited
(Now Reil Corp. Ltd.)
Nettlesfolds Limited

xi) Acquirer had been acquired by another company since sample period expired:

NMRB Ltd. per Lepac Ltd.
(now in NML Assoc Aust Ltd.)
United Motors Holdings Ltd.
(taken over by Araglin P/L)
Carricks Holdings Ltd.
(taken over by Ariadne)
International Resources
& Technology Ltd.
(taken over by Ariadne)
Allied Mills per QCMA Ltd.
(taken over by Fielder Gillespie Davis)
Cheetham Ltd.
(taken over by IEL)
The Cascade Brewery Co. Ltd.
(taken over by IEL)
Herald & weekly Times Ltd.
(taken over by News Corporation)
Mercantile Credits Ltd.
(taken over by NMRB)
West Coast Projects Ltd.
(taken over by Pine Vale Investments Ltd.)
Selected Securities Ltd.
(taken over by Pine Vale Investments Ltd.)
Enacon Ltd.
(taken over by Sunshine Australia Ltd.)
Mercantile Credits Ltd.
Nettlesfolds Ltd.
Amtel Ltd.
Carricks Ltd.
Austral Bakeries Hldgs Ltd.
Yates Seeds Ltd.
Four Seasons Ltd.
Gordon & Gotch Limited
Alliance Holdings Ltd.
Camden Park Estate Ltd.
# APPENDIX G

## NUMBER OF PRE- AND POST-TAKEOVER INDUSTRY SEGMENTS

(Grupo 1 Acquirers: Entrepreneurial Investors)

<table>
<thead>
<tr>
<th>Number of Takeovers</th>
<th>Pre-Takeover Segments</th>
<th>Post-Takeover Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ariadne Australia Limited</td>
<td>4</td>
<td>2 *</td>
</tr>
<tr>
<td>Australian Merchant Holdings</td>
<td>1</td>
<td>1 *</td>
</tr>
<tr>
<td>Barlile Corporation</td>
<td>1</td>
<td>N.S.R.</td>
</tr>
<tr>
<td>Bond Corporation</td>
<td>2</td>
<td>5 *</td>
</tr>
<tr>
<td>Chase Corporation</td>
<td>3</td>
<td>N.S.R.</td>
</tr>
<tr>
<td>Necron Limited</td>
<td>2</td>
<td>2 *(ii)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 *</td>
</tr>
<tr>
<td>Industrial Equity Limited</td>
<td>4</td>
<td>4 *</td>
</tr>
<tr>
<td>Koitaki Ltd. (now Clayton Robard)</td>
<td>1</td>
<td>1 *</td>
</tr>
<tr>
<td>Linter Group Limited</td>
<td>2</td>
<td>N.S.R. (iv)</td>
</tr>
<tr>
<td>Parry Corporation</td>
<td>1</td>
<td>N.S.R. (v)</td>
</tr>
<tr>
<td>Pine Vale Investments</td>
<td>1</td>
<td>4 *</td>
</tr>
<tr>
<td>Sunshine Australia Limited</td>
<td>1</td>
<td>4 *</td>
</tr>
<tr>
<td>Victoria Holdings Limited</td>
<td>1</td>
<td>1 *</td>
</tr>
<tr>
<td>Unity Corporation Limited</td>
<td>1</td>
<td>3 *</td>
</tr>
</tbody>
</table>

**NOTES:**

* Geographical segment data disclosed

N.S.R. = no segment reporting

(i) Barlile Corporation reported one new industry and one new geographical segment for the target.

(ii) Necron reported 2 industry segments for 1985 retrospectively in the 1986 annual report.

(iii) A new company was formed after the merger of the target and acquirer.

(iv) Linter reported 2 industry segments for 1985 retrospectively in the 1986 annual report. It created a new geographical segment for the target.

(v) Parry Corporation reported 4 industry segments for 1986 retrospectively in its 1987 annual report. However, the increase in the number of industry segments was not a result of creating a new one for the target company acquired.

(vi) Unity Corporation created a new geographical segment for the target.
### APPENDIX H

**NUMBER OF PRE- AND POST-TAKEOVER INDUSTRY SEGMENTS**

**GROUP 2 ACQUIRERS: SINGLE-INDUSTRY COMPANIES**

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of activities (i)</th>
<th>Pre-takeover segments</th>
<th>Post-takeover segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANI Corporation</td>
<td>1</td>
<td>5 *</td>
<td>5 *</td>
</tr>
<tr>
<td>Boral Limited</td>
<td>2</td>
<td>3 *</td>
<td>3 *</td>
</tr>
<tr>
<td>Jack Chia Limited</td>
<td>3</td>
<td>5 *</td>
<td>5 *</td>
</tr>
<tr>
<td>Coles-Myer Limited</td>
<td>1</td>
<td>1 *</td>
<td>1 *</td>
</tr>
<tr>
<td>Email Limited</td>
<td>1</td>
<td>3 *</td>
<td>3 *</td>
</tr>
<tr>
<td>Fairfax (John) and Sons</td>
<td>5</td>
<td>1 *</td>
<td>1 *</td>
</tr>
<tr>
<td>Finemore Holdings</td>
<td>3</td>
<td>6 *</td>
<td>6 *</td>
</tr>
<tr>
<td>Goodman Fielder</td>
<td>1</td>
<td>4 *</td>
<td>4 *</td>
</tr>
<tr>
<td>Harvest Corporation</td>
<td>2</td>
<td>2 *</td>
<td>3 *(ii)</td>
</tr>
<tr>
<td>Hills Industries Limited</td>
<td>1</td>
<td>3 *</td>
<td>3 *</td>
</tr>
<tr>
<td>Interwest Limited</td>
<td>4</td>
<td>2 *</td>
<td>2 *</td>
</tr>
<tr>
<td>Lend Lease Corporation</td>
<td>3</td>
<td>1 *</td>
<td>2 *(iii)</td>
</tr>
<tr>
<td>NZI Corporation</td>
<td>3</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>National Permanent Finance</td>
<td>2</td>
<td>1 *</td>
<td>1 *</td>
</tr>
<tr>
<td>News Corporation</td>
<td>1</td>
<td>6 *</td>
<td>6 *(iv)</td>
</tr>
<tr>
<td>Nicholas Kiwi</td>
<td>1</td>
<td>N.S.R.</td>
<td>N.S.R.</td>
</tr>
<tr>
<td>Pennant Holdings</td>
<td>2</td>
<td>1 *</td>
<td>1 *</td>
</tr>
<tr>
<td>Perpetual Trustees Australia</td>
<td>4</td>
<td>N.S.R.</td>
<td>N.S.R. *(v)</td>
</tr>
<tr>
<td>Rothmans Holdings</td>
<td>3</td>
<td>3 *</td>
<td>4 *(vi)</td>
</tr>
<tr>
<td>S.A. Brewing Holdings</td>
<td>1</td>
<td>1 *</td>
<td>3 *(vii)</td>
</tr>
<tr>
<td>Temples Limited</td>
<td>2</td>
<td>3 *</td>
<td>4 *(viii)</td>
</tr>
<tr>
<td>Universal Telecasters</td>
<td>1</td>
<td>2 *</td>
<td>2 *</td>
</tr>
</tbody>
</table>

**NOTES:**

* Geographical segment data disclosed
N.S.R. = No Segment Reporting

(i) The number of activities refers to the "principal activities" listed in the Stock Exchange Review Files for these companies.

(ii) Harvest Corporation created a new industry segment for the target.

(iii) Lend Lease created a new industry segment for the target.

(iv) News Corporation created a new geographical segment for the target.

(v) Perpetual Trustees returned a letter with the annual reports stating that segment reporting was "inappropriate" for their activities.

(vi) Rothmans created a new industry segment for the target.

(vii) S.A. Brewing reported two new industry segments for the target.

(viii) Temples created a new industry segment for the target.
APPENDIX 1

TYPES OF TAKEOVERS PURSUED AND CASES OF NEW SEGMENT CREATION FOR THE TARGET IN THE POST-TAKEOVER ACQUIRER ANNUAL REPORT

(GROUP 1 ACQUIRERS: ENTREPRENEURIAL INVESTORS)

<table>
<thead>
<tr>
<th>Type of Takeover</th>
<th>New Industry Segment</th>
<th>New Geogr'1 Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ariadne Australia</td>
<td>2 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>2 Divers.</td>
<td>No *</td>
<td>No</td>
</tr>
<tr>
<td>Aust. Merchant Hldgs</td>
<td>1 Divers.</td>
<td>No</td>
</tr>
<tr>
<td>1 Divers.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Barlile Corporation</td>
<td>2 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Bond Corporation</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>2 Divers.</td>
<td>No *</td>
<td>No</td>
</tr>
<tr>
<td>Chase Corporation</td>
<td>2 Divers.</td>
<td>No *</td>
</tr>
<tr>
<td>1 Divers.</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Hecron Limited</td>
<td>2 Divers.</td>
<td>No *</td>
</tr>
<tr>
<td>1 Divers.</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Industrial Equity Ltd</td>
<td>4 Divers.</td>
<td>No</td>
</tr>
<tr>
<td>1 Horiz.</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Clayton Robard</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Linter Group Limited</td>
<td>1 Horiz.</td>
<td>No (i)</td>
</tr>
<tr>
<td>1 Divers.</td>
<td>No (i)</td>
<td>No</td>
</tr>
<tr>
<td>Parry Corporation</td>
<td>1 Horiz.</td>
<td>No (ii)</td>
</tr>
<tr>
<td>Pine Vale Investments</td>
<td>1 Horiz.</td>
<td>Yes</td>
</tr>
<tr>
<td>Sunshine Australia Ltd</td>
<td>1 Divers.</td>
<td>Yes</td>
</tr>
<tr>
<td>Unity Corporation Ltd</td>
<td>1 Divers.</td>
<td>No</td>
</tr>
<tr>
<td>Victoria Holdings Ltd</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
</tbody>
</table>

NOTES:

* Acquirer companies created a new organizational division for the target, which was discussed in the review of operations section of the annual report.

(i) Linter Group created a new industry segment for its diversified takeover but this was not reported until the second year after the completion of the takeover.

(ii) Parry Corporation created a new industry segment for its horizontal takeover, but in the second year after the completion of the takeover.
APPENDIX J

TYPES OF TAKEOVERS PURSUED AND CASES OF NEW SEGMENT CREATION FOR THE TARGET
IN THE POST-TAKEOVER ACQUIRER ANNUAL REPORT
(GROUP 2 ACQUIRERS: SINGLE INDUSTRY COMPANIES)

<table>
<thead>
<tr>
<th>Type of Takeover</th>
<th>New Industry Segment</th>
<th>New Geogr'l Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANI Corporation</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Boral Limited</td>
<td>2 Horiz.</td>
<td>No *</td>
</tr>
<tr>
<td>Jack Chia Limited</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Coles-Myer Limited</td>
<td>1 Horiz.</td>
<td>No *</td>
</tr>
<tr>
<td>Email Limited</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Finemore Holdings</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>John Fairfax &amp; Sons</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Goodman Fielder</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Harvest Corporation</td>
<td>1 Divers.</td>
<td>Yes</td>
</tr>
<tr>
<td>Hills Industries Ltd</td>
<td>1 Vertic.</td>
<td>No</td>
</tr>
<tr>
<td>Interwest Limited</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Lend Lease Corporation</td>
<td>1 Divers.</td>
<td>Yes</td>
</tr>
<tr>
<td>National Permanent Fin.</td>
<td>1 Divers.</td>
<td>N.S.R *</td>
</tr>
<tr>
<td>News Corporation</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Nicholas Kiwi</td>
<td>1 Horiz.</td>
<td>N.S.R. *</td>
</tr>
<tr>
<td>NZI Corporation</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td>Pennant Holdings</td>
<td>1 Vertic.</td>
<td>No</td>
</tr>
<tr>
<td>Perpetual Trustees Aust.</td>
<td>1 Horiz.</td>
<td>N.S.R. *</td>
</tr>
<tr>
<td>Rothmans Holdings</td>
<td>1 Divers.</td>
<td>Yes</td>
</tr>
<tr>
<td>S.A. Brewing Holdings</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>1 Divers.</td>
<td>Yes *</td>
</tr>
<tr>
<td>Temples Limited</td>
<td>1 Divers.</td>
<td>Yes</td>
</tr>
<tr>
<td>Universal Telecasters</td>
<td>1 Horiz.</td>
<td>No</td>
</tr>
</tbody>
</table>

NOTES:

* Acquirer companies created a new organizational division for the target, which was discussed in the review of operations section of the annual report.

N.S.R. = no segment reporting
## APPENDIX K

### CASES WHERE THE NUMBER OF ORGANIZATIONAL DIVISIONS DOES NOT MATCH THE NUMBER OF SEGMENTS REPORTED

<table>
<thead>
<tr>
<th></th>
<th>Pre-Takeover</th>
<th>Post-Takeover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Divisions</td>
<td>Number of Segments</td>
</tr>
<tr>
<td>Ariadne Australia</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Boral Limited</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Coles Myer</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>John Fairfax</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Hecon Limited</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Hills Industries</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Interwest</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Lend Lease</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Linter Group</td>
<td></td>
<td>N.S.R.</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>N.S.R.(i)</td>
</tr>
<tr>
<td>Nicholas Kiwi</td>
<td>5</td>
<td>N.S.R.</td>
</tr>
<tr>
<td>Parry Corporation</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Pennant Holdings</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Perpetual Trustees</td>
<td>2</td>
<td>N.S.R.</td>
</tr>
<tr>
<td>S.A. Brewing</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### NOTES:

* Acquirer companies created a new organizational division for the target, which was discussed in the review of operations section of the annual report.

N.S.R. = no segment reporting

(i) Linter Group retrospectively reported 2 industry segments for 1986 (before its second takeover) in the 1987 annual report.

(ii) Parry Corporation retrospectively reported 4 industry segments for 1986 (pre-takeover period) in the 1987 annual report.

(iii) Pennant Holdings reported a new geographical segment.
APPENDIX L

ACQUISER COMPANIES -- SUNDARY DATA

This appendix includes details of data collected for each acquirer company on the following items:

**Ind. Class.**
Industry Classification (AASE).

**Bal. Date**
Balance Date for preparation of financial statements.

**Mthd of Finance**
Method of financing the takeover (as supplied by the company or determined from the financial statements).

**Bonus Issues**
Cases where bonus share issues were made, either before, during or after the course of the takeover bid. Capital reconstructions known are also indicated.

**Asset Reval.**
Asset Revaluations taking place after the takeover had completed.

**Locatn Qual. Seg. Data**

**Quant. Seg. Data**
Quantitative segment data reported, i.e. segment revenue, result, and assets (*Yes/No/N.S.R.*)

**Interseg Data**
Intersegment sales data reported (*Yes/No/n.a.*)

**Locatn Quant. Seg. Data**
# APPENDIX L

## ACQUIRER COMPANIES -- SUNDRY DATA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ariadne Australia Ltd</td>
<td>Entrep. Invstr.</td>
<td>June 30</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Review/Notes Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Notes</td>
</tr>
<tr>
<td>ANT Corporation</td>
<td>Heavy Engnr.</td>
<td>June 30</td>
<td>Cash</td>
<td>After</td>
<td>Unknown</td>
<td>Review Yes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Barlile Corporation</td>
<td>Entrep. Invstr.</td>
<td>June 30</td>
<td>Loan, Shrs</td>
<td>No</td>
<td>No</td>
<td>Review N.S.R/Yes⁶</td>
<td>Yes¹⁰</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Bond Corporation</td>
<td>Entrep. Invstr.</td>
<td>June 30</td>
<td>Cash</td>
<td>After</td>
<td>Unknown</td>
<td>Rev/FS/Notes Yes</td>
<td>Yes</td>
<td>Notes/Fin.St¹³</td>
<td></td>
</tr>
<tr>
<td>Boral Limited</td>
<td>Bldg Supplies</td>
<td>June 30</td>
<td>Shares</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Review Yes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>(Jack) Chia Limited</td>
<td>Dvlprs/Cntrcrs</td>
<td>Mar. 31</td>
<td>Shares</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Fin.Stmts Yes</td>
<td>Yes¹¹</td>
<td>Fin. Stmts</td>
<td></td>
</tr>
<tr>
<td>G.J. Coles Limited</td>
<td>Retailers</td>
<td>July 31</td>
<td>Unknown</td>
<td>No</td>
<td>No</td>
<td>Review/Notes No</td>
<td>n.a.</td>
<td>Notes¹²</td>
<td></td>
</tr>
<tr>
<td>Email Limited</td>
<td>Electrc/Durables</td>
<td>Mar. 31</td>
<td>Shares</td>
<td>After</td>
<td>Yes³</td>
<td>Review Yes</td>
<td>No</td>
<td>Fin. Stmts</td>
<td></td>
</tr>
<tr>
<td>(John) Fairfax &amp; Sons</td>
<td>Media</td>
<td>June 30</td>
<td>Unknown</td>
<td>No</td>
<td>Unknown</td>
<td>Review No</td>
<td>n.a.</td>
<td>Notes¹²</td>
<td></td>
</tr>
<tr>
<td>Finemore Hlds Ltd.</td>
<td>Dvlprs/Cntrcrs</td>
<td>June 30</td>
<td>Loan, Shrs</td>
<td>No</td>
<td>No</td>
<td>Review/Notes Yes</td>
<td>Yes¹¹</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Goodman Feilder</td>
<td>Food</td>
<td>June 30</td>
<td>Shares</td>
<td>During</td>
<td>Yes</td>
<td>Review/Notes Yes</td>
<td>Yes¹¹</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Harvest Corporation</td>
<td>Food; Investmt</td>
<td>June 30</td>
<td>Shares</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Notes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Hecron Limited</td>
<td>Entrep. Invstr.</td>
<td>June 30</td>
<td>Unknown</td>
<td>Before</td>
<td>No</td>
<td>Review No/Yes⁷</td>
<td>n.a./Yes⁶</td>
<td>Notes¹²</td>
<td></td>
</tr>
<tr>
<td>Hills Industries Ltd.</td>
<td>Electrc/Durables</td>
<td>June 30</td>
<td>Loan</td>
<td>After</td>
<td>Yes</td>
<td>Dir.Rpt/Notes Yes</td>
<td>No</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>IBL Limited</td>
<td>Misc. Invstrs</td>
<td>June 30</td>
<td>Shares</td>
<td>Before</td>
<td>No</td>
<td>Notes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Interwest Limited</td>
<td>Tourism/Leisure</td>
<td>June 30</td>
<td>Shares</td>
<td>Drg/After</td>
<td>Yes</td>
<td>Dir.Rpt/Notes Yes</td>
<td>No</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Kolmaki Ltd.</td>
<td>Entrep. Invstr.</td>
<td>June 30</td>
<td>Share Xch</td>
<td>After</td>
<td>No</td>
<td>Notes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Lend Lease Corp.</td>
<td>Dvlprs/Cntrcrs</td>
<td>June 30</td>
<td>Shares</td>
<td>No</td>
<td>Yes</td>
<td>Review/Notes Yes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Linter Group Ltd.</td>
<td>Misc/Div.Indstl</td>
<td>Mar. 31</td>
<td>Shares</td>
<td>After</td>
<td>Yes⁴</td>
<td>Review No/Yes⁸</td>
<td>No</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Nicholas Kiwi</td>
<td>Food &amp; H.H. Gds</td>
<td>June 30</td>
<td>Shrs/Cash</td>
<td>Yes</td>
<td>Review/Notes N.S.R</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>News Corporation</td>
<td>Media</td>
<td>June 30</td>
<td>Loan/S.O.A.No</td>
<td>Yes</td>
<td>Review</td>
<td>Yes</td>
<td>Yes</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>NZI Corporation</td>
<td>Insurance</td>
<td>Mar. 31</td>
<td>Shares</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Dir. Report Yes</td>
<td>No</td>
<td>Fin.St./Notes</td>
<td></td>
</tr>
<tr>
<td>Parry Corporation</td>
<td>Insurance</td>
<td>June 30</td>
<td>Shares</td>
<td>No</td>
<td>No</td>
<td>Review (1987+) Yes¹⁰</td>
<td>Yes¹⁰</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------</td>
<td>-----------</td>
<td>-----------------</td>
<td>--------------</td>
<td>--------------</td>
<td>----------------------</td>
<td>-----------------</td>
<td>------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Pennant Hldgs</td>
<td>Dvlprs/Cntrctr</td>
<td>June30</td>
<td>Shares</td>
<td>After</td>
<td>Unknown</td>
<td>Review</td>
<td>No</td>
<td>n.a.</td>
<td>Notes</td>
</tr>
<tr>
<td>Perpetual Trustees</td>
<td>Invstmt/Trustee</td>
<td>June30</td>
<td>Shares</td>
<td>After</td>
<td>Yes</td>
<td>Notes</td>
<td>N.S.R.</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Pine Vale Investments</td>
<td>Entrep. Invstr.</td>
<td>July31</td>
<td>Unknown</td>
<td>No</td>
<td>No</td>
<td>Review/Notes</td>
<td>Yes</td>
<td>Yes</td>
<td>Notes</td>
</tr>
<tr>
<td>Rothmans Hldgs</td>
<td>Food</td>
<td>June30</td>
<td>Shares</td>
<td>No</td>
<td>Yes</td>
<td>Notes</td>
<td>Yes</td>
<td>Yes</td>
<td>Notes</td>
</tr>
<tr>
<td>S.A. Brewing Hldgs</td>
<td>Food</td>
<td>June30</td>
<td>Unknown</td>
<td>No</td>
<td>No</td>
<td>Review/Notes</td>
<td>No/Yes</td>
<td>Yes</td>
<td>Notes</td>
</tr>
<tr>
<td>Sunshine Australia</td>
<td>Entrep. Invstr.</td>
<td>June30</td>
<td>Unknown</td>
<td>No</td>
<td>No</td>
<td>Review/Notes</td>
<td>Yes</td>
<td>No</td>
<td>Notes</td>
</tr>
<tr>
<td>Temples Limited</td>
<td>Transport/blk feed</td>
<td>June30</td>
<td>Shares</td>
<td>No</td>
<td>No</td>
<td>Review</td>
<td>Yes</td>
<td>No</td>
<td>Notes</td>
</tr>
<tr>
<td>Unity Corporation</td>
<td>Entrep. Invstr.</td>
<td>Sept30</td>
<td>Unknown</td>
<td>No</td>
<td>No</td>
<td>Review/Notes</td>
<td>Yes</td>
<td>Yes</td>
<td>Notes</td>
</tr>
<tr>
<td>Universal Telecasters</td>
<td>Media</td>
<td>July31</td>
<td>Shares</td>
<td>No</td>
<td>No</td>
<td>Review (Notes)</td>
<td>Yes</td>
<td>No</td>
<td>Notes</td>
</tr>
<tr>
<td>Victoria Hldgs</td>
<td>Misc. Services</td>
<td>Mar.31</td>
<td>Shares</td>
<td>No</td>
<td>No</td>
<td>Notes</td>
<td>No</td>
<td>n.a.</td>
<td>Notes</td>
</tr>
</tbody>
</table>

**NOTES:**

1. Two bonus share issues were made
2. Write down of target company
3. Major restructuring of companies after takeover
4. Restructuring of companies after takeover
5. Write down of target after takeover
7. No quantitative segment data in 1985 report after first diversified takeover; quantitative segment data in 1986 report after second diversified takeover
8. No Segment Reporting in 1985 or 1986 reports after a diversified takeover; segment data in 1987 report after second and horizontal takeover
9. No quantitative segment data in 1985 report after horizontal takeover; quantitative segment data in 1986 report after diversified takeover
10. Companies disclosing S amounts but not bases of intersegment sales
11. Companies disclosing the bases used; the other unmarked companies noted that "there were no (material) intersegment sales
12. Companies not providing quantitative segment data because of operations in a single industry
REFERENCES

Articles


BLACK, T.J., (1985), "Segment Reporting - It is later than you think!", Professional Administrator, v.37, n.4, August/September, pp.29-30.


Books


BARTON, A.D. (1982), Objectives and Basic Concepts of Accounting, AARF Accounting Theory Monograph No. 2, Melbourne.


DODD, Peter & OFFICER, R.R. (1986), Corporate Control, Economic Efficiency and Shareholder Justice, Policy Monograph, Centre for Independent Studies, St. Leonards.

EDDEY, P.H. & MILLER, M.C. ed. (1975), Issues in External Reporting, School of Accountancy, University of NSW.


LEO, K.J. (1984), Accounting for Business Combinations, Discussion Paper No. 8, AARF, Melbourne.


Professional Pronouncements and Other Papers


**Statutes**

Companies (Acquisition of Shares) Act (1981)


**Miscellaneous**


*Sydney Stock Exchange Review Service Files -- Industrials, A-Z.*