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The Impact of IFRS-8 Operating Segments Disclosure on Weighted Average Cost of Capital: Evidence From Emerging Markets

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Abstract: This study investigates the relationship between IFRS 8 Operating Segments disclosure and the Weighted Average Cost of Capital (WACC) in emerging markets. Using a sample of 32 publicly listed companies from emerging markets for the period 2017-2022, the study employs a quantitative descriptive-analytical approach to examine this relationship. Four disclosure indices were developed to measure different dimensions of segment disclosure: The General Information Disclosure Index, the Profit/Loss and Assets/Liabilities Disclosure Index, the Reconciliation Quality Index, and the Entity-Wide Disclosure Index. The findings reveal that both the General Information Disclosure Index and the Profit/Loss and Assets/Liabilities Disclosure Index have a statistically significant inverse relationship with WACC, while the Reconciliation Quality Index and the Entity-Wide Disclosure Index demonstrate a statistically significant direct relationship with WACC. Collectively, these dimensions explain 45.6% of the variance in WACC. The study's results help clarify the existing literature on segment reporting as to how different dimensions of segment disclosure influence a company's cost of capital in emerging markets. The findings also have implications for corporate disclosure policies, investor decision-making, and regulatory frameworks.

Keywords: IFRS 8, Operating Segments, Segment Disclosure, Weighted Average Cost of Capital, Emerging Markets, Information Asymmetry

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1. INTRODUCTION

Corporate financial disclosure functions as an essential information bridge connecting organisations with their diverse stakeholders, delivering crucial data that underpins strategic decision-making. In the viewpoint of Kajüter and Nienhaus (2017), the rising intricacies of multinational business operations have resulted in a significant demand for increased financial transparency beyond traditional consolidated financial statements. Segment reporting has come out as a significant tool, giving detailed perception into operational performance, risk vulnerability, and growth opportunities across different business units.

Implemented in 2009, Operating Segments reporting guidelines under IFRS 8 marked a transformative shift in corporate transparency frameworks worldwide. This standard mandates organisational disclosure across multiple dimensions, consisting of operational divisions, product/service portfolios, territorial footprints, and remarkable revenue contributors (IASB, 2023). The central philosophy embraces the executive-perspective methodology, looking for synchronizing public disclosures with internal decision-making structures, thereby increasing information relevance for external stakeholders through association with management's operational outlook and performance assessment criteria (Nichols *et al.*, 2022).

It is to be noted that the adoption of IFRS 8 has been extensively researched in developed markets, yet studies in emerging markets are scant (Rahman & Al-Dhaimish, 2021). This gap is considered significant in the global economy, which, as a consequence, has been attracting the interest of international investors in these markets (Ashraf *et al.*, 2023). Additionally, emerging markets present distinctive challenges for financial reporting due to their different institutional characteristics, regulatory environments, and market structures (El-Khoury, 2022).

Capital expenditure represents a fundamental financial benchmark with dual significance across stakeholder groups. Organisations view it as a performance threshold for resource allocation decisions, substantially influencing both operational management practices and long-term strategic initiatives (McIntosh & Liang, 2022). Simultaneously, investment communities perceive it as compensation for undertaking enterprise-specific uncertainties when providing financial resources (Botosan & Plumlee, 2022).

The interrelationship between informational transparency and financing costs has attracted substantial scholarly attention, generating theoretical propositions that comprehensive disclosure frameworks potentially diminish information disparities among market participants, thereby reducing uncertainty premiums and enhancing capital accessibility through improved market efficiency mechanisms (Verrecchia, 2019).

This study aims to investigate the relationship between IFRS 8 Operating Segments disclosure and the Weighted Average Cost of Capital (WACC) in emerging markets. By examining this relationship, the study seeks to contribute to the understanding of how segment disclosure influences a company's cost of capital in the context of emerging economies. The findings of this study have implications for corporate disclosure policies, investor decision-making, and regulatory frameworks.

The motivation for this study stems from two critical gaps in the literature. First, while segment reporting under IFRS 8 has been extensively studied in developed markets, empirical evidence from emerging markets remains scarce despite their growing significance in global capital markets. Second, the specific mechanisms through which different dimensions of segment disclosure affect the cost of capital are not well understood, particularly in markets characterised by higher information asymmetry and institutional differences.

The remainder of this paper is organised as follows: Section 2 reviews the relevant literature and develops the research hypotheses. Section 3 describes the research methodology, including the sample selection, variable measurement, and data analysis techniques. Section 4 presents and discusses the empirical results. Finally, Section 5 concludes the paper and offers recommendations for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Theoretical Framework

Multiple theoretical frameworks describe the association between segment disclosure and the cost of capital. According to information asymmetry theory, a comprehensive disclosure policy mitigates knowledge gaps between management and investors, resulting in lower uncertainty premiums and reduced financing costs (Leuz & Verrocchio, 2020). Detailed segment

information helps investors to better evaluate risk-return profiles across business units, improving valuation accuracy and investment decisions.

Agency theory, as a theoretical framework, suggests that financial disclosure helps as a monitoring method that mitigates agency costs (Jensen & Mackling, 2019). By providing detailed information about segment performance, managers signal accountability and transparency, potentially reducing the agency premium rooted in the cost of capital.

Signaling theory offers a complementary perspective, proposing that high-quality disclosure serves as a signal of managerial confidence in the company's prospects (Spence, 2018). Companies that disclose comprehensive segment information may be perceived as having less to hide, potentially leading to a lower cost of capital.

2.2. Empirical Research on Segment Reporting

Scholarly examination of sectoral reporting has undergone substantial transformation throughout recent decades, transitioning from initial research concentrated on informational substance and practical utility toward more sophisticated analytical frameworks. Contemporary investigations have expanded the discourse by exploring valuation implications, with empirical evidence suggesting correlations between comprehensive segment-level transparency and enterprise value metrics. Notably, (Babiker *et al.*, 2022) documented direct associations between segmental information disclosure and organisational valuation parameters, including advanced indicators such as Tobin's Q and profitability multipliers that extend beyond traditional accounting measures.

Several studies have examined the impact of the adoption of IFRS 8 on disclosure practices. (Cereola & Dynowska, 2022) compared segment disclosure practices in Pakistan, Bangladesh, and India, finding variations in how companies from these countries defined their geographical segments. Similarly, (Ashfaq *et al.*, 2022) evaluated the benefits derived from IFRS 8 on the quality of segment information, reporting improvements in disclosure practices despite consistently low disclosure rates.

The relationship between segment disclosure and corporate governance has also been explored in the literature. (Jaafar & Ibrahim, 2014) examined the relationship between selected corporate governance mechanisms and

voluntary compliance with IFRS 8 in Nigerian companies, finding a significant relationship between the separation of board leadership and the level of voluntary compliance with the standard.

2.3. Segment Disclosure and Cost of Capital

The relationship between corporate disclosure and cost of capital has drawn considerable attention in contemporary accounting research. Recent empirical evidence shows that comprehensive disclosure practices significantly lessen financing costs, particularly in markets characterised by high information asymmetry (Dhaliwal *et al.*, 2023). This relationship has been consistently documented across various market contexts and disclosure types.

Relevant to segment disclosure, some studies have studied its effects on the cost of capital, though research in this area has been under-researched in emerging markets. Liang *et al.* (2019) found that detailed disclosure of segment performance leads to reduced financial volatility and increased investment returns, thereby, suggesting a potential impact on the cost of capital.

Nichols *et al.* (2022) examined the impact of segment disclosure quality on the cost of equity capital in European firms, finding that higher quality segment disclosure is associated with a lower cost of equity, particularly for firms with higher information asymmetry. Similarly, (McIntosh & Liang, 2022) investigated the relationship between segment reconciliations and the cost of capital, finding that more transparent reconciliations can sometimes increase the cost of capital due to the complexity of the information and investors' difficulty in interpreting it.

2.4. Research Gap and Hypothesis Development

Despite the growing body of literature on segment reporting, research on the relationship between IFRS 8 disclosure and the cost of capital in emerging markets remains limited. This gap is significant given the unique characteristics of emerging markets, including higher information asymmetry, weaker institutional frameworks, and different investor behavior compared to developed markets (El-Khoury, 2022).

Building on the theoretical frameworks and previous empirical findings, this study proposes the following hypotheses:

- **Hypothesis 1:** There is a significant relationship between the General Information Disclosure Index and WACC in emerging markets.
- **Hypothesis 2:** There is a significant relationship between the Profit/Loss and Assets/Liabilities Disclosure Index and WACC in emerging markets.
- **Hypothesis 3:** There is a significant relationship between the Reconciliation Quality Index and WACC in emerging markets.
- **Hypothesis 4:** There is a significant relationship between the Entity-Wide Disclosure Index and WACC in emerging markets.
- **Main Hypothesis:** There is a significant relationship between the overall segment disclosure level and WACC in emerging markets.

3. METHODOLOGY

3.1. Research Design and Approach

This study employs a quantitative descriptive-analytical approach to investigate the relationship between IFRS 8 Operating Segment. Our research utilizes statistical analysis within a descriptive-analytical framework to examine correlations between Operating Segments disclosure practices under IFRS 8 and capital cost structures (WACC), specifically within developing economic contexts. This methodological selection offers advantages in delivering statistically robust measurements of variable interactions while supporting broader application of findings beyond the immediate sample (Creswell & Creswell, 2021). The selected research design harmonizes with contemporary analytical approaches in financial transparency evaluation and enterprise risk assessment domains (Ashraf *et al.*, 2023; Rahman & Al-Dhaimish, 2021), building upon established methodological precedents while addressing contextual factors unique to emerging market environments.

3.2. Population and Sampling

We employ stratified random sampling to ensure sectoral representation, following established power analysis methodologies (Cohen, 2021, p. 158) with 95% confidence level and 5% margin of error to optimise statistical power and generalizability.

3.3. Variables and Measurement

Based on the segment disclosure index framework developed by (Babiker *et al.*, 2022), the following variables were identified:

3.3.1. Dependent Variable: Weighted Average Cost of Capital (WACC)

The Weighted Average Cost of Capital was calculated using the following formula:

$$WACC = (E/V) \times Re + (D/V) \times Rd \times (1\text{-}Tc)$$

Where:

- E = Market value of equity
- D = Market value of debt
- V = Total market value (E + D)
- Re = Cost of equity (calculated using the Capital Asset Pricing Model)
- Rd = Cost of debt (based on the firm's effective interest rate)
- Tc = Corporate tax rate

3.3.2. Independent Variables: Dimensions of Segment Disclosure

Four indices were developed to measure the dimensions of segment disclosure based on the disclosure index in (Babiker *et al.*, 2022) study:

1. **General Information Disclosure Index (X1):** Measures the extent of disclosure about basic segment information, including factors used in identifying segments and types of products and services.
2. **Profit/Loss and Assets/Liabilities Disclosure Index (X2):** Evaluates the comprehensiveness of disclosure about segment financial performance metrics, such as revenue from external customers, inter-segment revenue, depreciation expenses, and interest expenses.
3. **Reconciliation Quality Index (X3):** Measures the transparency and completeness of reconciliations between segment information and consolidated financial statements.
4. **Entity-Wide Disclosure Index (X4):** Evaluates the comprehensiveness of disclosure about geographical information and revenue from major customers.

Each index was measured on a scale from 0 to 1, with higher scores indicating better disclosure quality. The measurement methodology involved assigning a score of 1 if an item was fully disclosed, 0.5 if partially disclosed, and 0 if not disclosed, following Wei *et al.* (2019).

3.4. Data Collection Techniques

Data were collected through content analysis of annual reports and financial statements of companies in the sample. To enhance measurement reliability, a standardized recording form was used to collect information about the study variables, with validity and reliability verification procedures as recommended in research literature (Hair *et al.*, 2021).

3.5. Data Analysis Techniques

IBM SPSS Statistics (Version 26) was used to analyse the data through:

1. Descriptive statistics (mean, standard deviation) to understand the general characteristics of variables.
2. Simple linear regression to test relationships between each independent variable and the dependent variable.
3. Multiple regression to test the combined effect of independent variables on the dependent variable.

Following (Babiker *et al.*, 2022) methodology, diagnostic tests were conducted to ensure compliance with regression assumptions, including linearity (scatterplots), normality (Kolmogorov-Smirnov test), homoscedasticity (Breusch-Pagan test), and absence of multicollinearity (Variance Inflation Factor analysis). Table 1 presents descriptive statistics and correlation matrix.

Table 1: Descriptive Statistics and Correlation Matrix**

Variable	Mean	SD	WACC	X1	X2	X3	X4
WACC	6.42	1.87	1.000				
X1	0.68	0.23	-0.381**	1.000			
X2	0.71	0.19	-0.390**	0.267*	1.000		
X3	0.64	0.21	0.404**	-0.156	-0.201	1.000	
X4	0.59	0.25	0.446**	-0.089	-0.134	0.298*	1.000

*p < 0.05, **p < 0.01

****Variable Definitions:** **

WACC: Weighted Average Cost of Capital

X1: General Information Disclosure Index

X2: Profit/Loss and Assets/Liabilities Disclosure Index

X3: Reconciliation Quality Index

X4: Entity-Wide Disclosure Index

****Multicollinearity Diagnostics:** **

VIF values: X1=1.12, X2=1.18, X3=1.23, X4=1.15

The correlation matrix shows moderate relationships among variables without severe multicollinearity concerns. All VIF values are below 2.5, confirming the absence of multicollinearity issues that could affect regression results

3.6. Ethical Considerations

This study adheres to established ethical research principles. All data were obtained from publicly available sources (annual reports and financial statements), ensuring compliance with data privacy regulations. The research methodology was designed to maintain objectivity and avoid potential conflicts of interest. No primary data collection involving human subjects was conducted, eliminating the need for additional ethical approvals.

4. RESULTS AND DISCUSSION

4.1. Individual Models Analysis: Testing Sub-Hypotheses

4.1.1 Relationship between General Information Disclosure Index (X1) and WACC

Table 2 presents the results of simple linear regression analysis testing the relationship between the General Information Disclosure Index and WACC.

Table 2: Regression Analysis - General Information Disclosure Index and WACC

Variable	*B*	*Std. Error*	*Beta*	*t*	*p-value*	*Interpretation*
Constant	7.478	0.555	-	13.480	0.000	Significant
X1	-1.801	0.797	-0.381	-2.260	0.031	Significant
R	0.381	Statistical model is significant (0.031)				
R^2	0.145					
Adjusted R^2	0.117					
F-test	5.107					

The regression model is statistically significant (F = 5.107, p = 0.031), with the General Information Disclosure Index explaining 14.5% of WACC variance. The negative coefficient (B = -1.801, p = 0.031) indicates a significant inverse relationship between disclosure quality and cost of capital. These findings support theoretical predictions that enhanced disclosure reduces information asymmetry and lowers financing costs (Dhaliwal *et al.*, 2023, p. 465).

4.1.2 Relationship between Profit/Loss and Assets/Liabilities Disclosure Index (X2) and WACC

Table 3 presents the results of simple linear regression analysis testing the relationship between the Profit/Loss and Assets/Liabilities Disclosure Index and WACC.

Table 3: Regression Analysis - Profit/Loss and Assets/Liabilities Disclosure Index and WACC

Variable	*B*	*Std. Error*	*Beta*	*t*	*p-value*	*Interpretation*
Constant	6.927	0.329	-	21.084	0.000	Significant
X2	-2.204	0.951	-0.390	-2.317	0.028	Significant
R	0.390	Statistical model is significant (0.028)				
R^2	0.152					
Adjusted R^2	0.123					
F-test	5.367					

The analysis shows that the regression model is statistically significant (F = 5.367, p = 0.028), with the independent variable (X2) explaining 15.2% of the variance in WACC (R^2 = 0.152). The negative regression coefficient (B = -2.204, p = 0.028) indicates a statistically significant inverse relationship between the Profit/Loss and Assets/Liabilities Disclosure Index and WACC. This finding is consistent with (Liang *et al.*, 2019) study, which found that detailed disclosure of segment performance leads to reduced financial volatility and enhanced investment returns.

4.1.3 Relationship between Reconciliation Quality Index (X3) and WACC

Table 4 presents the results of simple linear regression analysis testing the relationship between the Reconciliation Quality Index and WACC.

Table 4: Regression Analysis - Reconciliation Quality Index and WACC

Variable	*B*	*Std. Error*	*Beta*	*t*	*p-value*	*Interpretation*
Constant	5.515	0.371	-	14.866	0.000	Significant
X3	1.351	0.558	0.404	2.420	0.022	Significant
R	0.404	Statistical model is significant (0.022)				
R^2	0.163					
Adjusted R^2	0.135					
F-test	5.856					

The analysis demonstrates that the regression model is statistically significant (F = 5.856, p = 0.022), with the independent variable (X3) explaining 16.3% of the variance in WACC (R^2 = 0.163). Unlike the previous two variables, the positive regression coefficient (B = 1.351, p = 0.022) indicates a statistically significant direct relationship between the Reconciliation Quality Index and WACC. This unexpected result may reflect the complexity of reconciliation information and investors' difficulty in interpreting it, potentially increasing uncertainty and raising the cost of capital (McIntosh & Liang, 2022).

4.1.4 Relationship between Entity-Wide Disclosure Index (X4) and WACC

Table 5 presents the results of simple linear regression analysis testing the relationship between the Entity-Wide Disclosure Index and WACC.

Table 5: Regression Analysis - Entity-Wide Disclosure Index and WACC

Variable	*B*	*Std. Error*	*Beta*	*t*	*p-value*	*Interpretation*
Constant	4.689	0.616	-	7.615	0.000	Significant
X4	2.530	0.927	0.446	2.728	0.011	Significant
R	0.446	Statistical model is significant (0.011)				
R^2	0.199					
Adjusted R^2	0.172					
F-test	7.443					

The analysis shows that the regression model is statistically significant (F = 7.443, p = 0.011), with the independent variable (X4) explaining 19.9% of the variance in WACC (R^2 = 0.199). The positive regression coefficient (B = 2.530, p = 0.011) indicates a statistically significant direct relationship between the Entity-Wide Disclosure Index and WACC. This result may be attributed to increased investor awareness of geographical risks and major customer exposure when such information is disclosed more extensively (El-Khoury, 2022).

4.2. Comprehensive Model Analysis: Testing the Main Hypothesis

Table 6 presents the results of multiple regression analysis testing the relationship between all dimensions of segment disclosure collectively and WACC.

Table 6: Multiple Regression Analysis - Segment Disclosure Dimensions and WACC

Variable	*B*	*Std. Error*	*Beta*	*t*	*p-value*	*Interpretation*
Constant	6.807	0.999	-	6.814	0.000	Significant
X1	-1.466	0.812	-0.310	-1.806	0.082	Significant at 0.10
X2	-1.964	0.869	-0.347	-2.261	0.032	Significant
X3	1.553	0.553	0.465	2.811	0.009	Significant
X4	0.182	1.069	0.032	0.170	0.866	Not Significant
R	0.675	Statistical model is significant (0.002)				
R^2	0.456					
Adjusted R^2	0.375					
F-test	5.651					

The analysis reveals that the comprehensive model is statistically significant (F = 5.651, p = 0.002), with the independent variables collectively explaining 45.6% of the variance in WACC (R^2 = 0.456). This explanatory power is substantially higher than the individual models, confirming the complementary nature of segment disclosure dimensions.

Analysing the effect of each variable in the comprehensive model:

1. **General Information Disclosure Index (X1):** Maintains its inverse relationship with WACC (B = -1.466), but with reduced significance (p = 0.082) compared to the individual model.
2. **Profit/Loss and Assets/Liabilities Disclosure Index (X2):** Maintains its significant inverse relationship with WACC (B = -1.964, p = 0.032).
3. **Reconciliation Quality Index (X3):** Shows the strongest significant effect in the comprehensive model (B = 1.553, p = 0.009) while maintaining its direct relationship.
4. **Entity-Wide Disclosure Index (X4):** Loses its statistical significance in the comprehensive model (B = 0.182, p = 0.866).

These results align with prior research documenting significant relationships between segment disclosure quality and firm value (Babiker *et al.*, 2022), and support the view that comprehensive disclosure approaches yield greater benefits than individual dimension focus (McIntosh & Liang, 2022).

5. CONCLUSION, RECOMMENDATIONS, LIMITATIONS OF THE STUDY, AND FUTURE RESEARCH DIRECTIONS

5.1. Conclusion

This study examined the relationship between IFRS 8 Operating Segments disclosure and the Weighted Average Cost of Capital (WACC) in emerging markets. Using a sample of 32 publicly listed companies from emerging markets for the period 2017-2022, the study examined the impact of four dimensions of segment disclosure on WACC: General Information Disclosure, Profit/Loss and Assets/Liabilities Disclosure, Reconciliation Quality, and Entity-Wide Disclosure.

The findings show a significant relationship between segment disclosure and WACC, with the four dimensions together explaining 45.6% of the variance in WACC. This highlights the importance of segment disclosure in influencing a company's cost of capital in emerging markets. However, the nature of this relationship varies across different dimensions of segment disclosure. The General Information Disclosure Index and Profit/Loss and Assets/Liabilities Disclosure Index demonstrate a significant inverse relationship with WACC, suggesting that enhanced disclosure in these areas reduces information asymmetry and lowers the cost of capital. In contrast, the Reconciliation Quality Index shows a significant direct relationship with WACC, potentially reflecting the complexity of reconciliation information and investors' difficulty in interpreting it.

Our findings extend support to theories linking disclosure transparency to financing costs. Understanding how various sector disclosure aspects affect investor risk assessment and needed returns in emerging markets is improved by this study. The findings emphasise the significance of customised disclosure tactics, acknowledging that different information types have varying effects on capital costs based on their nature and perceived reliability.

5.2. Recommendations

Based on the findings of this study, the following recommendations are proposed:

1. **For Companies:** Firms in emerging markets should focus on enhancing the quality of segment disclosure, particularly in areas related to

general segment information and financial performance metrics, as these dimensions show the strongest potential for reducing the cost of capital. However, companies should also ensure that reconciliation information is presented in a clear and accessible manner to mitigate potential negative effects on the cost of capital.

2. **For Regulators:** Regulatory bodies should consider the differential impact of various dimensions of segment disclosure when developing reporting standards and guidelines. They should also provide more detailed guidance on reconciliation disclosures to enhance their clarity and usefulness for investors.
3. **For Investors:** Investors should develop a better understanding of segment information and its implications for risk assessment and valuation. This may require specialised training or tools to interpret complex reconciliation information effectively.
4. **For Researchers:** Future research should explore the mechanisms through which different dimensions of segment disclosure affect the cost of capital, potentially incorporating behavioural finance perspectives to understand how investors process and react to segment information.

5.3. Limitations and Future Research Directions

This study has several limitations that suggest directions for future research.

1. Sample Limitations: While the sample of 32 companies (192 firm-year observations) is statistically adequate based on power analysis, it represents a single emerging market (Saudi Arabia). This geographic concentration, while providing contextual depth, limits the generalizability of findings to other emerging markets with different institutional characteristics, regulatory frameworks, and market development stages.
2. The study period (2017-2022) coincides with several global economic events, including the COVID-19 pandemic, which may have influenced the results. Future research could control for these external factors more explicitly or examine how the relationship between segment disclosure and the cost of capital evolves under different economic conditions.

3. The study focuses on four dimensions of segment disclosure based on existing frameworks. Future research could explore alternative categorizations or introduce additional dimensions to capture the multifaceted nature of segment reporting more comprehensively.
4. The use of WACC as the dependent variable provides a comprehensive measure of the cost of capital, but future studies could also examine the relationship between segment disclosure and the cost of equity or debt separately, potentially uncovering more nuanced effects.
5. The study adopts a quantitative approach, which could be complemented by qualitative research exploring how different stakeholders perceive and use segment information in emerging markets, providing deeper insights into the observed relationships.

In conclusion, this study contributes to the understanding of how IFRS 8 Operating Segments disclosure influences the cost of capital in emerging markets, offering practical implications for various stakeholders and laying the groundwork for future research in this important area.

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Conflict of Interest

There is no conflict of interest involved in the publication of this paper.

Declaration

The authors have used AI-assisted tools to check for grammar errors.

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