Chapter 45
An Investigation of Greek Firms’ Compliance to IFRS Mandatory Disclosure Requirements

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ABSTRACT
The paper investigates the compliance with IFRS disclosure requirements and ultimately the quality of financial statements. Using a checklist based on the IFRS disclosure requirements, a compliance score was calculated for a sample of 58 listed, non-finance, Greek firms for the 2006 and 2008 financial statements. Disclosure compliance was measured under the “dichotomous approach” and the “partial compliance unweighted method.” Subsequently, univariate tests and a multivariate regression model were used to investigate what firm characteristics are related with disclosure compliance. Closely-held firms exhibit higher compliance rate, while disclosure compliance is not associated with firms’ profitability, leverage and size. There is a positive association between the engagement of a Big-4 international auditing firm and the compliance rate. This study can be of interest to accounting regulators who set disclosure requirements and capital market participants by providing indication regarding Greek firms’ compliance with IFRS disclosure requirements. In addition, it examines the disclosure compliance with the important disclosure items of all IFRS rather than focusing in the disclosure items of specific IFRS. By adopting both approaches proposed in literature for measuring compliance, the authors enhance the robustness of the findings of this study, while the authors provide empirical evidence concerning the extent to which the two approaches provide significantly different results. The authors found that the two methods do not produce significantly different results.

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1. INTRODUCTION

This paper investigates the extent of Greek companies’ compliance to disclosure requirements laid out in International Financial Reporting Standards (IFRS) as well as some of the factors that may explain compliance. The disclosures included in the published financial statements of a sample of 58 Greek firms have been examined. In order to enhance the robustness of the findings of this study the compliance rate has been calculated by employing two approaches proposed in the literature, i.e. the “dichotomous approach” and the “partial compliance unweighted method.”

Most of the studies concerning disclosure quality concentrate on voluntary disclosure and cover the period before 2005 when the application of IFRS was not mandatory. From January 1st 2005 onwards the listed companies in all EU countries have had to prepare their financial statements in accordance with IFRS. That development changed structurally the accounting environment of most EU countries, including Greece. This study focuses on mandatory disclosure and covers the period after 2005 when the application of IFRS is mandatory. Furthermore, within this study we examine the disclosure compliance with the most important disclosure items of all IFRS, while many studies have examined the disclosure compliance with specific IFRS. As a result the total number of information items that were examined in this study is significantly higher comparing to disclosure items examined in previous studies. The Greek business environment possesses certain characteristics that provide the researcher the opportunity to investigate the factors that influence disclosure compliance within a context which is quite different from that prevailing in many developed countries. In Greece, as in many European countries (e.g. France, Italy), the ownership structure of the majority of the firms is characterized by a high level of concentration (Nobes & Parker, 2000), while the main providers of funds for Greek companies are the banks. Furthermore, in Greece there is a close linkage between tax accounting and financial reporting. These factors are generally not associated with high disclosure compliance and high quality published financial statements (Nobes & Parker, 2000). Indeed, Leuz et al. (2003) show that Greek companies appear to engage in some of the most extreme earnings management practices in the world. Bhattacharya et al. (2003) provide similar evidence, since in their study Greek firms are the most engaged in earnings management among firms from 34 countries. Florou and Galarniotis (2007) found that the corporate governance transparency of Greek firms is low while the compliance of Greek firms with corporate governance disclosure requirements provided by the Greek legislation is also low (51.8%). They conclude that Greek firms are reluctant to disclose information regarding their governance practices. On the basis of this discussion we would expect that the compliance of Greek firms with the IFRS disclosure requirements would not be particularly high. This study by adopting both approaches proposed in the literature for measuring disclosure compliance provides empirical evidence concerning the extent to which the two methods provide significantly different results. These two approaches in measuring disclosure compliance are considered to provide quite different results (see, Street & Gray, 2001; Tsalavoutas et al., 2010).

The findings of statistical analysis suggest that ownership structure and the type of the external auditor applied are significant factors explaining compliance. Leverage, size and profitability appear to have less explanatory power. Furthermore, we found that the two methods for measuring disclosure compliance do not produce significantly results.

The rest of this paper proceeds as follows. In Section 2 we develop the hypotheses to be tested while in section 3 the sample and the research design followed in this article are described. Section 4 reports the results of the empirical investigation undertaken for the purposes of this study. Section 5 summarizes and concludes the paper.