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.

Keywords: Compliance, Disclosure, Firms Compliance, Greece, International Financial Reporting Standards (IFRS), Mandatory Disclosure Requirements

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 “dichoto-
mos 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 manda-
tory 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 dis-
closure items examined in previous studies. The
Greek business environment possesses certain
characteristics that provide the researcher the
opportunity to investigate the factors that influ-
ence 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 con-
centration (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 adopt-
ing 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 mea-
suring 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 fol-
lows. 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.

2. HYPOTHESIS
DEVELOPMENT

This paper adopts agency theory as a conceptual
framework to examine the compliance of Greek
listed firms with IFRS disclosure requirements.
The information asymmetry between agents
and principals is the fundamental issue upon
which agency theory is developed (Jensen
and Meckling, 1976). Information asymmetry
emerges when the principal has a limited abili-
ty to oversee agent’s actions and performance
Gold Price, Crude Oil, Exchange Rate and Stock Markets: Cointegration and Neural Network Analysis
www.igi-global.com/article/gold-price-crude-oil-exchange-rate-and-stock-markets/174418?camid=4v1a

Liquidity Management in the Large Value Payment Systems: Need for an Agent-Based Model's Complex Approach
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