Chapter 11
Measuring Compliance With IFRS Mandatory Disclosure Requirements: Some Evidence From Greece

Apostolos Ballas
Athens University of Economics and Business, Greece

Nicos Sykianakis
Piraeus University of Applied Sciences, Greece

Christos Tzovas
Athens University of Economics and Business, Greece

Constantinos Vassilakopoulos
Athens University of Economics and Business, Greece

ABSTRACT

This chapter examines Greek firms’ compliance with IFRS mandatory disclosure requirements for the years 2006 and 2008. Using a checklist based on the IFRS disclosure requirements, a compliance score was calculated for each sample firm. Two methods of measuring compliance are used: the dichotomous method and the partial compliance method. By adopting both approaches proposed in literature for measuring compliance, the authors enhance the robustness of the findings of this study, while they provide empirical evidence concerning the extent to which the two approaches provide significantly different results. Further, they investigated firms’ characteristics that are hypothesized to be related with disclosure compliance. It appears that closely held firms exhibit higher compliance rate. In addition, there is a positive association between the engagement of a Big-4 international auditing firm and disclosure compliance. Firms’ profitability, leverage, and size do not explain disclosure compliance. The authors found that the two methods of measuring compliance do not produce significantly different results.


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1. INTRODUCTION

International Financial Reporting Standards (IFRS henceforth) adoption has been hypothesised to improve reporting standards, while their uniform adoption allows for greater comparability. As a result firms’ information IFRS implementation improves firm’s information environment and contributes toward a lower cost of capital (Sunder, 2007; Bova and Pereira, 2012). However, recent research has shown that the overall comparability effect of mandatory IFRS adoption is marginal (Cascino and Gassen, 2015), and that costs exceed the benefits of reporting under IFRS (Fox et al. 2015). In case of Greece, previous research has indicated that Greek accountants and auditors believe that the introduction of IFRS will improve the quality of financial statements prepared by Greek firms. They believe that the implementation of IFRS improves the understandability, relevance, reliability and comparability of financial statements (Karamanis and Papadakis, 2008; Naoum et al. 2011).

This study investigates Greek companies’ compliance to disclosure requirements provided by IFRS and the factors that may explain compliance. 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 commonly used dichotomous approach and the alternative partial compliance unweighted approach. Previous research found that the two methods can produce significantly different results (see, Street and Gray, 2001; Tsalavoutas et al. 2010; Mazni and Marizah, 2013; Rajhi, 2014).

Within this study we examine the disclosure compliance with the most important disclosure items of all IFRS. Many prior studies have examined the disclosure compliance with specific IFRS. As a result the total number of disclosure items that are examined in this study is significantly higher comparing to disclosure items examined in previous studies. Given the characteristics of the Greek business environment, this study investigates disclosure compliance in a country outside the Anglo-Saxon accounting paradigm. In Greece, as in many European countries (e.g. France, Italy), most firms’ ownership structure is highly concentrated (Nobes and Parker, 2000; Rodosthenous, 2012), while the main providers of funds for Greek companies are 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 and Parker, 2000). In fact Greek companies appear to engage in some of the most extreme earnings management practices in the world (see, Bhattacharya et al., 2003; Leuz et al., 2003). Therefore, we would expect that the compliance of Greek firms with the IFRS disclosure requirements would not be particularly high.
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