Chapter 12

Determinant Factors of the Quality Management Commentary Reports

Alexandros E. Garefalakis
Hellenic Open University, Greece

Augustinos I. Dimitras
Hellenic Open University, Greece

Panagiotis Ballas
Technical University of Crete, Greece

ABSTRACT

The adoption of International Financial Reporting Standards (IFRS) is now accepted by all researchers in the last decade at least. At the same time, researchers show particular interest in the impact of adoption of IFRS in several areas of economic life and particularly in the banking sector. What IFRS offer is standardization in accounting principles based on which companies prepare their financial statements, which allow for comparisons of performance of companies around the globe. Investors and creditors belong to the long list of stakeholders of a business entity, who require information regarding specific companies and business sectors in order to make their decisions. Annual reports are a formal communication channel for the company to contact with its stakeholders and to report details about its performance and future progress. That is why annual reports include both quantitative and qualitative data; the former could take the form of figures, tables, and ratios, whereas the latter are expressed as management views on present situation, future prospects, risks, and proposed strategy. Our study investigates the disclosure policy that companies follow in their published statements focusing on the determinant factors of quality Management Commentary Reports.

1. INTRODUCTION

Building on the above, companies may decide to present details regarding the explanation of the figures presented in annual reports, their origin, details of the organization’s financial position, performance and future strategy in a separate report; namely, Management Commentary Report (MCR). Such type of report is not compulsory under IFRS in all countries. Entities operating in US is compulsory to issue, whereas in EU is voluntary.

Our aim is to utilise such reports to investigate disclosure. Being more specific, we explore the type and load of information disclosed in Management Discussion and Analysis (MD&A), Management Commentary or Operating and Financial Review (OFR) reports and we proceed to a comparison between contexts where it is compulsory to issue such statements (i.e. USA and Canada) and contexts that is voluntary to do so (i.e. West and South European countries). In achieving our aim, we utilise a matched sample of the 30 biggest firms from banking sector for the years from 2002 to 2008. We intentionally excluded the period after 2008 to avoid including noise in our data and to reach to conclusions regarding disclosure that are free from the global economic crisis bias. A major finding is that entities that operate in larger capital markets may disclose more information compared to entities that operate in smaller counterparts.

Companies in their everyday operation use reports (e.g. annual reports) as a channel to communicate information about their performance to their stakeholders with investors (existing and potential), lenders and creditors being in a major target audience. Such reports include not only quantitative data in the form of figures, tables, and ratios, but also provide details regarding the structure of the company, future strategy and prospects, and challenges that the company will face in the future. That is why they operate complementary to other statements such as financial statements, cash flow statements, etc. Through an MCR top management of an entity describes its aims and objectives for the company and elaborates on the strategies in order to achieve them.

It is widely recognised that firms provide proprietary information to various stakeholders and outsiders in an effort to eliminate agency costs and obtain capital on the most favourable terms (Botosan, 1997). Disclosure will be affected by managers’ assessments of the costs and benefits of disclosure (Dye, 1985; Verrecchia, 1983) and has been shown to be associated with firm attributes such as size, internationality, growth, profitability and country of origin (Archambault and Archambault, 2003; Meek et al., 1995; Clarkson et al., 1999; Khanna et al., 2004; Zarzeski, 1996). We focus on the material included in the MCR to explore whether different approaches to the regulation of narrative disclosure impact on the amount and type of information provided.
Foreign Direct Investment in the Cement Industry of Turkey: Overall Contribution by Multinational Businesses and Potential Impacts on the Economy
www.igi-global.com/chapter/foreign-direct-investment-in-the-cement-industry-of-turkey/127802?camid=4v1a