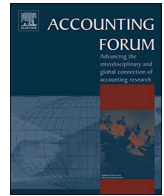


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# Adoption of the International Financial Reporting Standards by Greek non-listed companies: The role of coercive and hegemonic pressures

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## ARTICLE INFO

### Keywords:

IFRS  
Incentives  
Non-listed companies  
Greece  
Institutional theory  
Hegemony

## ABSTRACT

In this paper, we examine the motivations for preparers in Greek non-listed companies to adopt International Financial Reporting Standards (IFRS). Previous literature has focused on listed companies and assessed the effect of IFRS on market efficiency to justify its adoption. Using data from a cross-sectional survey and from interviews with senior managers, our analysis indicates that the motivations to adopt IFRS in Greece are not primarily related to the technical competence of the standards. We draw insights from literature on institutional theory and hegemony based on the *Selections from the Prison Notebooks* of Gramsci, and show that the decision to comply with IFRS can also be motivated by coercive and hegemonic pressures, which are exerted by powerful institutional constituents as they interact with organisations' strategic interests at the international and national level. The adoption of IFRS is driven predominantly by the pressures exerted by parent companies on their subsidiaries and by the legal requirements of the state, but also through borrowing and debt-contracting requirements as enforced by civil society actors, such as financial institutions. This mobilisation of power plays a pivotal role in supporting the establishment of IFRS among non-listed companies.

## 1. Introduction

The global diffusion of International Financial Reporting Standards (IFRS) has triggered a debate in academic literature about the benefits that companies derive from the implementation of these standards, and the motivations that are driving the adoption of IFRS. Designed primarily for listed companies and focusing on the informational needs of investors and other capital market participants, the IFRS Foundation aims at offering a high quality, transparent, and comparable financial reporting framework that helps the capital markets to make more efficient resource-allocation decisions (IASB, 2015). Accounting research that studies the impact of IFRS adoption on information quality and the efficient operation of capital markets, assumes that the adoption of IFRS is due to the technical efficacy of the standards to improve the quality of financial information, and focuses on the economic effect for capital markets that IFRS-based financial information delivers (e.g., Armstrong, Barth, Jagolinzer, & Riedl, 2010; Daske, Hail, Leuz, & Verdi, 2013; Horton, Serafeim, & Serafeim, 2013). Empirical research draws mixed results and fails to provide evidence of uniform positive market effects for companies and improvements in the quality of the published financial information. It does, however, indicate that adverse and beneficial effects may be attributable to the varying institutional context in different jurisdictions (e.g., Brüggemann,

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<http://dx.doi.org/10.1016/j.accfor.2017.04.003>

Received 10 October 2015; Received in revised form 10 February 2017; Accepted 13 April 2017

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Hitz, & Sellhorn, 2013; ICAEW, 2015a). This paper highlights that wider socio-political and institutional factors and pressures are the key drivers of IFRS adoption and diffusion (e.g., Alon & Dwyer, 2014; Chua & Taylor, 2008; Guerreiro, Rodrigues, & Craig, 2012; Judge, Li, & Pinsker, 2010).

The debate on what drives the diffusion of IFRS becomes particularly pertinent in the case of non-publicly traded, or 'non-listed', companies. The European Union (EU) Regulation (EC, 2002) does not cover the reporting requirements for the individual company financial statements of listed companies, or the financial statements of non-listed companies (NLCs). The appropriate reporting framework for these entities remains under the control of individual member states, which may require or permit such companies to adopt IFRS. The adoption of IFRS by non-listed EU companies on a voluntary basis remains rather limited (e.g., André, Walton, & Yang, 2012). This could be due to cost considerations or users of non-listed company financial statements having different information needs (Collis, Dugdale, & Jarvis, 2001; Fearnley & Hines, 2007). Therefore, a key question arises: if IFRS is primarily designed for the needs of listed companies and the demands of public equity markets, why do NLCs adopt the standards and incur the transition costs?

The adoption of IFRS by NLCs has not been adequately explored (Nobes, 2010) and this paper is a response to calls for more research on the financial reporting choices by this economically significant group (André et al., 2012; ICAEW, 2015b). We also respond to the call for further research on the views of the users of IFRS financial reports in different EU countries (e.g., Brüggemann et al., 2013; Durocher & Gendron, 2011). Our study provides rich insights based on a mixed methods research design by combining cross-sectional survey data and interview evidence, which are generally lacking in financial reporting studies (Grafton, Lillis, & Mahama, 2011).

The commitment of NLCs to an alternative financial reporting framework may be motivated by aims other than the provision of high-quality public financial information, and can be based on firm-specific incentives and viewed as part of their strategic planning (Francis, Khurana, Martin, & Pereira, 2008; Guerreiro et al., 2012). We argue that the adoption of IFRS cannot be explored appropriately without an understanding of the motivations of the preparers and the institutional forces that provide the context for such a decision. We adopt an institutional theory approach that analyses the interplay between organisational practices and the institutional arrangements (Greenwood, Suddaby, & Hinings, 2002; Scott, 2008), and incorporates further insights about the role of hegemony (Gramsci, 1971) in the process of the institutionalisation of IFRS. We also consider the importance of different forms of power in shaping a company's accounting decisions, an element which is often neglected by institutional studies (Clegg, 2010; Munir, 2015). We find that the acquiescence to IFRS is not based primarily on the technical efficiency of the standards but is the outcome of pressures channelled through the coercive authority of state and EU regulation, dominant institutions in the economic realm, and the consensual legitimacy, or ideological power, of private institutions, such as banks.

The Greek context offers an interesting and relatively under-researched setting (Guerreiro et al., 2012). The ownership concentration and small size of companies, and the less-developed capital market, mean the motivations and benefits of IFRS for NLCs are not obvious. However, we believe that our findings should also be relevant to other EU countries with similar institutional environments and dominant institutional participants. The findings of this paper should also be of interest to national and international policy makers when evaluating the factors that hinder or spur the adoption of IFRS.

The next section provides an overview of the literature on the motivations for NLCs to adopt IFRS. This is followed by the theoretical context used to explain the managerial motivations and the process of the institutionalisation of IFRS. We then discuss briefly the local influences that shape financial reporting in Greece, and provide an outline of the research methods adopted in the study. The paper concludes with the findings that are discussed in the context of the theoretical framing.

## 2. Financial reporting for NLCs and the adoption of IFRS

NLCs is a broad category including companies of different sizes<sup>1</sup> and legal types. In most jurisdictions, they are subject to financial reporting requirements which differ from those for listed companies. The main justification for differential financial reporting rests upon the differences between the needs and cost considerations of the users. The financial statements of small NLCs, for example, reflect less complex transactions and aggregated data and, therefore, they do not need complex accounting rules that are costly to apply (Harvey & Walton, 1996). Studies report that the propensity to adopt IFRS increases with corporate size (e.g., Cuijpers & Buijink, 2005; Gassen & Sellhorn, 2006). Another key distinction between listed and NLCs is that for NLCs there is often no separation of ownership and control between shareholders and management. Owner-managers are less dependent upon formal financial information and detailed disclosures than shareholders in large listed companies (Peek, Cuijpers, & Buijink, 2010). The financial reports of NLCs are often used as the basis for tax preparation and banking covenants, so the primary users are the owners and managers, along with providers of loan finance, trade creditors, and tax authorities (Collis & Jarvis, 2000; Jarvis, 1996). The major source of funds for a non-listed company is usually debt capital provided by banks, which have access to organisational information and require more information than the public stakeholders do about the company's financial position. For this reason, the type of the accounting standards used to prepare statutory financial statements may be of less importance to NLCs which often use private communication routes to respond to the information needs of key stakeholders, such as lending banks (Chen, Hope,

<sup>1</sup> According to the European Commission, companies are categorised as small, medium, or large based on criteria related to the amount of turnover and assets, and the number of employees. Small and Medium-sized Enterprises (SMEs) are all enterprises employing less than 250 employees. Within SMEs, the following size-classes are distinguished: micro-sized enterprises, having a headcount of less than ten and a turnover or balance sheet total of not more than €2 million; small-sized enterprises having a headcount of less than 50 and a turnover or balance sheet total of not more than €10 million; and medium-sized enterprises having less than 250 employees and a turnover of not more than €50 million, or a balance sheet total of not more than €43 million (EC, 2003).

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