AN ANALYSIS OF THE COMPANIES’ COMPLIANCE WITH THE EU DISCLOSURE REQUIREMENTS AND CORPORATE CHARACTERISTICS INFLUENCING IT: A Case Study of Turkey

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Past studies have recognised that accounting disclosure requirements and practices do not develop in a vacuum but are shaped by a number of influences (see, for example, Adhikari and Tondkar, 1992 and Choi and Mueller, 1992). Looking at disclosure from the macro perspective, Environment Determinism Theory (EDT) suggests that both internal and external (or international) environmental factors are important factors affecting accounting disclosure in a country.

Despite the view that the accounting system in a country should be country-specific i.e. should reflect environmental factors inherent in the country (Briston, 1978 and Bursal 1984), there is evidence in the Environment Determinism Theory (EDT) based literature which suggests that accounting, including disclosure, in developing countries is likely to be influenced more by external factors (see, for example, Cooke and Wallace, 1990).

International harmonisation efforts are amongst the suggested important external environmental factors. One of the primary generators of such efforts is the European Union (EU). Even though EU harmonisation is of major concern for member countries, accounting directives issued by the EU, particularly the EU Fourth Directive (EUFD), have been claimed to have had an impact not only on the EU member countries, but also on non-EU member European countries (see for example Tay, 1989; Van Hulle, 1992; and Alexander and Archer, 1992). A number of explanations are proffered as to why and how.

First, as pointed out by Tay (1989, p. 215) “the discussion among member states over alternative methods of financial reporting, and the solutions chosen and

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formulated in the adopted directive, will influence the thinking of legislators in other countries”.

The second explanation is related to the non-EU member European countries’ close trade and economic relationship with the EU. In this respect Tay (1989, p. 215) noted that “the community trades with its European neighbours and invests in their companies, so that eventual harmonisation with them will be as logical as harmonisation within the Community, for the same reasons”.

Another explanation put forward by Wallace (1990 p. 7) is “the ‘bandwagon effect’: this refers to those countries that have no historical and economic reason to be led, but decide to follow the lead of a group of countries”. Wallace (1990, p. 7) argues that “one such effect is the possibility of the 4th and 7th Directives influencing a change in the financial reporting of non-EEC countries in Europe”.

The fourth, and probably the most important, explanation is the non-EU member European countries’ desire and attempt to join the EU and accordingly such countries’ “preparation for eventual membership of the EU” (Nobes and Parker, 1995, p.137). According to Alexander and Archer (1992, preface), “European countries outside the EC and hoping to join it or to enjoy a number of benefits of membership are already aligning changes in their accounting rules with the EC requirements”. One of the most important signs that supports this argument is the existence of indications regarding the impact of the EU directives, particularly the FD, on accounting in EU member states prior to their accession to the EU (see for example Tay, 1989; Lukas, 1992; and Nasi, 1992). For instance, according to Tay (1989, p. 215) Spain and Portugal “had taken into account the provisions of the Directive [FD] when updating their accounting rules, prior to their accession to the EU”. Similarly, among the three relatively new members of the EU, Austria in 1990 (long before it became a member of the EU) enacted an accounting regulation (Rechnungslegungsgesetz) which conforms in principle to EU Directives (Lukas, 1992); and Finland in its accounting reform in 1990 also took into account the EU’s Fourth and Seventh Directives (Nasi, 1992). In a pilot study, Boross et al., (1995) found the move to EU membership to be the second most important factor to have influenced the shaping of the new Accounting Law in Hungary, enacted in 1991. Regarding the Polish case, there are also arguments that accountancy law enacted in Poland in 1990s was modelled on the EU directive, due mainly to the Polish government’s desire to join the EU (see, Adams and McMillan, 1997). On the other hand, FEE (1991) survey provided an overall indication regarding the influence of the FD on accounting practices in the new EU Member States prior to their
accession to the EU (i.e., Finland and Sweden) as well as non-EU European countries (i.e., Norway and Switzerland).

Another non-EU European country that has been an associate member of the EU since 1963 and the first non-EU member European country that applied to join the EU as a full member is Turkey. Turkey’s recent effort to bring her regulations in line with the EU and EU’s approach to give Turkey a deadline to start the negotiation for full membership of Turkey do provide strong indication as regards to Turkey’s desire to become a member of the EU. On the other hand, there are same indications which suggest that Turkey is attempting to bring her regulation, including those related with financial reporting and disclosure (Çürük, 2001a) and their application in line with the EU.

On the basis of the above provided theoretical arguments and results of the literature review, it may be possible to hypothesise that harmonisation efforts by the EU could be one of the important external environmental factors influencing accounting, including accounting disclosure, in Turkey.

If the EU requirements have had an impact on the accounting disclosure practices in Turkey, one should observe that Turkish companies’ must have been complying with the EU disclosure requirements, particularly there must, at least, have been moves by Turkish companies towards compliance with the EU disclosure requirements over the years. As theoretical arguments based on disclosure theories, (i.e. Agency Theory and Political Process Theory) suggest and empirical studies in the literature indicate that companies’ extend of disclosure may vary on the basis of their corporate characteristics, it may also be possible that the Turkish companies’ compliance with the EU disclosure requirements have been influenced by their corporate characteristics.

This study, therefore, examines Turkish companies’ extent of disclosure in compliance with the EU requirements over a period to find out:

1. whether companies had been complying with and there had been moves towards compliance with the EU disclosure requirements over the years;
2. Whether the companies’ level of compliance with the EU disclosure requirements had been influenced by their corporate characteristics, such as company size, listing status and industry type.

To be able to carry out the above-mentioned examinations first, randomly selected 61 sampled Turkish companies’ extent of disclosure in compliance with the EU
Fourth Directive (EUFD) over five years (1986, 1987, 1991, 1992, and 1995) was measured by: a) constructing disclosure scoring sheet based on 129 items of information required to be disclosed by the EUFD; b) obtaining annual reports of the sampled companies over the selected period and completing scoring sheet for each companies’ annual report; and c) creating disclosure index (i.e. EUFD Disclosure Compliance Index – EUFDDCI). Having created the EUFDDCI, the index scores was analysed for each year to assess the companies’ compliance with the EU disclosure requirements and both parametric paired-samples t test and its non-parametric version, Wilcoxon Matched-pairs signed-ranks test, were conducted to determine if there were significant changes in the extent of disclosure in compliance with the EUFD over the years. Furthermore, using the companies EUFDDCI score as dependent variable and corporate characteristics (i.e. size, listing status and industry type) as independent variables, multivariate analyses were carried out - the Ordinary Least Square (OLS) regression was run- for each year to find out if the companies’ level of compliance with the EU disclosure requirements were influenced by their corporate characteristics.

The results of this study, which focused on the analysis of corporate disclosure practices of Turkish companies over the period of 1985-1995 when significant development in corporate financial reporting occurred in Turkey, revealed that Turkish companies’ compliance with the required disclosure by the EUFD varied within the range of 30% to 85%, but their compliance increased significantly from one year to another throughout the selected period. The results further revealed that listing status is one of the important corporate characteristics of the companies affecting their compliance with the UE disclosure requirements.

**BIBLIOGRAPHY**


