



Factors influencing a firm's accounting policy decisions when tax accounting and financial accounting coincide

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Abstract

Purpose – This paper aims to investigate the factors that influence the accounting policy decisions of firms operating in Greece. Emphasis is given to management's perceptions regarding the impact that accounting figures have upon the decision-making and opinions of firms' stakeholders.

Design/methodology/approach – Through a survey the financial managers of the 200 largest firms in Greece have been asked to indicate their opinions regarding the impact that reported figures have upon firms' stakeholders and the extent to which firms pursue specific profit-related objectives.

Findings – According to the participants in the survey accounting figures influence firms' stakeholders' perceptions and decision-making, and firms pursue profit-related objectives that may not coincide with the objective of minimization of firms' tax liability.

Research limitations/implications – Although certain measures have been taken in order to limit the response bias, one cannot rule out the possibility that some bias have been introduced in the responses. A further empirical investigation based upon annual reports will provide additional evidence regarding the factors that influence firms' reporting policies.

Practical implications – This study helps researchers in identifying the factors that shape accounting policies of firms operating in countries with an environment similar to that of Greece. Additionally, the findings of this study can facilitate professionals who undertake international financial analysis.

Originality/value – The findings of this study can contribute to explaining Greek firms' accounting decisions. Given that the accounting environment in Greece is similar to that prevailing in many European and non-European countries this study can provide an insight regarding the factors that influence financial reporting choices of firms operating in these countries.

Keywords Accounting policy, Accounting, Decision making, Financial reporting, Greece

Paper type Research paper

Introduction

A firm's accounting policy decisions are made on the basis of the economic consequences of the alternative policies (Dhaliwal *et al.*, 1982). According to Holthausen and Leftwich (1983, p. 77) a firm's reporting policy choice has economic consequences when:

... changes in the rules used to calculate accounting numbers alter the distribution of a firm's cash flows, or the wealth of parties who use those numbers for contracting or decision making.

In addition to their use in the contracting agreements between the various parties of a firm, reported accounting figures affect the firm's cash flows through their impact on



the level of a company's tax liability (Wolfson, 1993). This is the case, provided that the same accounting treatment is used for financial reporting and tax purposes alike (Cloyd *et al.*, 1996). Tax planning can result in an increase in the firm's tax saving and consequently it can have a positive effect on a firm's cash flows. As a consequence, assuming rationality and efficient capital markets, an accounting policy that minimizes taxable income should be preferred (Biddle and Lindahl, 1982; Niehaus, 1989). However, given that the reduction of a firm's tax liability is usually accompanied by a corresponding decrease in its reported income, tax planning, under certain circumstances, can have serious implications for various parties involved with a firm (Scholes *et al.*, 1990). The unfavorable picture of the firm's financial position that may emerge as a result of a decrease in the level of reported figures, can have serious consequences with regard to firm's ability to meet its contractual and regulatory obligations, while shareholders' and managers' personal wealth may be affected as well (Matsunaga *et al.*, 1992). These implications have been designated as the "non-tax" costs – or financial reporting costs – of a tax reducing policy. Each party of a firm is supposed to trade-off the tax benefits of an accounting choice, against the ensuing non-tax costs. The outcome of this trade-off is supposed to influence a firm's accounting policy decisions.

The aim of this study is to provide an understanding of the factors that influence the accounting-policy decisions of firms operating in an accounting environment in which tax rules are used for financial reporting purposes. For this purpose, the accounting environment of Greece has been chosen. In Greece, tax accounting and financial accounting coincide and it is expected that tax considerations will influence management's accounting policy decisions. This study investigates whether non-tax considerations can influence firms' accounting-policy decisions and prompts them to deviate from a tax-reducing policy. The structural characteristics of the broader economic and business environment of Greece affect the significance of the non-tax costs relating to a particular accounting policy decision. The similarities of the Greek accounting and business environment with that of other European and non-European countries means that the findings of this study may be of some help in understanding the accounting policies of firms operating in other countries.

Factors giving rise to significant non-tax costs

The significance of tax benefits and non-tax costs are conditional upon certain characteristics of a firm. A firm's ownership structure has been hypothesized to be associated with the magnitude of the non-tax costs that can be generated from a tax-minimizing strategy. The management of firms characterized by a diffused ownership and a separation between management and ownership might face significant non-tax costs (Wolfson, 1993). The extensive use of accounting-based contracts in these firms can induce managers to assign a great deal of importance to the level of reported income (Klassen, 1997). Furthermore, managers' perceptions regarding the impact that accounting figures have on their evaluation by the external users of accounts may make them particularly concerned about the level of reported profits (Cloyd *et al.*, 1996). On the other hand, for those firms in which ownership is concentrated in the hands of a relatively small number of shareholders who actively control the firm's management, the necessity for using a bonus scheme is reduced,

while managers can communicate any information directly to shareholders without having to use published financial statements (Klassen, 1997). Thus, non-tax costs may be of lesser importance and firms are expected to pursue a more aggressive tax-reducing policy. The findings of empirical research seem to support the argument that in comparison to the widely-held firms, the closely-held ones are less concerned about the non-tax consequences of their accounting choices, and they are more inclined to implement a tax-reducing strategy (Smith, 1976; Dhaliwal *et al.*, 1982; Hunt, 1986; Penno and Simon, 1986; Niehaus, 1989; Scholes and Wolfson, 1992; Wolfson, 1993; Cloyd *et al.*, 1996; Klassen, 1997).

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 concentration (Nobes and Parker, 2000). In most cases the owners are actively involved in their companies' administration, occupying important posts within the organizational structure of their firms (OECD, 1995; Makridakis *et al.*, 1997; Sykianakis, 2004). Firms' owners can directly and effectively monitor and motivate their subordinate managers and they do not need to employ incentive schemes. Further, managers in such firms can communicate information regarding their performance directly to their superior owner-managers without having to rely upon financial statements. Under these circumstances, it is argued that the ownership-structure of most Greek firms contributes to the adoption of an aggressive tax-reducing strategy, since their ownership status does not appear to generate significant non-tax costs.

The use of accounting figures in a firm's negotiations with the providers of credit capital, and the inclusion of accounting numbers-based terms in the debt agreements, suggest that a particular accounting choice can generate important non-tax costs (Wolfson, 1993). Lower reported profit figures may adversely influence the banks' credit decisions, and thus raise the cost of capital for the firm (Deakin, 1979). Furthermore, the violation of the terms of loan agreements places a firm in technical default, a situation that can have particularly adverse consequences for a firm (Gopalakrishnan and Parkash, 1995). In order to reduce the likelihood that these events will occur, firms are more likely to adopt an income-increasing accounting policy. However, such a decision is most likely to be associated with important tax costs, since the resulting increase in the reported income is likely to follow an increase in taxable income (Maydew, 1997). The financial leverage of a firm is used as a proxy for the firm's need for debt capital, and its proximity to violating debt covenants (Christie, 1990). The more leveraged firms are expected to face higher non-tax costs, and thus they are more likely to select the income increasing choice. Findings of empirical research suggest that the more leveraged firms do trade-off tax benefits against non-tax costs (Scholes and Wolfson, 1990; Sweeney, 1992; Matsunaga *et al.*, 1992; Smith, 1993; Maydew, 1997).

Banks are the main providers of funds for Greek companies. The dominant role of bank credit in the financing of business enterprises is a distinct characteristic not only of the Greek business environment, but also of many other European countries (e.g. France, Germany). Banks have developed a close relationship with many companies, while in certain cases they own part of the firm's share capital. Thus, banks in many instances may directly obtain any relevant financial information, without having to rely upon publicly disclosed data. It has been argued that the fact that financial accounting in many European countries has been dominated by tax

regulations and has never developed into a genuinely independent branch of accounting can be partially attributed to the fact that when:

... even listed companies in continental countries are dominated by banks, governments or families, the need for published information is less clear (Nobes and Parker, 2000, p. 21).

Furthermore, in Greece the large state-controlled banks are not supposed to always base their credit decisions on entirely objective and rational financial criteria (OECD, 1995; Papas, 1993; Makridakis *et al.*, 1997). Consequently, the importance of public accounting information may further diminish. Moreover, a consequence of the close relationship between banks and companies is such that a violation of a debt covenant may not have serious consequences for a firm. Within this context, a tax-reducing strategy is not likely to give rise to important non-tax costs.

Yet, some significant non-tax costs can still arise. Even if economic criteria do not always play a crucial role in banks' credit decisions, most companies will be required to meet some official criteria based on accounting numbers when making a loan application. If the applying firm has a strong link with a particular bank, one cannot rule out the possibility that the bank's officials will tolerate some "adjusting" of accounting figures in order to allow the firm to comply with the relevant terms. Thus, a tendency of a firm to influence accounting figures through the choice of an appropriate accounting policy may be reinforced. Furthermore, it cannot be assumed that all firms enjoy the privilege of having a close relationship with a bank. As a consequence, financial accounting considerations can still influence a firm's accounting-policy decisions.

Within a framework of efficiently functioning capital markets, shareholders of public (listed) firms would prefer higher cash flows, since that would result in higher share prices. Consequently, higher tax-savings would be preferred. This could have been the case for Greek public firms, since the majority of them are owner-controlled firms and stockholdings constitute a substantial proportion of the personal wealth of the owner-managers. Yet, the perceived influence that accounting figures may have on the firm's share price can enhance the importance assigned to financial reporting figures. A firm's management might believe that reported figures have a considerable impact on its share price. This impact may be greater than that resulting from a possible change in the level of firm's tax-liability. In this case, it is possible that a firm's management will aim to report higher figures in order to influence its share price, despite a corresponding increase in tax costs (Penno and Simon, 1986; Cloyd *et al.*, 1996). Thus, public firms are more likely, compared to the private (non-listed) ones, to prefer the income increasing option. The fact that the owner-managers are prepared to forego tax benefits in order to achieve higher reported earnings, does not imply that they do not aim towards the maximization of a firm's value, and as a consequence of their wealth. The owners-managers believe that firm's value is a function of the firm's accounting profits. As Cloyd *et al.* (1996, p. 39) put it:

If managers believe that stock prices react more strongly to reported income than to cash flow, the public capital market introduces a potential non-tax cost that serves to discourage them from [tax] conformity, even if conformity increases the firm's expected future cash flows.

and further:

... , if new investors and creditors are willing to supply funds on terms that are affected by reported accounting numbers, managers and existing shareholders may unanimously wish to report high income, even at the expense of paying additional tax. That is, firm value may be maximized by reporting higher income rather than reducing tax payments Cloyd *et al.* (1996, p. 41-2).

According to the Greek financial press, accounting figures have a dominant influence on the firm's stock value. Furthermore, it has been asserted that it is not uncommon for listed firms to get involved in income management through the selective application of accounting policies. Within this context, it can be expected that a tax-reducing policy due to its decreasing influence on the level of reported profits, can generate for the Greek public firms some non-tax costs, which may prevent them from pursuing such a policy.

Methodology

The above discussion indicates that management's perceptions regarding the impact of accounting figures on the users of accounts might generate important non-tax costs for a firm pursuing a tax-reducing policy. A postal survey was conducted in order to gather information relating to management's perceptions about the influence of accounting figures upon the users of accounts. The respondents were asked to indicate the extent to which they believe that accounting information influences:

- the lending decisions of the providers of debt capital; and
- the firm's share price.

Furthermore, this study investigates the extent to which certain profit-related objectives were pursued. The following income-related objectives have been identified:

- the minimization of the firm's tax burden;
- the reporting of profits that will influence the firm's share price;
- the reporting of profits that will influence the banks' credit decisions; and
- the reporting of profits that will enable the firm to avoid breaching the debt covenants.

In addition, the survey gathered information regarding the participation of the major owners in the firm's board of directors, and their active involvement in the company's administration. This information can provide evidence of active control of the firm's affairs by its owners (Smith, 1976). Information regarding the employment of managers' compensation scheme has been collected. The respondents were asked to indicate the debt/equity ratio of the firm they are working for. The firm's debt to equity ratio has been used as a proxy for the extent of the firm's dependency on debt financing, and for its closeness to breaching the accounting-numbers based terms of lending agreements (Bradley *et al.*, 1984; Watts and Zimmerman, 1986; Dhaliwal *et al.*, 1992). Furthermore, the respondents were asked to indicate whether the firm was public or private.

The validity and the reliability of the research instrument were examined by applying the tests proposed in the relevant literature (Nachmias and Nachmias, 1976; Stelltiz *et al.*, 1976; Sekaran, 1992). That examination indicated that both the validity and the reliability of the questionnaire were on an adequate level. Besides, a pilot study

and a test of the questionnaire were conducted. An issue that surfaced during the pilot study was that some of the issues raised within the survey could have been perceived as “sensitive” ones. A potential recipient of the questionnaire might have believed that by answering certain questions in a particular way they ran the risk of exposing their firm to the accusation that it had implemented an earnings management policy in order to achieve certain objectives. It has already been mentioned that according to the Greek financial press many firms – especially the listed ones – apply this kind of policy in order to influence their firms’ stock price. As a consequence, recipients of the questionnaire might have been reluctant to respond in the questionnaire. Even in the case that they had responded in the survey, there was the possibility that they might have provided politically correct answers. Therefore, it could have been argued that some bias was introduced in the responses. A measure that was taken in order to deal with that issue was to assure the participants of the anonymity of their responses. In the covering letter of the posted questionnaires an assurance of anonymity was provided. Moreover, a stamped envelope was enclosed, which the participants were advised to use in order to post the completed questionnaire. Thus, it was not feasible for the researcher to identify the respondents. In that way the anonymity of the respondent was safeguarded. Those measures aimed to limit the potential bias to the lowest possible level. Despite those measures, one cannot rule out the possibility that some bias was introduced in the data.

The questionnaires were posted to the financial managers of the 200 largest industrial firms operating in Greece, classified on the basis of their turnover. Of the 200 questionnaires that were mailed out, 63 were returned completed and usable. The response rate, therefore, is 31 percent. Some of the returned questionnaires were only partially completed, but were usable with regard to most questions. Thus, the sample size for responses to individual questions varies with a maximum of 63.

If the response rate is not sufficiently high, the extent to which the sample is representative of the whole population should be assessed and taken into consideration in the analysis of the responses to the survey. Moser and Kalton (1993) maintain that if the response rate is above the range of 20-30 percent, the danger that a serious bias has been introduced in the sample is limited. As mentioned above the response rate was 31 percent. Thus, it can be argued that the probability that the data is seriously biased may not be high. Yet, the issue of the non-response bias was examined. According to Moser and Kalton (1993), a convenient way to assess the extent to which the sample is representative of the population of interest is to include certain questions in the questionnaire, the responses to which can be subsequently checked against the population data. For this survey, the analysis of the non-response bias was based upon the sector distribution of the responding firms. The sector distribution of the respondent firms was not significantly different from the sector distribution for the population of the 200 largest industrial firms operating in Greece.

Findings

All but one of the respondents were working for firms which had a highly concentrated ownership, while in most cases major shareholders are members of the board of directors, and they actively participate in the firm’s administration[1]. Most of the respondent firms do not employ accounting-based bonus schemes. The control status

of the responding firms may partially explain the relatively limited use of bonus schemes by the responding firms, since bonus schemes are more likely to be used when there is a separation between ownership and management. It seems, therefore, that for the majority of the responding firms, their ownership/control status is unlikely to give rise to significant non-tax costs. Such a conclusion is consistent with the argument developed previously that the ownership structure of the Greek firms is not likely to generate significant non-tax costs.

The leverage characteristics of firms, and whether the firms are public or private, are factors that are more likely to give rise to significant non-tax costs. A tax-reducing strategy can give rise to non-tax costs when the firm's managers believe that the resulting reduction in the level of reported profits will adversely influence the perceptions of the external users of accounts. Most of the respondents (76 percent) believe that the accounting information has a substantial effect on the banks' loan decisions, while the majority of the respondents (59.5 percent) believe that the accounting figures have a significant effect on the share price –, i.e. “great extent”-“considerable extent” (Table I). About 93 percent of the respondents from listed firms believe that accounting figures have a significant effect – “great extent” and “considerable extent” – on a firm's share price. Only one respondent from a listed firm has replied that the firm's share price is not affected at all by the published accounting information (Table II).

Within this context, it has been investigated whether firms aim to achieve profit-related objectives that contradict the objective of the minimization of the tax liability. A considerable proportion of the respondent firms which aim to reduce the level of their tax liability, also aim in the same time period to achieve profit related objectives

Table I.
Impact of accounting
figures

Scale: extent	Banks' lending decisions		Share prices	
	Frequency	Percentage	Frequency	Percentage
1 = great	31	49.2	10	27.0
2 = considerable	17	27.0	12	32.4
3 = some	11	17.5	3	8.0
4 = minimal	–	–	1	2.6
5 = not at all	4	6.3	11	30.0
	63	100.0	37	100.0

Table II.
Impact of accounting
figures upon share prices

Scale: extent	Public firms		Private firms	
	Frequency	Percentage	Frequency	Percentage
1 = great	5	33.3	5	22.7
2 = considerable	9	60.1	3	13.6
3 = some	–	–	3	13.6
4 = minimal	–	–	1	4.5
5 = not at all	1	6.6	10	45.5
	15	100.0	22	100.0

which, under certain circumstances, can be considered as contradictory to this objective (Table III). When a firm aims to report profits that will positively influence:

- its share price;
- the bankers' credit decisions; and
- will enable the firm to avoid technical violation, it is more likely that it will prefer higher profits.

Higher profits, however, lead to higher taxable income.

It is likely that firms' management attempts to achieve simultaneously more than one objective regarding the level of reported profits. Zmijewski and Hagerman (1981) argued that a firm's management may pursue a number of objectives regarding reporting figures, and thus it may aim to achieve a compromise between the different – or even conflicting – objectives.

An alternative explanation for the tendency of the respondent firms to pursue the tax-minimization objective along with other profit-related objectives may be that these objectives are not actually contradictory. In order to investigate this alternative, the association between the extent to which a firm aims to minimize its tax liability, and the extent to which it aims to achieve other profit-related objectives, has been examined. When the responses are negatively correlated, and the firm continues to aim to achieve the two objectives, an indication is provided that the firm aims to achieve a compromise between them. In this case, an indication is provided that a firm may actually trade-off tax benefits against non-tax costs. If the responses are positively correlated, it can be inferred that either the firm aims to achieve a compromise between different profit-related objectives, or the relevant objectives are not necessarily conflicting. In order to investigate this issue the Mantel-Haenszel test has been employed. The results of the Mantel-Haenszel test are reported in Table IV.

	Number
Firms that aim to reduce tax liability, and to influence firm's share prices	11
Firms that aim to reduce tax liability, and to influence the banks' credit decisions	26
Firms that aim to reduce tax liability, and to avoid a technical violation	28

Table III.
Firm's profit-related objectives

	Mantel-Haenszel test	Sign of relationship	Df	p-value
Reduction of tax liability and influence share prices	0.2006	Negative	1	0.65
Reduction of tax liability and influence banks' credit decisions	3.1233	Positive	1	0.07
Reduction of tax liability and avoid violating debt covenants	6.2943	Positive	1	0.01

Table IV.
The association between profit related objectives

No significant association exists between the extent to which a firm aims to reduce its tax liability and the extent to which it aims to report profits that will influence its share price. The relevant relationship has been investigated for the public firms only. Again the association is far from significant ($0.833 > 0.05$). This result may indicate that the respondents may believe that cash flows have not had a dominant influence on share prices. For public firms, a tax-reducing strategy will generate non-tax costs providing that the firm's executives believe that the share prices are influenced more by reported profits than by cash flows. Almost all of the responding firms are owner-controlled, and capital-ownership constitutes a substantial proportion of owners' personal wealth. If the owner-managers of listed firms believe that cash flows have a greater impact on share price, they will prefer the reduction of tax liability, because such a decision increases their wealth. Therefore, a positive association would have been expected between the extent to which a firm aims to report profits that will influence its share price and the extent to which it aims to reduce its tax liability. In fact, as reported in Table V, most of the public firms do not aim at all to reduce their tax liability. Besides, it appears that a considerable proportion of the public firms (66 percent) aim – at least to an extent – to report profits that will influence their share price. A further analysis of the responses in the survey, suggests that the managers of listed firms aims to a lesser extent, in comparison to the managers of the non-listed firms, to the minimization of firm's tax liability (Table VI).

The fact that the public firms are concerned about their share price, and less concerned about the reduction of their tax liability, provides an indication that the public firms are likely to face significant non-tax costs, which may discourage a firm from fully exploiting potential tax benefits.

The positive relationship that exists between the extent to which a firm aims to reduce its tax liability and the extent to which it aims to report profits which will

Scale: extent	The extent to which public firms aim			
	To reduce their tax liability		To influence share price	
	Frequency	Percentage	Frequency	Percentage
1 = great	–	–	2	13.2
2 = considerable	1	6.7	3	20.0
3 = some	3	20.0	5	33.4
4 = minimal	2	13.3	–	–
5 = not at all	9	60.0	5	33.4
	15	100.0	15	100.0

Table V.

Table VI.

The extent to which public and private firms aim to reduce their tax liability

	Mean rank	<i>U</i> -statistic	<i>Z</i> -score	Two-tailed <i>p</i>
Public firms	39.50			
Private firms	29.66	247.5	–1.9153	0.0555

enable it to positively influence the banks' loan decisions ($p: 0.07 > 0.05$), and avoid the violation of debt covenants ($p: 0.01 < 0.05$), may imply that a firm may aim to achieve a compromise between the relevant profit-related objectives (Table IV). Alternatively, it may indicate that the two profit-related objectives are not conflicting. It should be pointed out that for the more leveraged firms the pursuit of an income-increasing policy may not necessarily lead to an increase in its tax liability, since it is likely that the firm's heavy debt burden will have a decreasing impact on the firm's effective tax rates. A highly leveraged firm will most likely have high interest expenses that can significantly contribute in sheltering its taxable income, while the adverse economic conditions are likely to have generated tax credits in the form of operating losses carried forward (Deangelo and Masoulis, 1980; Auerbach and Poterba, 1987, in Feldstein, 1987; Johnson and Dhaliwal, 1988; MacKie-Mason, 1990; Dhaliwal *et al.*, 1992). A heavily leveraged firm, due to the increased tax shields from which it may benefit, will have the latitude to follow an income increasing policy without having to be particularly concerned about the tax costs of such a choice. The argument developed above should not lead to the conclusion that firms aiming to raise debt capital are not facing significant non-tax costs. The highly leveraged firms are not the only companies in need of debt capital. Besides, the fact that a firm is highly leveraged does not mean that it is heavily indebted. Previously reported results indicate that the accounting information plays an important role in the banks' credit decisions. Thus, the firms that aim to raise debt capital on favorable terms may be compelled to follow an income increasing policy despite the ensuing increase in the tax costs. A further analysis of the responses indicates that the more leveraged firms aim, to a greater extent than the less leveraged firms, to report profits which will enable them to influence the banks' loan decisions, and to avoid violating the debt covenants (Table VII). In both cases, the level of significance is well below the threshold of 0.05. Thus, a firm's decision to pursue a tax-reducing strategy can generate important tax costs.

Conclusions

The present study investigated the factors that influence the accounting-policy decisions of the industrial firms operating in Greece. A postal survey was undertaken in order to identify these factors. Although measures have been taken

	Debt/total assets ratio	
	0.0-0.4	0.4-0.8
Association between firm's leverage ratio and the extent to which a firm aims		
<i>To influence banks' credit decisions</i>		
Great extent-some extent	14	17
Minimal – not at all	25	6
Mantel-Haenszel test: 8.22854	Df: 1	<i>p-value</i> : 0.00
<i>To avoid violating debt covenants</i>		
Great extent-some extent	20	18
Minimal – not at all	20	5
Mantel-Haenszel test: 4.79542	Df: 1	<i>p-value</i> : 0.02

Table VII.

in order to limit the bias to the lowest possible level, one cannot rule out the possibility that some bias was introduced in the data. The analysis of the responses have provided some indication that the accounting policy decisions of Greek firms can be explained on the basis of the perceived economic consequences of these choices. It seems that tax considerations and the ensuing non-tax costs may influence the financial reporting choices of Greek firms. The participants in the survey believe that accounting figures influence the perceptions and the decision-making of the external users of accounts. Furthermore, it seems that they aim to achieve profit-related objectives, which can be in conflict with the objective of tax minimization. The non-tax costs that result from a tax-reducing policy may force many firms to deviate from an adherence to such a policy. The firm's leverage characteristics, and whether the firm is public or private, are factors that are more likely to give rise to significant non-tax costs, while the ownership structure of the majority of Greek firms is not likely to give rise to important financial reporting costs.

This study may contribute in understanding the factors that shape the accounting policy decisions not only of firms operating in Greece, but also of firms in countries with an accounting environment similar to that of Greece. Most Greek firms are characterized by concentrated ownership, while they are particularly dependent on bank financing. Furthermore, in Greece financial accounting figures are used for tax purposes as well. In many European and non-European countries the broader business environment possesses similar characteristics. A comprehension of the rationale that dictates the accounting policy decisions of firms in these countries will foster not only academic research, but it may also facilitate international accounting and financial analysis, which play a crucial role in most investing and financing decisions. This issue gains further importance due to the increasing globalization of world economy in general, and the integration of the European economy in particular.

The present study is a step in the process of acquiring an insight into the factors that affect firms' financial reporting choices. Further empirical investigation is required in order to acquire a more comprehensive view of the elements that form the accounting policy decisions of firms. In particular, a thorough investigation is required regarding the way tax considerations and financial-accounting policies articulate with each other and influence firms' accounting policy-decisions. This research project provided some indication that Greek firms' reporting policies may constitute a part of tax-planning strategy aiming to reduce firms' tax liability. The investigation of the elements of a tax – reducing strategy involving the substitution between alternative tax shields can be the focus of a future research project. In such an analysis it is important to take into consideration the impact that accounting policy choices have upon firms' cash flows, while an aspect that is essential to be examined is the stock prices reactions to alternative reporting policies.

Note

1. The descriptive statistics about the responses in the survey have been provided to the editor of the journal and they are available upon request.

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Appendix. The descriptive statistics of the responses to the questionnaire survey

	Frequency	Percentage
<i>Ownership structure</i>		
Family controlled	28	44.4
Widely held	1	1.6
Owned by a bank	1	1.6
Subsidiary of a Greek firm	9	14.3
Subsidiary of an overseas firm	10	15.9
Concentrated ownership ^a	13	20.6
Other ownership status ^b	1	1.6
	63	100.0
<i>Private and public firms</i>		
Public firms	15	23.8
private firms	48	76.2
	63	100.0
<i>Major shareholders' membership in the board of directors</i>		
Major shareholders are members of the board of directors	51	81.0
Major shareholders are not members of the board of directors	12	19.0
	63	100.0
<i>Major shareholders' active participation in firm's management</i>		
Major shareholders do participate actively in firm's management	50	79.4
Major shareholders do not participate actively in firm's management	13	20.6
	63	100.0
<i>Employment of bonus schemes</i>		
The firm uses a bonus scheme	20	31.7
The firm does not use a bonus scheme	43	68.3
	63	100.0
<i>The basis on which bonus payments are calculated</i>		
Bonus is based on accounting figures	11	61.1
Bonus is not based on accounting figures	7	38.9
	18	100.0
<i>Proportion of firm's total assets that are financed by debt financing (percent)</i>		
0-20	25	39.7
20-40	15	23.8
40-60	18	28.6
60-80	5	7.9
80-100	—	—
	63	100.0

(continued)

Table AI.

	Frequency	Percentage		
<i>Profit-related objectives</i>				
<i>Scale: extent</i>				
	<i>Minimization of tax liability</i>	<i>Influence firm's share price</i>	<i>Influence banks' credit decisions</i>	<i>Avoid breaching the debt covenants</i>
1 = great	5 (8)	3 (6)	15 (24)	5 (8)
2 = considerable	8 (13)	5 (10)	25 (40)	14 (22)
3 = some	17 (27)	10 (19)	11 (17)	19 (30)
4 = minimal	6 (9)	3 (6)	3 (5)	4 (6)
5 = not at all	27 (43)	30 (59)	9 (14)	21 (34)
	63 (100.0)	51 (100.0)	63 (100.0)	63 (100.0)
Mean	3.67	4.02	2.46	3.35
Std. deviation	1.37	1.32	1.31	1.36
Mode	5	5	2	3
<i>n</i>	63	51	63	63

Notes: ^aThis category refers to firms for which the majority of share capital is controlled by a restricted numbers of shareholders – not more than 8-10 – who are not members of the same family; ^bone of the respondent firms has been partially controlled by a governmental agency; numbers in the brackets indicate percentage

Table AI.

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