

# An Empirical Study on the Adoption of IFRS for SMEs: the Case of Kavala, Greece

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## Abstract

The application of IFRSs (International Financial Reporting Standards)/IASs (International Accounting Standards) in SMEs (Small to Medium sized Entities) is an issue that has drawn the attention of IASB (International Accounting Standards Board) due to the impact that SMEs have on economy. The establishment of common accounting principles will provide greater transparency among companies and will enable comparability of financial statements internationally but its implementation by SMEs is not an easy task. The different needs that exist in SMEs users, the cost that is demanded so as to adopt and apply IFRSs and the deficiency of knowledge are considered some of the factors that deter the successful adoption and application of IFRSs by SMEs.

This study adopts Tyral's et al. (2007) four factor model. We develop the four factor model based on both primary and secondary data and furthermore we examine the considerations of the accounting and administrative departments in the area of Kavala. The turnover, the educational level of the employees and the existence of knowledge relevant to IFRSs are some of the elements that are analysed so as to enable us in developing a new pathway that will provide SMEs in the area of Kavala with critical guidelines and conditions so as to apply IFRSs. The pathway refers to the strategic conditions that if taken under consideration by SMEs, will limit the predicaments that might be encountered. In order to obtain primary data we constructed a questionnaire that was delivered to Kavala's SMEs. The results of the survey are entered in the Statistical Package for Social Sciences (SPSS 17.0) so as to enable statistical analysis. Secondary data was obtained by the local and national services.

**Keywords:** SMEs, IFRSs, International harmonisation, international financial reporting

JEL Classification: M41

## 1 Introduction

The application of IFRSs (International Financial Reporting Standards) / IASs (International Accounting Standards) in SMEs (Small to Medium sized Entities) has caused turbulence in their environment due to a variety of reasons. The high cost, the absence of knowledge, the uncertainty of the new system and the impact that will have on users' needs are considered to be some of the most important factors that SMEs ponder. But globalisation prevails and uniformity in the accounting system will enable comparability of financial information. In addition, IASB (International Accounting Standards Board) supports that users, investors and the enterprise itself will be benefited due to the ability that they will have to analyse the financial

information of other companies, compare the results and make investments that will provide an increase in companies' financial position.

The aim of this study is to examine the awareness and the considerations of SMEs in applying IFRSs in the area of Kavala, Greece. Does the structure of SMEs enable the application of IFRSs? Are SMEs ready to adopt IFRSs and in addition do they have the appropriate level of knowledge so as to correspond to the new demands? Should full IFRSs be applied in SMEs or a different accounting system that is based on IFRSs principles will be ideal for SMEs? In general how relevant are IFRSs in the area of Kavala? There is a significant amount of questions that are analysed in the following pages and in order to achieve this we develop Tyrrel's (2007) four factor model based on both primary and secondary data.

## **2 The case of SMEs**

### **2.1 Definition, background and characteristics of SMEs**

IASB defines SMEs as the entities that do not have public accountability and publish general purpose financial statements for external users. However, depending on a country's laws SMEs can include entities with other characteristics than the ones that IASB defines. European Union (EU) in order to define SMEs took into account three criteria that have to be fulfilled. According to the definition that is given by the EU (2007) these criteria include the following:

- The number of employees
- The annual turnover
- The annual balance sheet

Very small are considered the enterprises whose number of employees does not exceed 10 and whose annual report and balance sheet does not exceed 2,000,000 €. Small are considered the enterprises whose number of employees does not exceed 50 and whose annual report and balance sheet does not exceed 10,000,000 € and medium are considered the enterprises whose number of employees does not exceed 250 and whose annual report and balance sheet does not exceed 50,000,000 € and 43,000,000 €, respectively.

SMEs, no matter the criteria are taken under consideration, perform a crucial role in the European economy. They are considered to be the backbone of the economy since they cultivate innovation, they promote competition and furthermore they contribute to employment. It is easy to comprehend their impact on economy since SMEs, according to evidence from OECD (Organisation for Economic Co-operation and Development) represent over 95% of the organisations in the EU (OECD, 2000).

There is a plethora of SMEs that deal with the international exchange of goods. Consequently, they are considered to be the basis of a balanced and healthy commercial environment. In addition, SMEs are more flexible since the decisions are taken in many cases by the owner, who is responsible for company's administration. Thus, SMEs are more adaptable to changes compared to larger companies due to the fact that they are not as complicated structured and organised as the larger companies (Florou, 1993). In addition, SMEs have lower liquidity and leverage compared to larger firms and in order to cover these gaps resort to solutions such as trade credit and owner loans or rely on short term financing loans (De Maeseneire et al., 2006;

Beck et al., 2006). This indicates that large enterprises are benefited financially for longer periods and greater resources, fact that provides them the ability to expand and make new investments. In addition, innovation and furthermore, research and development can be achieved in large firms that can exploit economies of scale and manage such tasks (Narula et al., 2004; Beck et al., 2005).

Heinrich Bass et al. (2007) based on German maritime SMEs found that 82% of their sample was engaged in research and development. They supported that innovation and internationalisation are closely connected due to the fact that innovation needs international markets and vice versa. But the limited access of SMEs to external finance in combination with the non-available distribution channels and language skills prohibit their development and expansion to new markets. Consequently SMEs are restricted and employment creation is not achieved. In addition, Lefebvre et al. (1992) used as a sample 455 smaller manufacturing firms so as to investigate if the innovative efforts are linked with company's strategies. They indeed found that smaller manufacturing companies develop strategies so as to compete successfully and develop strategies that are connected to the innovative efforts, though they found that larger companies are better structured to involve in research and development.

Moreover, SMEs promote decentralisation due to their operation in rural areas and the production of goods that are of no interest for larger firms because of the fact that are not suitable for mass production. They offer job opportunities to minorities and women as a result of their existence in rural areas. Yet, they promote exports and investment creation (World Intellectual Property Organisation, 2007). In addition, employees of SMEs are given more opportunities to evolve their ideas since they are involved in many activities. When employees manage to offer attractive ideas, are more easily recognized and promoted than the employees of large companies. Furthermore, employees of SMEs obtain knowledge and experience through their work, fact that motivates them to cooperate and try harder to achieve their aims (Tzortzakis et al., 1992).

Riportella et al. (2001) based on empirical evidence from Spanish firms illustrated that SMEs have three characteristics, according to their survey:

- 1 they do not have the ability to use the issue markets
- 2 they depend on bank's credit market and
- 3 the function of ownership and control structure are not separated and as a result information asymmetry increases.

On the contrary large companies have greater negotiating power, fact that enables them in achieving lower prices and moreover are provided with longer periods so as to pay their obligations. Furthermore, large companies have easier access to long term financial programs and are enabled in making investments because of the operating capital that they owe. Thus, large companies' employees have higher educational level and their work is allocated on departments and they do not have responsibilities on other departments other than the ones they belong (Nikolaidis, 2003).

## **2.2 IASB's preliminary views and discussions on IFRSs suitability for SMEs**

IASB supports that IFRSs are suitable for all entities but at the same time recognises that SMEs users needs differ in several aspects from users' needs of listed entities. IASB's scope is to promote an

international accounting system that will provide greater transparency and comparability among entities but its recommendation to SMEs has raised a dispute whether full IFRSs should be adopted by SMEs or not. The discussion paper "Preliminary views on Accounting Standards for Small and Medium Sized Entities" published in 2004, provided the opportunity to comment the issues that were developed by IASB so as to assist and contribute to its role.

Anacoreta et al. (2005) obtained data from respondents to IASB's comment letter so as to analyse the different opinions among the 116 respondents. Multivariate analysis is used in order to enable statistical analysis and point out patterns for different options. They found that respondents are separated into two groups, the "opinion" group that has an opinion on the issues that IASB has possessed and the second group that has not an opinion. They found that in the opinion group exist two patterns of answers, the one that disapproves IASB's autonomy and tends to prefer independent SME standards against full standards and the one that believes in IASB's autonomy and has a preference for independency between the two sets of standards. Thus, they notice that there is another group that has mixed opinion.

IFAC (International Federal Accountants Committee, 2006) supports the opinion that appropriate and simplified guidance is needed for SMEs. Moreover, it believes that users needs differ significantly from users of listed entities and this factor has to be taken under consideration so as to develop rules and regulations. Furthermore, IFAC states that IFRSs might be burdensome for SMEs. This fact necessitates IASB's contribution so as to develop standards that are clear and understandable. Additionally, IFAC supports that the cost of application should not exceed the benefits that will derive from the application of IFRSs.

EVCA (European Private Equity and Venture Capital Association), responding to the "Preliminary views on Accounting Standards for Small and Medium Sized Entities" states that IASB should consider three objectives of equal importance to EVCA so as to develop IFRSs for SMEs (EVCA, 2004). EVCA supports that standards should satisfy users' needs, deter any barriers that might appear during the application of IFRSs and provide high quality, comparability and understand ability, while the Institute for the accountancy profession in Sweden (FAR) "finds it doubtful" whether IASB should settle the standards for SMEs. It supports on its response to the Discussion Paper that the standard setter should develop standards taking into consideration a number of factors. The characteristics of SMEs and the cost benefit considerations are included so as to develop IFRSs for SMEs (Discussion Version, 2004).

EFRAG (European Financial Reporting Advisory Group) on its draft comment letter does not support the public accountability approach that IASB adopts (EFRAG, 2007). It believes that the use of "publicly accountable enterprises" is not appropriate according to the fact that it does not refer to the size. It supports that publicly accountable can be small, medium sized, large and very large companies. A different label is necessary so as to clarify the scope for the standard. Moreover, it supports that the Framework for SMEs should include the same principles as the Framework for entities that apply full IFRSs but it should be adapted to SMEs users' needs. Though EFRAG agrees that IFRSs are suitable for all entities, however it supports that users' needs of SMEs are less sophisticated and require less comprehensive information than users of large and listed companies. The analysis of SME users is essential; otherwise the

standards will be meaningless. To enable staff's and IASB's role, EFRAG describes the directions that have to be improved where it prescribes all the simplifications and changes that have to be done so as to develop IFRSs for SMEs.

Flower (2004) did not hesitate to describe IASB's project as "fatally flawed" due to several reasons that he analysed. He supported that the distinction of two separate sets for standards: full IFRSs and IFRSs for SMEs, causes problems to enterprises due to the fact that a company might select to apply not the suitable set of standards. He stated that though IASB provides some guidelines so as to prohibit the danger of applying standards that are suitable for SMEs, it does not have the authority and the power to do this. The IASB's role is to publish standards that might be used or not by the enterprises fact that depends on national regulatory authorities. Flower continued that the two sets of standards are not in harmony to its constitution. He supported that the primary objective of IASB's constitution was to "*develop...a single set of...global accounting standards...*". IASB in the discussion paper tries to enlighten and explain the single set of standards but for Flower the words a single set do not mean anything else than a single set. He moreover supported that Framework does not take into account the SMEs users needs and it refers only to external users, excluding this way the management, the enterprise's managers and the taxation authorities. For all this reasons, he concluded that the existing Framework is not the suitable basis for IFRSs for SMEs and thus, he doubted whether IASB is the suitable body that has the experience to perform to such a demanding task. For all these reasons he described "*IASB's project as fundamentally flawed*".

### **2.3 SMEs financial statements' users and their needs**

EFRAG proposed in its comment letter (EFRAG, 2007) that financial statements of SMEs should be understandable by its users and not complex. This is because SMEs users do not have either analysts or employee representative groups so as to fulfil successfully the application of IFRSs, fact that indicates that simplifications have to be made so as to adopt and apply IFRSs. Furthermore, EFRAG suggested that a thorough study should be done so as to identify users' needs that seem to differ significantly in many areas. Users of IFRSs have as an aim to increase their investments while users of SMEs do not. Thus, Schiebel (2007) explored the extent that the proposed IFRSs for SMEs are independent from full IFRSs. He moreover supported that IASB focused only on the comment letters paying no attention to international differences that exist among external users of SMEs.

According to Evans et al. (2005) different user needs of SME exist and they proposed that the regulation should focus on ensuring that users' needs are covered. They found, based on United Kingdom (UK) literature, that user needs differ in multinational enterprises from SME users. SME accounts users need information on firms' performance in profitability, solvency so as to feel more secure. In addition, SMEs' financial statements will not be as critical to users as in users of larger companies and this is because of the differences that exist between users. According to their evidence, they identified that the basic user groups of financial statements in UK are "employees, managers, providers of loan finance, creditors and the Inland Revenue" while in Italy users are categorised into two groups which are the tax authorities and banks, and the management. The first group represents the public interest while the second uses financial information so as to analyse the company's performance. The

usefulness of statutory financial statements is another issue that differs in several countries. Contrary, Evans et al. (2005) found that according to Italian literature, statutory financial statements do not provide to users useful information, especially for external. However, the existence of statutory financial statements does provide guidance to users' needs in small companies.

Lungu et al. (2007) supported that though IASB has managed to reduce the standards for SMEs to less than 250 pages while full standards are approximately 2,400 pages, it still remains a long standard document for small companies. Users' needs are less complicated compared to large firms. Moreover, they supported that apart from the benefits, there is the other side that demands high cost so as to apply IFRSs. No matter if it is a two or three tier standard, regulators have to be informed for all standards, fact that increases dramatically financial reporting requirements. Thus, they supported that although IFRSs for SMEs have simplified many issues, several problems might appear during the application of the "top-down approach". Based on the literature, they supported that it is very difficult to apply a standard that derives from full IFRSs and although simplifications have been made, it is doubtful whether users will satisfy their needs. Furthermore, users of large companies are not the same as users of small companies and it is "questionable whether the IASB's Framework is such a universally suitable Framework".

Chand et al. (2007) demonstrated that "a single set of standards for SME may not be relevant for all countries". They examined the case of Fiji. They supported that the size, structure and users needs differ significantly in emerging and developed economies. Moreover, they supported a two tier model for SME standards based on the characteristics of developed economies and emerging economies. They maintained that the evaluation of fair value in emerging economies is considered as an extremely model to apply and that IASB should take under consideration the different taxation and legal structures. They also noticed that the lack of qualified accountants in emerging economies will impede the application of IFRSs.

#### **2.4 Differences between IFRSs and Greek accounting principles**

The differences that exist between the Greek accounting standards and IFRSs can be divided into two categories which are the preparation of financial statements and the different accounting perspective in some accounting events and occasions.

IAS 1 requires the preparation of statement of changes in equity that it is not predicted by Greek legislation. The difference is partially covered by the preparation of the income appropriation account. In the consolidated financial statements where according to the Greek legislation the preparation of the income appropriation account is not obligatory great differences with IFRSs appear. The statement of changes in equity includes all the information that is necessary to users so as to understand the changes that evoked to company's share capital. Furthermore, IFRSs demand the preparation of notes and other explanatory notes. Moreover, all the accounting principles that are used are explained so as to make known any changes to standards as well as the impact that they have on previous years' financial statements. Thus, in cases where a particular standard is not followed the reasons for not doing so are presented. Article 42a Law 2190/1920 states that in Greece financial statements must include the Balance Sheet, the Profit and Loss Account or the Income Statement, the Earnings Statement and the Notes.

Some of the most important accounting differences that exist between Greek accounting standards (GAS) and IFRSs are listed below:

**Table 1: Accounting differences between GAS and IFRSs**

	<b>GAS</b>	<b>IAS</b>
<b>Assets evaluation</b>	Historic or production cost	Fair value (IAS 16)
<b>Depreciation</b>	High and low rates (legislation)	Useful life (IAS 16)
<b>Tangible Assets</b>	Re-evaluated according to certain rates (legislation)	Current prices - Evaluation from specialists (IAS 16)
<b>Leasing</b>	For no reason they appear in the fin. Statements of the lessee	Financial leases appear in the Fin. Statements of the lessee, Operational leases in the Fin. Statements of the lessor (IAS 17)
<b>Research &amp; Development</b>	Recorded in an expense account (I/statement)	Research is recorded as an expense, while development, only under certain conditions (IAS 38)
<b>Establishment expenses</b>	Recorded in the B/Sheet (depreciated for 5 years)	Recorded in the I/Statement
<b>Inventory costing methods</b>	LIFO, FIFO, WA	Benchmark treatment: WA, FIFO, alternatively LIFO (IAS 2)
<b>Extraordinary Items</b>	Wide meaning (sales of assets, provisions etc.)	Only losses of profits from extraordinary events (IAS 8)
<b>Deferred Taxes</b>	Only Current Income tax	Recorded in the I/Statement, take into account future liabilities or prepaid taxes (IAS 12)
<b>Provisions</b>	Recognized only by the legislation	Recognized according documented elements and evaluation of the company (doubtful accounts, devaluation of stocks etc. IAS 37)
<b>Minority interests</b>	Appear only in the Consolidated B/Sheet	Appear in a separate item of liabilities (other from equity)

Source: Mandilas et al., 2005

## 2.5 Implications for the application of IFRSs in Kavala's SMEs

The application of IFRSs to listed enterprises to Athens Stock Exchange (ASE) was a difficult task since the accounting principles and methods were unknown for Greek enterprises. But the experience of listed enterprises is crucial for SMEs since SMEs have to be prepared and informed about the changes that have to suffer. In fact SMEs will encounter a significant number of complex accounting issues. As a result financial managers will be asked to change the methods on accounting issues and adopt the ones that are accepted by IFRSs. Future plans and progress will be estimated on cash flows and on the risks that have suffered several investments.

The application of IFRSs by SMEs is a challenge for SMEs in the area of Kavala. The successful application demands:

- The evaluation of the experience of listed enterprises that have already applied IFRSs
- The creation of dynamic strategies and the development of SMEs through the application of IFRSs
- The adoption of strategic targets that will enable the true and fair presentation of financial information

But the process to the adoption of IFRSs demands thorough study of the steps that have to be done so as to guide SMEs to the successful application of IFRSs. First of all, SMEs have to survey the audit companies so as to identify the most experienced and qualified that will provide their consulting services. A combination of high quality services with low cost necessitates additional survey on market since SMEs confront financial restrictions. Thus, the management has to proceed to structural changes of business plans that are in accordance with the new demands and additionally financial managers should be provided with adequate level of knowledge so as to inform and train employees, since continuous education is necessary through the application of IFRSs.

The new demands will have a significant impact on investors-shareholders, banks, competitors and suppliers:

- Investors- Shareholders: The application of IFRSs might create the necessity to increase enterprise's share capital with cash and additionally it will increase accounting costs. Investors are called to well prepare their employees so as to correspond to the new demands and improve their strategic management so as to comply with future cash flows.
- Banks will be provided with more detailed financial information and they will be enforced to develop new policies that comply with the new demands.
- Competitors will be able to be informed about the financial performance of others and vice versa fact that increase the need to develop and adopt new strategies.
- Suppliers will be better informed about index liquidity and will evaluate the elements of demands and liabilities of their customers.

### **3. Methodology**

#### **3.1. The procedure**

In order to initiate a survey it is necessary to recognise the need and the purpose for the survey. In addition, preliminary survey on the existing literature and the definition of limitations is obligatory so as to specify the particular topic that is under examination. This study adopts the four model factor that was developed by Tyrall et al. (2007) which examined the relevance of IFRSs to a developing country, Kazakhstan. They supported that the application of IFRSs will provide greater quality and comparability of financial information but on the other hand the unsuitability of IFRSs to comply with users' needs, the new complex requirements and the absence of qualified accounting staff are considered some of the predicaments that will confront developing countries.

The increasing demands on IASB to consider SMEs users' needs and evaluate whether full IFRSs should be applied or not has motivated us to survey whether SMEs have the knowledge, skills and generally the resources that are demanded so as to adopt IFRSs. Furthermore, the organisational structure of Greek SMEs is another issue that is very



attractive to survey. Primary data is used in order to examine whether IFRSs are relevant for SMEs in the area of Kavala and secondary to enable the further analysis of the model. From the analysis of the four factors, we obtain data that consist the basis for the development of conditions, limitations that will enable SMEs in adopting and applying IFRSs successfully.

The next step in order to continue the procedure of the survey is the construction of the questionnaire which is the tool that is used to identify, measure and collect the elements that will provide information for the further analysis. Such elements include information relevant to financial, social and demographic characteristics of the respondents and the attitudes or reasons that are connected to the approval or disapproval of a specific issue (Kouremenos, 2001). After completing the construction of the questionnaire, it is essential the "testing" procedure in order to enable further improvements and corrections and deter probable delays due to misunderstandings that might be encountered. The method we followed was mainly door-to-door and in few cases we dispatched the questionnaires via mail and fax. The door-to-door method, although it was time consuming, presupposes the presence of the researcher who provides any additional information whenever it is asked.

After the collection of the questionnaires, the inspection and control phase follows. It is very significant to overhaul that the quality that is demanded subsists. This phase demands the notice of any omissions or misinterpretations so as to have clear and unambiguous results. The quality of the questionnaire provides better analysis of the findings and moreover it enables the entry of the variables to the statistical software. Secondary data was obtained by national and local services that provided statistical information.

### **3.2 The structure of the questionnaire**

The questionnaire is divided in five sections and each section includes from 5 to 8 questions and part of the questions included in the questionnaire is based on the "Preliminary Views on Accounting Standards for Small to Medium sized Enterprises" due to the significance that they have in depicting the awareness of SMEs in applying IFRSs.

The first section provides us general information about the company and in particular it demonstrates on the sector of occupation, the number of employees, the turnover and the company's progress in relation to its turnover and the number of employees.

The second section provides additional information about the departments that will be mostly affected by the application of IFRSs (if any), the company's opinion about the extent to which it wishes to change the educational level of employees, the accounting software that is used (if any) and the company's opinion whether it will be benefited by the adoption and application of IFRSs

The third section of the questionnaire demands from respondents to evaluate skills, knowledge and considerations on IFRSs. In particular it is asked to evaluate the existing level of knowledge in applying IFRSs, the awareness of the advantages and disadvantages in applying IFRSs, the company's view whether different standards should be adopted by SMEs and whether users needs are covered with the existing accounting principles.

The fourth section includes questions that demand the evaluation of the structure. The questions included in this section refer to the level of knowledge on Greek accounting issues, the ability to correspond to changes successfully and the ability to analyse and make conclusions about company's present and future progress.

Finally, in the last section it is asked to identify the reasons/factors that prohibit SMEs from adopting IFRSs, the reasons/factors that make SMEs positive in adopting and applying IFRSs, the company's opinion whether it will be benefited by the application of a common accounting system in the European Union and whether IASB should take into account the different characteristics and needs of SMEs so as to apply only the ones that are relevant for SMEs.

### **3.3 The sample**

In order to determine the sample on which we will focus, we were assisted by the Chamber of Kavala that provided us all the elements so as to determine the sample. We used as a sample limited liability (Ltd) and societe anonyme (S.A) companies due to the fact that the accounting departments are well structured and organised in contrast to the accounting departments of ownerships where in most of the cases an external accountant has the responsibility for auditing, preparing and presenting the company's financial statements. The amount of the Ltd and S.A companies that are registered in the area of Kavala are 350 and we dispatched the questionnaires to 100 companies, sample that is considered satisfactory.

## **4. Presentation of the four factor model**

### **4.1 Kavala's profile**

Kavala belongs to the East Macedonia and Thrace Region of Greece. It attracts every year a significant number of tourists due to its geographical position and consequently tourism is a source for occupation for many SMEs during the summer while in winter SMEs that activate in this sector face many financial difficulties due to the limited number of visitors. Furthermore, East Macedonia and Thrace Region according to evidence by the Prime Minister proportionate 11% of the cultivated lands in Greece, fact that indicates area's significance to country's production of agricultural products. However, it is estimated that 30,000 farmers leave agriculture due to the limited financial support by the government. All the above contribute to the high percentages of unemployment that exist in the area and prohibit the development due to the non-existence of governmental support. Thus, in the area of Kavala operate some of the biggest companies (P.F.I. S.A. - industry of fertilisers) that face many financial predicaments due to the mistreatment of resources. It employs a significant number of people who remain unpaid for several months fact that contributes to the consumers stability noticed in the area.

All these elements are essential so as to analyse the four factor model and identify the relevance of IFRSs in SMEs in the area of Kavala.

### **4.2 Analysing four factor model**

#### **4.2.1 Environment factor**

Greece was a territory of the Ottoman Empire for almost four centuries fact that contributed to the slow development of the country. Furthermore, local wars contributed to country's stability and only after the elections of 1974 the country managed to establish a stable political environment. Consequently the rhythms of development in Greece started to speed up during the last thirty years. According to Kavala's Chamber approximately 12,000 SMEs are registered, the majority of which comprise very small individual enterprises. These enterprises will be asked to consider how relevant IFRSs are to their function. The true is that small enterprises have difficulties in managing to survive and that resort to friends and family so as to fulfil their financial obligations due to the limited financial resources that characterises the developing countries.

The application of IFRSs will necessitate either the absorption of qualified personnel or the advice of external qualified accountants. Structural changes are essential and it is questionable whether they will manage to correspond. Facts and figures in the area of Kavala are depressing. According to the secretary of Labor Centre of Kavala (E.Y.K.N.K.) unemployment is approximately 12% - 13% and Kavala is the second city of East Macedonia and Thrace with so increasing unemployment. However, amendments of law 3299/2004 offer significant help to SMEs as they provide support to SMEs and enable them in making new investments, acquiring new technology equipment and generally offer SMEs funds so as to be competitive in the market and encourage their operation. All these have as an aim to decrease area's unemployment and additionally provide employees with a better educational level.

Furthermore, the low income of individuals compared to the high cost of living worsens the situation. According to evidence by the prime minister the individual income in East Macedonia and Thrace Region in 2003 was 10,400 €, far below the individual income of the rest European countries. Our survey on SMEs of Kavala indicates the financial restrictions that SMEs confront. From our sample 82.2% has volume of sales below 3 millions and though the majority had an increase in the volume of sales during 2003-2006 the number of employees did not increase to equal percentages fact that indicates either that the increase was not so significant so as to attract new personnel or that enterprises had other obligations that prohibit them by hiring additional personnel.

Other than the financial limitations, SMEs will confront significant difficulties in applying IFRSs since the majority does not have any knowledge of the requirements of IFRSs. The educational level of employees appears to vary. More specific, SMEs occupy all educational levels but primitive and MSc-PhD level do not appear in such a volume as middle and higher education levels. From our sample, 69% does not occupy employees with primitive education and 86% does not occupy MSc-PhD educational level. On the contrary, 92% of the enterprises occupy middle education employees and 71% occupies higher level education employees (see Appendix).

The application of IFRSs requires high qualifications on issues relevant to IFRSs. Management's judgement is essential during the application and presupposes the detailed knowledge of rules and principles of IFRSs. The majority of respondents evaluates as mediocre their knowledge on issues relevant to IFRSs although their knowledge on general accounting issues and software accounting is evaluated on a well informed level (see Appendix). Particularly in relation to the evaluation on general accounting knowledge, 1% supports that has very little knowledge, 6% little knowledge and 33%

supports that is mediocre informed. Additionally 45% supports that is much informed and 15% very much informed. Thus, on knowledge to accounting software, 5% supports that has very little knowledge, 4% little knowledge and 33% has mediocre knowledge. Almost half of the respondents (45%) evaluate as much informed and 13% as very much informed. As we can see, no significant changes exist as respondents have evaluated their knowledge on accounting and on software accounting, using almost the same climax.

Furthermore, SMEs accounting departments are optimistic and support that they will manage to correspond to probable difficulties that might appear during the adoption of IFRSs. Only 3% and 6% evaluates that can manage very little and little to correspond to the difficulties and 38% as mediocre while 44% and 9% evaluate as much and very much their ability to correspond successfully to probable difficulties that might appear (see Appendix). Thus, it is encouraging the fact that the majority of respondents has managed to correspond successfully to past predicaments (see Appendix). However, the demand for high qualifications is essential and SMEs will be forced to resort to bigger cities in order to obtain relevant information, since the area of Kavala does not have such educational centres as other cities. Thus, the experience of consultants in bigger cities will provide SMEs additional benefits because of the experience that already have by the application of IFRSs in listed enterprises to ASE.

From all the above, it is clear that the application of IFRSs in the area of Kavala will be a very difficult task due to the limited resources and characteristics of SMEs. Our survey indicates that though respondents are positive in applying IFRSs due to transparency and comparability of financial information however, they consider that the high cost that is demanded and the lack of knowledge are the main reasons that deter SMEs from applying IFRSs. Moreover, SAs and LTDs, whose considerations are examined in this thesis, support that different standards should be adopted by SMEs, adapted to users' needs and it is essential the creation of criteria so as to classify which SMEs should apply. All the above shed light on Kavala's environment factor compared to other cities and makes clear that though IFRSs will provide higher quality to financial information it is doubtful whether the existing conditions enable the materialisation of such a task.

#### **4.2.2. Private sector and capital market factors**

According to data provided by the National Statistical Service of Greece the percentage of SMEs activating in Greece amounts to 90.38% of the companies registered. Additionally, a significant part of the public sector is privatised due to the ailing state control companies such as public utilities and transport airline (Price Waterhouse Coopers, 2007) while the completion of privatising other monopoly public sector enterprises has been already completed such as Public Power Corporation (P.P.C.). From our survey we find that in the area of Kavala, the majority of SMEs activates in commerce and services and comprises 1 up to 200 employees. Specifically, 37% of respondents activates in commerce, 36% in services, 13% in manufacture, 4% in commerce and services and only 1% combines manufacture, commerce and services (see Appendix). The number of employees and volume of sales varies significantly but most SMEs occupy 1-10 employees and the median of sales in our sample is 683,019 and mean is 3,074,743.48 (see Appendix). The highest number of employees appears to a few enterprises, fact that indicates that medium-sized enterprises are not met in such a frequent as very small-sized enterprises. From

respondents, 54% supports that the application of IFRSs will cause problems to company's function while 46% considers the opposite. The most affected department appears to be the accounting. More specific, from respondents who have answered that the application of IFRSs will cause problems to company's function, 18% considers that the accounting department will be mostly affected, 12% considers a combination of administrative, accounting and cost accounting and 8% considers the administrative and accounting department (see Appendix).

On issues related to IFRSs, 44% supports that is "mediocre" informed while 23% supports that is "little" informed and 17% appears to be "very little informed". Only 16% is "much informed" on issues related to IFRSs while it is surprising that none from the respondents evaluated him/her as "very much" informed. As far as the awareness of the advantages and disadvantages that the application of IFRSs will have, 40% evaluates its awareness as "mediocre", 23% as "little", 15% as "very little" and only 20% evaluates as "much" informed and 2% as "very much" (see Appendix). We notice that respondents although they are not so informed on issues relevant to IFRSs, appear to be better informed in relation to the impact that IFRSs will have on their enterprise.

From respondents 6% evaluates as very little the ability to analyse and make conclusions about company's present and future financial progress, 23% as little, 41% as mediocre and 22% and 8% as much and very much. Thus, the majority of respondents has managed to correspond successfully to past difficulties as more than half have managed to surpass past difficulties while 1% and 3% evaluates as little and very little their ability (see Appendix).

There are several reasons that prohibit SMEs from applying IFRSs. The high cost that is demanded, the absence of knowledge or the weakness to adapt to new things concentrate the considerations for most SMEs. In particular, 19% supports the high cost, 35% the lack of knowledge, 11% the weakness to adapt to new things and 16% supports other reasons than the ones mentioned. The rest of the respondents support combinations of these reasons (see Appendix).

The fact that the cost that is demanded surpasses company's abilities is considered as a factor that prohibits the adoption and application of IFRSs. Almost half of the respondents (48%) consider that the cost is much above company's abilities, as very much evaluates 19% and mediocre 18%. From the rest 18%, half support as little and the other 9% as very little the fact that cost is above company's financial abilities (see Appendix).

Furthermore, most SMEs designate the will to improve the educational level of employees so as to correspond successfully to the new needs. From the enterprises that activate in the area of Kavala, 78% wants to keep the same levels of the employees with primitive educational level. This indicates that 78% does not want to hire employees with primitive educational level and wishes to keep the same structure in relation to the percentage of employees that already occupies. Furthermore, 62% wishes to keep the same level of middle education employees and more than half of the enterprises wish to improve the higher and MSc-PhD level so as to correspond to the new demands (see Appendix).

In relation to the stock market processes, only 11% and 5% appear to be much and very much informed, respectively. From the rest of the

respondents', 27% supports that they are mediocre aware of the processes, 31% are little and 26% very little (see Appendix).

Thus the fact that the application of IFRSs intimates the adoption of a common accounting system within the EU is not considered as an event that will provide to SMEs benefits. Particularly, 34% supports that will obtain minimal benefits, 35% little benefits, and only 20% and 11% consider that will obtain enough and many benefits (see Appendix).

All the above indicate the restrictions of both private sector and capital market. The high levels of country's GDP growth rates compared to other European countries have a significant impact on the restrictions that SMEs confront. According to a survey that was materialized by ICAP, Greek enterprises have increased their default to banks and other institutions compared to previous years, fact that indicates the predicaments that private sector confronts. All these are closely connected to SMEs position in applying IFRSs since the capital market is not developed and thus the private sector does not have the suitable structure so as to apply IFRSs. Moreover, the personnel appears not to have the desired level of knowledge and this is why private sector is not fully developed yet.

#### **4.2.3. Accounting needs factor**

The relevance of IFRSs in listed enterprises is unquestionable due to the fact that enterprises do not have to prepare financial statements with more than one accounting system, fact that provides benefits to enterprises due to transparency, comparability and the existence of a common accounting system. But users of financial information of SMEs differ in many aspects from users of listed enterprises and furthermore not all SMEs, according to the survey, believe that they will be benefited by the existence of a common accounting system within the EU. Furthermore, the educational level is not as high as in the listed enterprises and the transactions are not as complex and demanded. The fact that the EU urges for convergence has caused turbulence to SMEs environment. As mentioned above the majority of SMEs activating in the area of Kavala comprise very small enterprises that manage to correspond to markets demands difficulty.

According to our survey, only 29% does not use accounting software but the necessity of software accounting to company's function is supported by 79% that believe that they obtain many benefits (42%) and enough benefits (31%), while only 6% of the respondents supports that obtains little benefits. Furthermore, 38% of SMEs supports that the existing IFRSs correspond to business needs little and 18% supports very little. Only 3% responds that existing IFRSs cover company's needs very much while 16% supports much and 25% mediocre. More than half of the respondents consider the possibility to encounter problems during the application of IFRSs as much and very much (48% and 15%). From the rest 21% responded as mediocre, 9% as very little and 7% as little (see Appendix).

In the question whether different standards should be created for SMEs so as to satisfy users needs only 6% evaluated as very little and 7% as little, fact that does not necessarily means that they disagree with the statement that different standards should be adopted for SMEs. Respondents are asked to evaluate in relation to users' needs. This 13% might consider that indeed different standards should be adopted for SMEs but for other reasons. Whether users are satisfied and cover their needs with the existing software accounting 10% supports that their needs are covered very little, 4% little, 35%

mediocre, 33% much and 18% very much. The creation of criteria so as to categorise which SMEs will adopt IFRSs is supported by the majority. More specific, 35% supports as very much the necessity to create criteria, 42% as much and 14% as mediocre. Only 7% supports little and 2% very little the necessity to create special criteria. We can see that transparency is considered as the main reason for being positive in adopting IFRSs. In detail, 28% supports transparency, 13% is positive due to comparability, 20% supports the existence of a common accounting system while 17% is positive in adopting IFRSs but for other reasons (see Appendix).

To the statement "IFRSs should be different for very small, small and medium sized enterprises" only 9% disagrees while 46% agrees and 42% neither agrees nor disagrees. Furthermore, the fact that IASB has to re-examine and take under consideration SMEs structure is agreed by 55% while 34 neither agrees nor disagrees and only 1% disagrees (see Appendix).

To summarise, we identify that SME have observes in applying IFRSs. Though they have some knowledge on issues related to IFRSs, only 16% believes that the possibility to encounter barriers is little and very little. Thus, they support that the absence of knowledge is the main reason for having observes. From past experience they evaluate that can correspond to difficult tasks and in addition that they will manage to correspond to probable difficulties that might appear during the application of IFRSs. What it can be concluded is that SME seem to have observes due to the lack of knowledge, guidelines and high cost. These are some of the reasons why they support that IFRSs should be different for very small, small and medium sized entities. But we must stress out that improvement on SMEs structure can be achieved if the above four factors improve. However, given some guidelines SMEs will manage to correspond and apply IFRSs successfully, no matter what predicaments might appear.

## 5. Conclusions

Globalisation prevails and the necessity for convergence appears to add pressure on SMEs to apply IFRSs. In a developing country like Greece, the application of IFRSs will provide many benefits to SMEs and furthermore will intimate the initiation of an additional step to convergence. But the predicaments that will come up seem obscure and oppressive for them. In the area of Kavala, SMEs have observes in applying IFRSs due to the limited resources and the lack of knowledge. Furthermore, the lack of previous experience adds another barrier in the process of convergence. It is encouraging however the fact that SMEs have managed to correspond successfully to past predicaments. Thus, the willing to improve the educational level of the employees indicates the efforts of SMEs to better the conditions of their structure.

The majority of SMEs that activate in the area of Kavala supports that IASB has to re-examine and take under consideration the structure of SMEs so as to develop standards that are necessary to be applied in a SME environment. SMEs are asked to correspond to a difficult task and although they believe that the adoption of IFRSs and the existence of a common accounting system within the EU will not offer them many benefits (only 11% supports that), they will benefited due to the appearance of new opportunities to expand and increase investments. But the necessity for specific guidelines and conditions appear to be obligatory. We provide a model that will enable SMEs in applying IFRSs so as to surpass the predicaments that will appear. The model includes four areas that have to be taken

under consideration so as to achieve to apply IFRSs successfully but its implementation necessitates the existence of willing to improve and make significant changes. SMEs evaluate that they have managed to correspond successfully to past predicaments and they are expected to do so during the phase of applying IFRSs.



## Appendix

### 1. QUESTIONNAIRE STRUCTURE

#### A. General information about the enterprise

1) In which sector /field does your entity belong?

- Manufacture   
 Trade   
 Services

2) What is the number of your company's employees?

3) The number of employees in 2003-2006 was:

- Increasing   
 Stable   
 Decreasing

4) What is the educational level of employees?

- Primitive education  %  
 Middle education  %  
 Higher education  %  
 MsC - PhD  %

5) What is the volume of your previous year sales?  euros

6) The volume of sales during 2003-2006 was:

- Increasing   
 Stable   
 Decreasing

#### B. Additional Information: Beliefs and Technology

1) Do you believe that the application of IFRSs will cause problems to your company's function?

- Yes   
 No

2) If yes, in which departments:

- Administrative   
 Accounting   
 Cost accounting   
 Other

3) In what degree would you wish to change the educational level of employees, so as to correspond to the new demands?

Educational level	More	Same	Less
Primitive education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Middle education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Higher education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MsC - PhD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4) Do you use accounting software in your entity?

Yes   
 No

5) If yes, which one?

Programme .....  
 Constructor .....

6) Do you consider necessary the use of accounting software in your entity?

Yes   
 No

7) If yes, you obtain

Minimal benefits   
 Little benefits   
 Enough benefits   
 Many benefits

**C. Knowledge evaluation**

Please put a grade from 1 till 5 in the following questions:

	Very Little 1	Little 2	Mediocre 3	Much 4	Very Much 5
How informed are you in relation to IFRSs?					
Are you aware of the advantages / disadvantages of applying IFRSs?					
Do you believe that the existing IFRSs correspond to your entity's needs?					
Do you believe that you will meet barriers during the application of IFRSs?					
Do you consider that the cost of applying IFRSs exceeds your entity's abilities?					
Do you believe that different standards should be adopted, adaptable to users' needs?					
Do you believe that your entity's users cover their needs with the existing accounting software?					
Do you consider that is necessary the creation of criteria, so as to classify the SMEs that should apply IFRSs?					

**D. Structure Evaluation**

Please put a grade from 1 till 5 in the following questions:

	Very Little 1	Little 2	Mediocre 3	Much 4	Very Much 5
Do you have general accounting knowledge?					
Do you have software accounting knowledge?					
Do you believe that you have the ability to overcome the probable predicaments that might appear during the application of IFRSs?					
Can analyze and make conclusions relevant to the entity's present and future progress?					
How informed are you in relation to stock market's processes?					

---

Have you managed to correspond successfully to past problems/difficulties?

---

**E. Company's position in adopting international financial reporting standards**

1) What is the main reason for being negative in applying IFRSs?

- The high cost
- The absence of knowledge
- The weakness of adapting new things
- None of the above

2) What is the main reason for being positive in applying IFRSs?

- Transparency
- Comparability
- The existence of a uniform accounting system
- None of the above

3) IFRSs should be different for very small, small and medium sized enterprises?

- I agree
- Neither agree / nor disagree
- I disagree

4) The application of IFRSs intimates the adoption of a common accounting system within the European market. Do you believe that this change will offer to your entity?

- Minimum benefits
- Little benefits
- Enough benefits
- Many benefits

5) IASB should examine and take under consideration the different aspects of SMEs so as to apply only the standards that are useful

- I agree
- Neither agree / nor disagree
- I disagree

DATE: .....  
BRAND NAME: .....  
ADDRESS: .....  
TELEPHONE NUMBER: .....  
FULL NAME OF RESPONDENT: .....  
POSITION: .....

**THANK YOU VERY MUCH FOR YOUR PARTICIPATION**

## 2. QUESTIONNAIRE RESULTS

<b>In which sector /field does your entity belong?</b>	<b>Percentage</b>		
Manufacture	9 %		
Commerce	37 %		
Services	36 %		
Manufacture and commerce	13 %		
Commerce and services	4 %		
Manufacture, commerce and services	1 %		
<b>What is the number of your company's employees?</b>	<b>Percentage</b>		
1-10 employees	63 %		
11-50 employees	31 %		
51-250 employees	6 %		
<b>The number of employees in 2003-2006 was</b>	<b>Percentage</b>		
Increasing	38 %		
Stable	40 %		
Decreasing	12 %		
<b>What is the educational level of employees?</b>	<b>Percentage</b>		
Primitive education	31 %		
Middle education	92 %		
Higher education	71 %		
MSc - PhD	14 %		
<b>The volume of sales during 2003-2006 was?</b>	<b>Percentage</b>		
Increasing	60 %		
Stable	27 %		
Decreasing	13 %		
<b>Do you believe that the application of IFRSs will cause problems to your company's function?</b>	<b>Percentage</b>		
Yes	54 %		
No	46 %		
<b>If yes, in which departments?</b>	<b>Percentage</b>		
Administrative	7.4 %		
Accounting	33.3 %		
Cost accounting	7.4 %		
Other	5.6 %		
Administrative and accounting	14.8 %		
Accounting and cost accounting	9.3 %		
Administrative, accounting and cost accounting	22.2 %		
<b>In what degree would you wish to change the educational level of employees, so as to correspond to the new demands?</b>	<b>Percentage</b>		
Primitive education	more	same	less
Middle education	1	78	21
Higher education	12	62	26
MSc - PhD	53	42	5
	53	46	1
<b>Do you use accounting software in your entity?</b>	<b>Percentage</b>		
Yes	71 %		
No	29 %		
<b>Do you consider necessary the use of accounting software in your entity?</b>	<b>Percentage</b>		
Yes	79 %		
No	21 %		
<b>If yes, you obtain:</b>	<b>Percentage</b>		
Minimal benefits	0 %		
Little benefits	7.6 %		
Enough benefits	39.2 %		
Much benefits	53.2 %		

<b>How informed are you in relation to IFRSs?</b>	<b>Percentage</b>
Very little	17 %
Little	23 %
Mediocre	44 %
Much	16 %
Very much	0 %
<b>Are you aware of the advantages / disadvantages of applying IFRSs?</b>	<b>Percentage</b>
Very little	15 %
Little	23 %
Mediocre	40 %
Much	20 %
Very much	2 %
<b>Do you believe that the existing IFRSs correspond to your entity's needs?</b>	<b>Percentage</b>
Very little	18 %
Little	38 %
Mediocre	25 %
Much	16 %
Very much	3 %
<b>Do you believe that you will meet barriers during the application of IFRSs?</b>	<b>Percentage</b>
Very little	9 %
Little	7 %
Mediocre	21 %
Much	48 %
Very much	15 %
<b>Do you consider that the cost of applying IFRSs exceeds your entity's abilities?</b>	<b>Percentage</b>
Very little	9 %
Little	9 %
Mediocre	8 %
Much	45 %
Very much	19 %
<b>Do you believe that different standards should be adopted, adaptable to users' needs?</b>	<b>Percentage</b>
Very little	6 %
Little	7 %
Mediocre	18 %
Much	35 %
Very much	34 %
<b>Do you believe that your entity's users cover their needs with the existing accounting software?</b>	<b>Percentage</b>
Very little	10 %
Little	4 %
Mediocre	35 %
Much	33 %
Very much	18 %
<b>Do you consider that is necessary the creation of criteria, so as to classify the SMEs that should apply IFRSs?</b>	<b>Percentage</b>
Very little	2 %
Little	7 %
Mediocre	14 %
Much	42 %
Very much	35 %
<b>Do you have general accounting knowledge?</b>	<b>Percentage</b>
Very little	1 %
Little	6 %
Mediocre	33 %

Much	45 %
Very much	15 %
<b>Do you have software accounting knowledge?</b>	<b>Percentage</b>
Very little	5 %
Little	4 %
Mediocre	33 %
Much	45 %
Very much	13 %
<b>Do you believe that you have the ability to overcome the probable predicaments that might appear during the application of IFRSs?</b>	<b>Percentage</b>
Very little	3 %
Little	6 %
Mediocre	38 %
Much	44 %
Very much	9 %
<b>Can analyze and make conclusions relevant to the entity's present and future progress?</b>	<b>Percentage</b>
Very little	6 %
Little	23 %
Mediocre	41 %
Much	22 %
Very much	8 %
<b>How informed are you in relation to stock market's processes?</b>	<b>Percentage</b>
Very little	26 %
Little	31 %
Mediocre	27 %
Much	11 %
Very much	5 %
<b>Have you managed to correspond successfully to past problems/difficulties?</b>	<b>Percentage</b>
Very little	1 %
Little	3 %
Mediocre	20 %
Much	56 %
Very much	20 %
<b>What is the main reason for being negative in applying IFRSs?</b>	<b>Percentage</b>
The high cost	19 %
The lack of knowledge	35 %
The weakness of adapting new things	11 %
None of the above	16 %
The high cost and the lack of knowledge	6 %
The high cost and the weakness of adapting new things	4 %
The lack of knowledge and the weakness of adapting new things	3 %
The high cost, the lack of knowledge and the weakness of adapting new things	6 %
<b>What is the main reason for being positive in applying IFRSs?</b>	<b>Percentage</b>
Transparency	28 %
Comparability	13 %
The existence of common accounting system	20 %
None of the above	17 %
Transparency and comparability	4 %
Transparency and the existence of common accounting system	7 %
Comparability and the existence of common accounting system	5 %
Transparency, comparability and the existence of	6 %

common accounting system	
<b>IFRSs should be different for very small, small and medium sized enterprises?</b>	<b>Percentage</b>
I agree	49 %
Neither agree/nor disagree	42 %
I disagree	9 %
<b>The application of IFRSs intimates the adoption of a common accounting system within the European market. Do you believe that this change will offer to your entity?</b>	<b>Percentage</b>
Minimum benefits	34 %
Little benefits	35 %
Enough benefits	20 %
Much benefits	11 %
<b>IASB should examine and take under consideration the different aspects of SMEs so as to apply only the standards that are useful?</b>	<b>Percentage</b>
I agree	55 %
Neither agree/nor disagree	34 %
I disagree	11 %

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