# HOW DOES OWNERSHIP STRUCTURE AFFECT ACCOUNTING INFORMATION QUALITY? THE CASE OF UNIQUE DATA FROM RUSSIA.

ALEXANDRA BAGAEVA

*Department of Accounting and Finance*
*University of Oulu*
PO BOX 4600, FIN-90014 University of Oulu, Finland

First version: 15 November 2006
Last updated: 8 May 2006

**Contact Address**:
Alexandra Bagaeva, Department of Accounting and Finance, University of Oulu, PO Box 4600, FIN-90014 UNIVERSITY OF OULU, Finland. Fax : (+358) 8 553 2907. E-mail: alexandra.bagaeva@oulu.fi

**Abstract**

This paper investigates financial reporting practices in the Russian firms by using unique data gathered by face-to-face interviews in the firms operating in Saint-Petersburg area. The paper employs data from the Russian thus the institutional aspect of Russian transitional economy is of highest consideration. This paper pays an increased attention to the institutional environment of the country such as legal, political, tax regimes *etc.* which are shaping the incentives of the accounting numbers. Firstly, the study is aimed at finding interrelations between ownership structures, accounting information quality and financial reporting in Russian companies, looking at purposes of accounting information and financial reports disclosure practices in the firms. Secondly, we study how firms with different ownership structure perceive factors influencing adoption of IFRS for financial reporting. Finally, factors influencing firms' decisions to prepare financial reports in accordance with IFRS are examined. Based on preliminary data analyses, significant differences in financial reporting practices were found in the firms with and without international investors.

*Keywords*: Russia, Accounting Information Quality, Ownership structure, International investors, IFRS

JEL Classification: P2, M41

## 1. Introduction

The quality of accounting information is a complex concept and has many definitions. The literature on quality of financial accounting information quality lies in such areas as value relevance of accounting information, accounting conservatism, and earnings management. Decision usefulness is the main characteristic of financial accounting quality as it captures value of accounting information for interested parties in making their decisions (Shipper & Vincent 2003). However, quality of accounting information can be measured as well indirectly by investigating the purposes and incentives of accounting information preparers. The demand for accounting information is formed by different interested parties, *e.g.* Alexander and Nobes (2003) define the

following users of accounting information: managers, investors, lenders, employees, suppliers, customers, governments and public. The various purposes of accounting information include for example identification of good versus bad projects by managers and investors, allocation of resources towards more profitable projects and reduction of information asymmetry (Bushman & Smith 2001). Accounting standards setters create requirements for accounting information the most important of which being *relevance* and *reliability*. However, it is delusive to count only on the accounting standards setters' perspective that the financial statements are to provide information useful for investors and creditors (Young 2006). A study by Harding and McKinnon (1996) suggests paying attention to the accounting information prepares as a group which can potentially represent the interests of users. Our study seeks to get knowledge on perceptions of accounting information purposes in the firms with diverse ownership structure operating in Russia.

The information content of financial statements of publicly traded firms can be studied directly by market share prices reactions on the released reports (e.g. Ball & Brown 1968). At the same time, very little is known on features of accounting information in private firms, even though they constitute a predominant part of economy. In case with smaller companies, or those which are not traded yet on the stock exchange it is problematic to uncover the users' perception on usefulness of financial reports. Therefore, this paper approaches the question of accounting information usefulness by inquiring into preparers' main purposes for producing accounting information. The term provider or preparer of accounting information here infers to the firm's insider: as chief accountant, CEO, financial manager *etc*. Among factors affecting the incentives for providing accounting information targeted for specific purposes one may outline the structure of the company, *i.e*. capital proportions of owners in the company. In Russia the foreign capital is of great importance for firms with the growth perspectives (Preobrazhenskaya & McGee 2003). The notion of foreign investors' impact on the accounting practices is important because of the growing amount

of capital flowing into Russian economics: for example according to OECD report in 1994 FDI to Russia was 690 ml $ and in 2004 it amounted to 12 479 ml $.

The paper employs data from the Russian firms, thus the institutional aspect of Russian transitional economy is of highest consideration. This paper follows the stream in accounting research, which pays an increased attention to the institutional environment of the country such as legal, political, tax regimes *etc.* which are shaping the incentives of the accounting numbers (Ball et al. 2003; Holthausen 2003; Bushmann & Piotroski 2006).

This study is undertaken in the form of the face-to-face interviews with firms operating in Sain-Petersburg area has three main objectives. Firstly, the study is aimed at uncovering ownership structures and financial reporting practices in Russian companies, such as purposes of accounting information and financial reports disclosure practices in the firms. Secondly, the paper explores interrelations between ownership structure and purposes of accounting information. Finally, we study how firms with different ownership structure perceive factors influencing adoption of IFRS for financial reporting. We uncover how participation of foreign capital in firm ownership structure affects, motivates firm to prepare financial reports in accordance with IFRS.

The main contribution of this paper is to study differences in the purposes of accounting information within private Russian companies taking into account their capital structure. Previously ownership structure influence on the informativeness of earnings was studied, *e.g.* by Jung and Kwon (2002) and Fan and Wong (2002). Several studies examine relation between ownership structure and corporate value (Davies et al. 2005; Boubakri et al. 2005). All those studies deal with the public firms. We argue that the ownership structure is interlinked with the purposes of accounting information preparers assign to the accounting information. We are interested in

particular in such issues as percentage of the company's shares belonging to management, government, domestic and international investors. The purposes of accounting information are defined as follows: decision making, international investors, domestic investors, tax authorities. It has been noted that for many Russian companies without overseas investors the main user of the published financial reports is the tax inspectorate (Krylova 2003, Sucher et al. 2005). As found by Ball and Shivakumar (2005) private companies' financial reporting is more influenced by taxation, dividend and other policies.

## 2. Financial accounting environment in Russia

According to Puffer and McCarthy (2007) international investors operating in Russia need to recognize that Russian business environment is not a Western market capitalism, but it is a network form of capitalism. Other studies also refer to the specifics of doing business in Russia, including financial reporting practices, which are influenced by institutional and cultural country-specific factors (Buck 2003; Butler & Purchase 2004).

Accounting in Russia has undergone some dramatic changes since 1998 when the accounting reform was launched *(to be added).* However, the speed of accounting reform implementation is slowed down by corruption and earlier announced deadlines for IFRS adoption were not met (Sarikas & Djatej 2005).

### 2.1. Capital markets

Capital markets in market economy play an important role in supporting and developing business activities. Thus, firms can get starting capital or funds needed for research and

development either by equity funding or by obtaining a loan from the bank. In Russia, due to underdevelopment of capital markets, firm basically has no access to equity financing (McCarthy & Puffer 2003). Debt financing through bank loan is also problematic in Russia, because of inefficiencies in the commercial banking systems.

The study by Bevan & Fennema (2003) indicates that Russian firms face difficulties in obtaining commercial credits from the banks. In case firms get access to the credit it is only short-term credits, issued by commercial banks in Russia. According to the results of the same study, Russian firms encounter difficulties in obtaining equity finance from Russian and external investors. Main problems hampering venture capital investing in Russia are poor financial disclosure and reporting, and lack of regulatory compliance (Klonowski 2006).

Concerning getting financial assistance from the state, firms find it very difficult or impossible to get any sort of state grant or financial assistance (Bevan & Fennema 2003). The Table 1 reports structure of investment in fixed capital by sources of financing in Russian Federation. As we may see the proportion of bank credits in the total investments sources is rather small, but there is a positive trend, for instance the percentage of domestic bank credits have increased from 2.3% in year 2000 to 7.3% in year 2005. However, in most cases firms' own funds remain the main source of investment having the same value around 45% during the period 2000-2005.

*(insert Table 1 here)*

There have been some positive changes in the area of capital markets, which mainly concern Russian companies raising capital by means of IPO. In year 2006 there were 13 IPOs made by Russian companies and according to Deutsche UFG forecast 35 IPOs are expected in the year 2007.

### 2.2. IFRS adoption in Russia

The use of IFRS in Russia is believed to improve country business attractiveness. In 2004 the Ministry of Finance approved for Russia's transition to the IFRS for the period 2004-2010. There are three main goals of IFRS implementation. Firstly IFRS are proposed for the consolidated reporting, which is currently non-existent under Russian accounting standards. Secondly, Russian accounting standards are to be developed in line with IFRS principles. Finally, infrastructure for IFRS use and implementation is to be developed as currently there are now developed valuation markets. Accounting in Russia suffers from conflicts in tax, accounting and corporate laws. Adoption of IFRS in Russia is slowed down by a number of factors, such lack of comprehensive courses on IFRS, inadequate translations of standards and lack of specialists (Preoragenskaya & McGee 2003). Currently only banks and listed firms have statuary requirement to prepare their reports in accordance with IFRS.

## 3. Purposes of accounting information as proxy for quality of accounting information

Traditionally quality of accounting information, disclosed by firms is measured by estimating value relevance of accounting numbers for stock market (e.g. Ball and Brown 1968; Amir et al., 1993; Alford et al., 1993). Accounting information is incorporated into investors' valuation models and aids in decision making. Another approach to measure the quality of disclosed accounting information is to study conservatism in accounting (e.g. Basu 1997, Giner and Rees, 2001; Garcia Lara and Mora, 2004). Based on IFRS principles, in order to provide high quality information accountants should prepare financial reports, which are reliable and relevant. Quality of accounting information can be also measured by degree of earnings management. Thus managed

earnings are deemed to distort the quality of accounting information and give misleading signals to investors (Jones 1991, Dechow 1994).

The purposes of accounting information and incentives behind preparation accounting information by a company may be viewed as indirect measure of accounting information quality. In our study the following purposes of accounting are chosen as proxy for quality of accounting information in Russia: *decision making*, *international investors*, *domestic investors*, and *tax authorities*. The purpose of accounting information being international investors can be viewed as accounting information with highest quality, as firm is more likely to employ sophisticated, timely accounting in order to provide financial reports targeted for international investors' needs. Decision making as a purpose of accounting information is a neutral choice, being a natural purpose of accounting in general which corresponds to decision usefulness principle of accounting information.

If company considers that the main purpose for preparing accounting information is tax authorities, we may question the quality of financial statements, where not the investors' but tax authorities' needs shape accounting numbers. It is characteristic for transitional economies that accounting data for the financial statements is prevailed by tax considerations (Sucher et al. 2005). Moreover, it has been shown by the previous studies that in Russia financial reporting decision are largely driven by tax considerations (Goncharov and Zimmerman 2002). The main user of accounting information in Russia is tax inspectorate as indicated by Krylova (2003). According to Nobes (2004) accounting data, which is useful for the tax purposes is not always relevant for other investors. In Russia since 2002 due to the amendment in the Law on Income Taxes it became possible to separate financial and tax accounting systems. However, for many private companies a set-up of a complementary financial accounting is costly, therefore many companies only follow provide financial statements meant for tax authorities (Bakaev 2002, Krylova 2003).

## 4. Hypotheses

According to Goriaev and Zabotkin (2006) Russian market is becoming increasingly attractive for foreign investors. The reasons for that are to recent changes in corporate governance regulations and Taxation law. Saint-Petersburg has very favorable law regulations for foreign investors. Law on the "Procedure and terms for the provision and cancellation of tax privileges" (1997) governs investor tax exemptions of the foreign investor. Under international agreements concluded between Saint- Petersburg and foreign governments, any legal entity with foreign capital is exempt from the regional component of corporate profits tax, property tax, land tax, tax on advertising, and tax on motor vehicles for the period stipulated in the international agreement (up to a maximum of seven years).

Russian investment climate is characterized by positive changes in transparency and corporate financial statements' disclosure. Still foreign investors hesitate to invest to Russia, as they are unsure if a firm discloses all important financial information (Gee and Preobragenskaya 2004). Furthermore, foreign investors require high information disclosure standards and for the reasons of protecting their reputation they maintain a strict control over manager's actions (Dyck 2001). We infer on the quality of accounting information in Russia through the purposes of accounting information assigned by the preparers of such information. In case the accounting information disclosed by the firm is targeted for international investors we deem high quality of accounting information. As high quality reporting standards are posited by international investors themselves, thus they have to represent some proportion in a firm's ownership structure in order to set high quality requirements. Therefore we propose the following hypothesis:

*H1 Firms having international investors in their ownership structure are more likely to prepare accounting information targeted for the international investors needs than the firms without any proportion of foreign ownership*

Based on the review of capital market state in Russia we propose the following hypothesis.

*H2 Firms with international investors in the firm ownership structure or foreign connections are more likely to use equity financing and bank loans than solely-owned Russian firms*

In recent 15 years some major reforms were undertaken in Russia, which were aimed at developing Russian accounting standards (RAS). The main objective was to introduce RAS, which would be of the equal quality as IFRS. However, reports prepared with RAS as still in a format *form over substance*, which lessens their value for potential investors. As noted by McGee and Preobragenskaya (2004) international investors demand preparation of IFRS or US GAAP reports, if they intend to invest into Russian company.

*H3 International investors in the firm ownership structure or foreign connections of the firm have positive effect on adopting IFRS for firm financial reporting*

## 5. Research design and data

### 5.1. Sample and survey methods

The sample for the study was selected from Saint-Petersburg. The candidate firms were randomly selected from the INFOWAVE data base. Then the firms were contacted and informed on the survey. Altogether 100 firms agreed to participate in the survey, which yields 18 % response

rate. The survey was conducted in the form of structured face-to-face interviews. We chose face-to-face method of survey because previous studies dealing with collecting data in Russia have documented that it is difficult to get access to the respondents and that in case of post survey response rate is low and the answers are unreliable ( e.g. Michailova 2004; Daniels & Cannice, 2004).

## 5.1 Questionnaire design

The questionnaire consisted of several blocks of questions, each dealing with some aspect of accounting. For the purpose of this study such blocks of questions as general firms' characteristics and corporate reporting practices were deployed. The general questions covered such areas as year of establishment, number of employees, organizational type, foreign connections, export share etc. The second block of questions dealt with corporate reporting practices, purposes of accounting information, and factors influencing IFRS adoption. In the questionnaire, a seven -point Likert scale ranging from (1) "Not used at all/not important" to (7) "Used to a great extent/very important" was used to obtain respondents' views on the importance of various corporate reporting issues. The respondents were asked to indicate the alternative that best described the situation in their businesses. Questionnaire design undertook few stages, when items included in the questionnaire were refined and several pilot tests were conducted in Finland and in Russia in order to ensure clarity and understandability of the questions. Pilot tests were conducted with people employed in academia and in real sector.

## 5.3. Research design

For testing *H1* we use Mann-Whitney U-test of differences and multinomial logistic regression is used

$$Y_i = +_1 IntIn_i +_2 ForCon_i +_3 IFRS_i +_4 Disclosure_i +_5 Export_i +_6 Size_i \quad (1)$$

where $Y_i$ is a dependent variable with a value of the ith firm's response to a given question, using 7-point Likert scale ranging from 1 to 7;

$IntIn_i$ is a dummy variable taking a value of 1 if the proportion of international investors is not equal to zero in the *i*th firm, otherwise zero;

$ForCon_i$ is a dummy variable with a value of 1 if the firm is a subsidiary of overseas firm, firm is a joint venture, international investors have invested in the firm or if firm employs foreign employees, otherwise zero;

$IFRS_i$ is a dummy variable with a value of 1 if firm publishes IFRS reports, firm is adopting IFRS, but yet has not published IFRS reports and firm does not publish IFRS reports but plans to do it in the future.

$Disclosure_i$ is a dummy variable with a value of 1 if firm discloses either annual, semi-annual or quarter financial reports in mass media;

$Export_i$ is a dummy variable with a value of 1 if export share of production is larger than 20%, otherwise zero;

$Size_i$ is a dummy variable with a value of 1 if firm size is larger than 300 employees, otherwise zero.

For testing Hypothesis 2 we use the following multinomial logistic regression

$$Y_i = +_1 IntIn_i +_2 ForCon_i +_3 Disclosure_i +_4 Export_i +_5 Size_i \quad (2)$$

For testing Hypothesis 3 we use the following multinomial logistic regression

$$Y_i = +_1 IntIn_i +_2 ForCon_i +_3 IFRS_i +_4 Disclosure_i +_5 Export_i +_6 Size_i \quad (3)$$

## 6. Results

### 6.1 Discussion on descriptive statistics

Table 2 presents some descriptive statistics on firms' size and industry breakdown of the respondents. The size of the respondent firms ranges from very small up to large enterprises with 15000 employees.

*(insert table 2 here)*

Table 3 reports organizational forms and financial reporting practices of the respondents. From all respondents 69% of firms have organizational form of joint-stock company, 24 % of limited liabilities company and 6 % of federal state enterprise. Panel D in the Table 2 provides some interesting results only 48 % of the respondents disclose their annual financial reports in mass media, which indicates low levels of corporate disclosure. Only 11% and 13 % of the respondents disclose their financial reports in mass media twice a year and four times a year correspondingly. Panel E provides insight into IFRS adoption in the respondent firms, 3% of the firms used IFRS for financial reporting, 10% of the firms were adopting IFRS. There are equal number of firms which are planning to adopt IFRS the future and which are not planning to adopt IFRS in the future.

*(insert table 3 here)*

From the Table 4 we can see that in the ownership structure of the respondent firms management group represents the main owner of the firm in most of the cases, followed by domestic investors, government and investors. The purposes of accounting information according to

the prepares of accounting information are tax authorities with mean value 6.56, decision making 5.63 and domestic investors 3.32 and international investors are the least targeted group of accounting information with the mean value 1.89. This statistics supports previous findings on the tax orientation of accounting information in Russia (Krylova 2003; Sucher et al. 2005 *etc*.).

*(insert table 4 here)*

Looking at the sources of finance in the sample companies we observe that the main source of finances is firm's income and bank loan, while capital investors and state grants are used to a lesser extent. Little use of capital investors' finance indicates low level of capital investment development in Russia. Moreover, the little use of capital investors' finance denotes that firms do not target their financial reports to the capital investors needs.

Since firms in the sample represent non-listed Russian firms there are few factors influencing the choice of IFRS for financial reporting and all factors have very low mean values, see Panel D. Wish to make firm's reports more transparent is viewed as the most influencing factor for IFRS adoption in the future.

6.2 Preliminary data analysis

Table 5 shows differences in accounting practices in two groups of firms, in firms having international investors and in firms without international investors in their ownership structure.

*(insert table 5 here)*

6.3 *Purposes of financial accounting information in Russian companies*

*(insert table 6 here)*

*6.4 Factors influencing choice of finance source*

*(insert table 7 here)*

*6.5 Factors influencing IFRS adoption*

*(insert table 8 here)*

7. Conclusions

**References:**


Alexander, D. & Nobes, C. (2004). International Introduction to Financial Accounting. Prentice Hall.

Ball, R., & Shivakumar, L. (2005) Earnings quality in UK private firms: Comparative loss recognition timeliness. Journal of Accounting and Economics 39 (1), 83-128.

Ball, R., Brown, P., 1968. An empirical evaluation of accounting income numbers. Journal of Accounting Research 6 (2), 159-178.

Ball, R., Robin, A., Wu, J.S., 2003. Incentives versus standards: Properties of accounting income in four East Asian countries. Journal of Accounting and Economics 36 (2), 235-270.

Boubakri, N., Cosset, J.-C., & Guedhami, O. (2005). Postprivatization corporate governance: The role of ownership structure and investor protection. Journal of Financial Economics 76, 369-399.

Buck, T. (2003). Modern Russian Corporate Governance: Convergent Forces or Product of Russia's History? Journal of World Business 38 (4), 299-313.

Bushman, R. & Smith, A. (2001). Financial accounting information and corporate governance. Journal of Accounting and Economics 32, 237-333.

Bushman, R., & Piotroski, J. (2006). Financial reporting incentives for conservative accounting: The influence of legal and political institutions. Journal of Accounting and Economics 42 (1-2), 107-148.

Butler, B. & Purchase, S. (2004). Personal Networking in Russian Post Soviet Life, Research and Practice in Human Resource Management 12(1), 34-60.

Daniels, J.D., & Cannice, M.V. (2004). Interview Studies in International Business Research. In: Marchan-Piekkari & Welch (2004). Handbook of Qualitative Research Methods for International Business, Edward Elgar. UK.

Davies, J., Hilier, D. & McColgan (2005). Ownership structure, managerial behaviour and corporate value. Journal of Corporate Finance 11, 645-660.

Goncharov, I., Zimmermann, J. (2005). Earnings management when incentives compete: The role of tax accounting in Russia. Working Paper. University of Amsterdam.

Harding, N. & McKinnon, J. (1997). User involvement in the standard-setting process: A research note of the congruence of accountant and user perceptions of decision usefulness.

Holthausen, R. (2003). Testing the relative power of accounting standards versus incentives and other institutional features to influence the outcome of financial reporting in an international setting. Journal of Accounting and Economics, 36 ( 1-3), 271-283Robert W.

Jones, J. (1991). Earnings management during import relief investigations. Journal of Accounting Research 29 (2), 193-228.

Klonowski, D. (2006). Venture capitalist' perspectives on corporate governance in transition economies: a comparative analysis of Hungary, Poland, the Czech Republic, Slovakia, and Russia. Problems of Economic Transition, 49(8), 44.

Krylova, T. (2003). Accounting in the Russian Federation. In: Walton, P., Haller, A., Raffournier, B. (Ed.). International Accounting. Thomson Learning. London.

McCarthy, D. & Puffer, S. (2003). Corporate governance in Russia: a framework for analysis. Journal of World Business 38(4), 397-415.

McGee, R. & Preobragenskaya, G. (2004). Problems of implementing International Accouting Standards in transition economy: A case study of Russia. Barry University. Working paper

Michailova, S., (2004). Contextualizing Fieldwork: Reflections on Conducting research in Eastern Europe. In: Marchan-Piekkari & Welch (2004). Handbook of Qualitative Research Methods for International Business, Edward Elgar. UK.

Sarikas, R.H. & Djatej, A.M. (2005). History and the Russian accounting transition. International Journal of Accounting, Auditing and Performance Evaluation, 2(1/2), 54-66.

Shipper, K. & Vincent, L. (2003). Earnings quality. Accounting Horizons, Suppl., 97-110.

Sucher, P., K. Kosmala, S. Bychkova & Jindrichovska, I. (2005). Introduction: Transitional economies and changing notions of accounting and accountability, European Accounting Review 14(2), 571-7.

Young, Joni J. (2006). Making up users. Accounting, Organizations and Society 31, 579-600.

*Table 1 Structure of investments in fixed capital by sources of financing in Russian Federation (percentage of total)*

| *Investments in fixed capital* | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| Own funds (including profit and depreciation | 49.0 | 47.5 | 49.4 | 45.0 | 45.2 | 45.4 | 45.1 |
| Borrowed funds | | | | | | | |
| Bank credits | | | | | | | |
| Domestic bank credits | | 2.3 | 3.5 | 5.0 | 5.2 | 6.8 | 7.3 |
| Foreign bank credits | | 0.6 | 0.9 | 0.9 | 1.2 | 1.1 | 1.0 |
| Borrowed funds from other firms | | 7.2 | 4.9 | 6.5 | 6.8 | 7.3 | 7.4 |
| Funds from consolidated budget | | 22.0 | 20.4 | 19.9 | 19.6 | 17.9 | 20.7 |
| Sources from non-budget funds | | 4.8 | 2.6 | 2.4 | 0.9 | 0.7 | 0.5 |
| Others | | 15.6 | 18.3 | 20.3 | 21.1 | 20.8 | 18.0 |
| Total borrowed funds | 51.0 | 52.5 | 50.6 | 55.0 | 54.8 | 54.6 | 54.9 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Notes: since 2000 except small businesses*
*Source: Federal State Statistics of Russian Federation*

*Table 2. Size and industry characteristics of the respondent firms*

| | N |
|---|---|
| *Panel A: Number of employees* | |
| 1-100 | 19 |
| 101-500 | 51 |
| 501-1500 | 18 |
| 1501-15000 | 12 |
| *Panel B: Industry* | |
| Chemistry | 7 |
| Foodstuffs and beverages | 14 |
| Engineering and automotive | 20 |
| Construction and mining | 9 |
| Light engineering and electrical | 16 |
| Computers and electronics | 11 |
| Agricultural | 5 |
| Clothing | 4 |
| Pulp, paper and wood products | 5 |
| Others | 9 |

Total number of interviewed firms 100, all firms from Saint-Petersburg, Russia.

*Table 3. Respondent firms characteristics: organizational form and financial reporting.*

| | N |
|---|---|
| *Panel A: Organizational form* | |
| Limited liabilities company | 24 |
| Joint-stock company | 69 |
| Federal state enterprise | 6 |
| | |
| *Panel B: Foreign connections* | |
| Firm is a subsidiary of overseas firm | 8 |
| Firm is a joint venture | 0 |
| International investors have invested in the firm | 7 |
| Firm employs foreign employees | 0 |
| Nothing from the mentioned above | 85 |
| | |
| *Panel C: Share of production, which is exported* | % |
| below 20 % | 84 |
| 20-50% | 10 |
| 50-80% | 2 |
| 80-99% | 2 |
| 100% | 1 |
| | |
| *Panel D: Disclosure of corporate reports in mass media* | |
| Annual report | 48 |
| Semi-annual | 11.1 |
| Quarter report | 13.1 |
| | |
| *Panel E: IFRS financial reporting* | |
| Firm publishes IFRS reports | 3 |
| Firm is adopting IFRS, but yet has not published IFRS reports | 10 |
| Firm does not publish IFRS reports, but plans to do it in the future | 40 |
| Firm does not have plans for IFRS adoption | 40 |
| Firm does not know about IFRS reporting | 2 |

Total number of interviewed firms 100, all firms from Saint-Petersburg, Russia.

*Table 4. Ownership structure and accounting practices of the respondent firms.*

| | Mean | Std.dev. | Min | Max |
|---|---|---|---|---|
| *Panel A: Ownership structure* | | | | |
| Management | 41.19 | 45.54 | 0 | 100 |
| Government | 12.03 | 31.76 | 0 | 100 |
| Domestic investors | 29.51 | 41.47 | 0 | 100 |
| International investors | 9.28 | 28.21 | 0 | 100 |
| Size | 982.31 | 2335.39 | 1 | 15000 |
| *Panel B: Purposes of accounting information* | | | | |
| Decision making | 5.63 | 1.55 | 1 | 7 |
| Domestic investors | 3.32 | 2.41 | 1 | 7 |
| International investors | 1.89 | 2.02 | 1 | 7 |
| Tax authorities | 6.56 | 1.35 | 1 | 7 |
| *Panel C: Sources of finance* | | | | |
| State grant | 1.27 | 0.98 | 1 | 7 |
| Income | 6.10 | 1.73 | 1 | 7 |
| Capital investors | 1.96 | 1.84 | 1 | 7 |
| Bank loan | 3.90 | 2.20 | 1 | 7 |
| Other | 1.65 | 1.56 | 1 | 7 |
| *Panel D: Factors influencing IFRS adoption* | | | | |
| Need to attract foreign investors | 2.28 | 2.15 | 1 | 7 |
| Need to attract Russian investors | 2.16 | 2.00 | 1 | 7 |
| Improving firm's status among foreign customers | 2.46 | 2.24 | 1 | 7 |
| Improving firm's status among Russian customers | 2.42 | 2.11 | 1 | 7 |
| Firm's competitors are reporting IFRS reports | 1.72 | 1.59 | 1 | 7 |
| IFRS are more user friendly for all users | 2.14 | 1.84 | 1 | 7 |
| Wish to make firm's reports more transparent | 2.64 | 2.28 | 1 | 7 |

Notes: sample consists of 100 firms from Saint-Petersburg. In panel B, C, D, E Likert scale ranging from (1) "Not used at all/not important" to (7) "Used to a great extent/very important" was used to obtain respondents' views on the importance of various financial reporting issues.

*Table 5. Characteristics of financial accounting among firms with international investors and without international investors*

| | Firms, in which International Investors share=0 | Firm, in which International Investors share >0 | Mann-Whitney U-test (p-value) |
|---|---|---|---|
| *Panel A: Purposes of accounting information* | | | |
| Decision making | 5.61 | 5.82 | -1.011 |
| | (0.000) | (0.004) | (0.312) |
| Domestic investors | 3.33 | 3.27 | -0.058 |
| | (0.010) | (0.772) | (0.954) |
| International investors | 1.45 | 5.45 | **-5.949** |
| | (0.000) | (0.027) | **(0.000)** |
| Tax authorities | 6.52 | 6.91 | -0.575 |
| | (0.000) | (0.000) | (0.565) |
| *Panel B: Sources of finance* | | | |
| State grant | 1.31 | 1.00 | -1.171 |
| | (0.000) | (-) | (0.242) |
| Income | 6.09 | 6.18 | -0.057 |
| | (0.000) | (0.000) | (0.955) |
| Capital investors | 1.70 | 4.00 | **-3.759** |
| | (0.000) | (0.514) | **(0.000)** |
| Bank loan | 3.70 | 5.45 | **-2.526** |
| | (0.193) | (0.020) | **(0.012)** |
| Other | 1.67 | 1.45 | -0.108 |
| | (0.000) | (0.000) | (0.914) |
| *Panel C: Reasons for IFRS adoption* | | | |
| Need to attract foreign investors | 2.07 | 3.91 | **-2.818** |
| | (0.000) | (0.613) | **(0.005)** |
| Need to attract Russian investors | 2.13 | 2.45 | -1.336 |
| | (0.000) | (0.101) | (0.182) |
| Improving firm's status among foreign customers | 2.19 | 4.64 | **-3.196** |
| | (0.000) | (0.175) | **(0.001)** |
| Improving firm's status among Russian customers | 2.35 | 2.91 | -1.422 |
| | (0.000) | (0.355) | (0.155) |
| Firm's competitors are reporting IFRS reports | 1.71 | 1.82 | -0.995 |
| | (0.000) | (0.005) | (0.320) |
| IFRS are more user friendly for all users | 1.92 | 3.91 | **-3.254** |
| | (0.000) | (0.600) | **(0.001)** |
| Wish to make firm's reports more transparent | 2.37 | 4.73 | **-3.254** |
| | (0.000) | (0.099) | **(0.001)** |

Notes: sample consists of 100 firms from Saint-Petersburg. In panel B, C, D, E Likert scale ranging from (1) "Not used at all/not important" to (7) "Used to a great extent/very important" was used to obtain respondents' views on the importance of various corporate reporting issues. Mean values are reported in the table.

*Table 6. Purposes of financial accounting information in Russian companies*

| | Decision making | Domestic investors | International investors | Tax authorities |
|---|---|---|---|---|
| Intercept | **2.040** | 0.257 | **-3.024** | **1.661** |
| (p-value) | **(0.000)** | (0.224) | **(0.000)** | **(0.000)** |
| IntIn | 0.019 | 0.563 | -0.610 | **-5.355** |
| (p-value) | (0.978) | (0.438) | (0.499) | **(0.000)** |
| ForCon | 0.194 | -0.533 | **3.049** | **5.629** |
| (p-value) | (0.753) | (0.416) | **(0.001)** | **(0.000)** |
| IFRS | 0.282 | -0.191 | **1.055** | 0.378 |
| (p-value) | (0.234) | (0.434) | **(0.038)** | (0.281) |
| Disclosure | -0.000 | -0.093 | -0.049 | -0.253 |
| (p-value) | (0.999) | (0.697) | (0.903) | (0.476) |
| Export | -0.438 | -0.613 | 0.697 | 0.489 |
| (p-value) | (0.140) | (0.064) | (0.160) | (0.355) |
| Size | -0.199 | 0.246 | **1.131** | -0.078 |
| (p-value) | (0.409) | (0.319) | **(0.016)** | (0.825) |
| N | 100 | 100 | 100 | 100 |
| Log Likelihood | -152.91 | -148.18 | -36.83 | -58.82 |

Notes: The table reports the results of estimating the following multinomial logistics regression model:

(1) $Y_i = +_1 IntIn_i + _2 ForCon_i + _3 IFRS_i + _4 Disclosure_i + _5 Export_i + _6 Size_i$

where $Y_i$ is a dependent variable with a value of the ith firm's response to a given question, using 7-point Likert scale ranging from 1 to 7; $IntIn_i$ is a dummy variable taking a value of 1 if the proportion of international investors is not equal to zero in the *i*th firm, otherwise zero; $ForCon_i$ is a dummy variable with a value of 1 if the firm is a subsidiary of overseas firm, firm is a joint venture, international investors have invested in the firm or if firm employs foreign employees, otherwise zero; $IFRS_i$ is a dummy variable with a value of 1 if firm publishes IFRS reports, firm is adopting IFRS, but yet has not published IFRS reports and firm does not publish IFRS reports but plans to do it in the future; $Disclosure_i$ is a dummy variable with a value of 1 if firm discloses either annual, semi-annual or quarter financial reports in mass media; $Export_i$ is a dummy variable with a value of 1 if export share of production is larger than 20%, otherwise zero; $Size_i$ is a dummy variable with a value of 1 if firm size is larger than 300 employees, otherwise zero.

*Table 7. Sources of finance*

| | Capital investors | Income | State grant | Bank |
|---|---|---|---|---|
| Intercept | **-0.567** | **1.679** | **-1.092** | 0.261 |
| (p-value) | **(0.013)** | **(0.000)** | **(0.000)** | (0.204) |
| ForCon | **1.024** | -0.532 | -0.020 | **0.782** |
| (p-value) | **(0.003)** | (0.142) | (0.970) | **(0.016)** |
| IFRS | -0.032 | 0.295 | -0.212 | 0.013 |
| (p-value) | (0.914) | (0.324) | (0.563) | (0.957) |
| Disclosure | -0.184 | 0.477 | -0.181 | 0.412 |
| (p-value) | (0.516) | (0.090) | (0.609) | (0.075) |
| Export | -0.702 | 0.155 | 0.099 | 0.089 |
| (p-value) | (0.123) | (0.691) | (0.832) | (0.778) |
| Size | -0.013 | -0.366 | -0.035 | 0.268 |
| (p-value) | (0.966) | (0.203) | (0.922) | (0.257) |
| N | 99 | 99 | 99 | 99 |
| Log Likelihood | -97.21 | -102.10 | -48.39 | -175.40 |

Notes: The table reports the results of estimating the following multinomial logistics regression model:

(2) $Y_i = + {}_1 IntIn_i + {}_2 ForCon_i + {}_3 IFRS_i + {}_4 Disclosure_i + {}_5 Export_i + {}_6 Size_i$

where $Y_i$ is a dependent variable with a value of the ith firm's response to a given question, using 7-point Likert scale ranging from 1 to 7; $ForCon_i$ is a dummy variable with a value of 1 if the firm is a subsidiary of overseas firm, firm is a joint venture, international investors have invested in the firm or if firm employs foreign employees, otherwise zero; $IFRS_i$ is a dummy variable with a value of 1 if firm publishes IFRS reports, firm is adopting IFRS, but yet has not published IFRS reports and firm does not publish IFRS reports but plans to do it in the future; $Disclosure_i$ is a dummy variable with a value of 1 if firm discloses either annual, semi-annual or quarter financial reports in mass media; $Export_i$ is a dummy variable with a value of 1 if export share of production is larger than 20%, otherwise zero; $Size_i$ is a dummy variable with a value of 1 if firm size is larger than 300 employees, otherwise zero.

*Table 8. Reasons for IFRS adoption in Russian firms*

| | Need to attract foreign investors | Need to attract Russian investors | Increase firm's status among foreign customers | Increase firm's status among Russian customers | Firm's competitors are reporting IFRS reports | IFRS are more user-friendly for all users | Firm wants to make financial reports more transparent |
|---|---|---|---|---|---|---|---|
| Intercept | **-0.999** | **-0.933** | **-0.710** | **-0.540** | **-1.196** | **-0.846** | **-0.695** |
| (p-value) | **(0.000)** | **(0.000)** | **(0.001)** | **(0.012)** | **(0.000)** | **(0.000)** | **(0.002)** |
| IntIn | 1.047 | 0.416 | 1.361 | 0.809 | 0.208 | **1.523** | **1.639** |
| (p-value) | (0.159) | (0.569) | (0.069) | (0.283) | (0.784) | **(0.048)** | **(0.037)** |
| ForCon | -0.0595 | 0.022 | -0.221 | -0.353 | 0.139 | -0.306 | -0.507 |
| (p-value) | (0.929) | (0.974) | (0.745) | (0.609) | (0.8388) | (0.664) | (0.482) |
| Disclosure | 0.240 | 0.418 | 0.351 | 0.464 | 0.345 | 0.486 | **0.659** |
| (p-value) | (0.386) | (0.125) | (0.186) | (0.077) | (0.241) | (0.069) | **(0.013)** |
| Export | 0.232 | 0.242 | 0.160 | 0.043 | 0.538 | 0.275 | 0.101 |
| (p-value) | (0.520) | (0.501) | (0.653) | (0.906) | (0.154) | (0.439) | (0.777) |
| Size | 0.354 | 0.202 | 0.005 | -0.209 | 0.208 | 0.019 | -0.167 |
| (p-value) | (0.207) | (0.459) | (0.985) | (0.431) | (0.480) | (0.944) | (0.531) |
| N | 97 | 97 | 97 | 97 | 97 | 97 | 97 |
| Log Likelihood | -97.24 | -105.55 | -112.38 | -121.56 | -85.88 | -111.66 | -117.63 |

Notes: The table reports the results of estimating the following multinomial logistics regression model:

(1) $Y_i = +_1 IntIn_i +_2 ForCon_i +_3 Disclosure_i +_4 Export_i +_5 Size_i$

where $Y_i$ is a dependent variable with a value of the ith firm's response to a given question, using 7-point Likert scale ranging from 1 to 7; $IntIn_i$ is a dummy variable taking a value of 1 if the proportion of international investors is not equal to zero in the *i*th firm, otherwise zero; $ForCon_i$ is a dummy variable with a value of 1 if the firm is a subsidiary of overseas firm, firm is a joint venture, international investors have invested in the firm or if firm employs foreign employees, otherwise zero; $Disclosure_i$ is a dummy variable with a value of 1 if firm discloses either annual, semi-annual or quarter financial reports in mass media; $Export_i$ is a dummy variable with a value of 1 if export share of production is larger than 20%, otherwise zero; $Size_i$ is a dummy variable with a value of 1 if firm size is larger than 300 employees, otherwise zero.