

COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING PARADIGM: A TALE OF TWO TRANSITION PATHS

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Abstract

This study assesses the effectiveness of contrasting regulatory approaches taken by two transition economies, namely Russia and Kazakhstan, to bring about the organisational changes prompted by International Financial Reporting Standards (IFRS). Taking International Accounting Standard (IAS) 36, with specific reference to impairment of goodwill, this paper evaluates the compliance patterns resulting from voluntary adoption by Russia and the mandated approach of Kazakhstan.

The results indicate an increasing trend in the levels of compliance by Russian and Kazakhstan firms with Russian firms surpassing the latter which is argued to be due to the contrasting approaches to IFRS adoption in both countries. Policy and regulatory implications to transition countries contemplating on shifting to the principles based paradigm is also discussed.

Keywords: IAS36, IFRS, Impairment, Transitional Economies, Russia, Kazakhstan

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1. Introduction

One of the major advantages of adoption of IFRS by countries is that it portrays the country to be reputed, modern and organised as a well regulated place to do business (Jermakowicz and Gornik-Tomaszewski, 2006). In the aftermath of IFRS adoption, Ball (2006) and Holthausen (2009) argue that this perceived advantage cannot be sustained unless accompanied by regulatory rigor. Research interests in IFRS have since shifted to the micro level implementation issues that are essential to understand the perceived benefits of IFRS adoption.

Even for common-law countries with rooted Angle-Saxon traditions, implementation of the precepts of IFRS in full has been a challenge ((Bepari, Rahman, and Mollik, 2011; Carlin and Finch, 2010b; Carlin, Finch, and Khairi, 2010; Carlin, Finch, and Laili, 2009; Carlin, Finch, and Tran, 2010). These challenges are magnified for code-law countries, especially to those with centrally-planned economies. Nobes and Parker (2008, p 245), note that ‘the development of financial reporting in Eastern and central Europe has inevitably been subject to more

discontinuities [...] but no country has broken completely with the past, and influences remain both from the pre-communist period and from the communist period”. For transition economies, implementing the precepts of IFRS, especially the concepts of ‘fair-value’, ‘true-and-fair-view’ etc is evidently difficult given their communist orientation which is markedly different to the market-economy assumed by IFRSs (Ball, 2006).

Developing economies struggle to implement IFRS for a variety of reasons. Extant literature suggests that language, underdevelopment of the accounting profession, inherent culture of secrecy and fraud, the need to educate the stakeholders on the new regulations and the lack of effort put into monitoring and enforcement (Chamisa, 2000; Larson and Street, 2004; Zeghal and Mhedbi, 2006; Peng, et al., 2008) as possible impediments to effective implementation of IFRS.

Although the above mentioned factors are prevalent in most developing countries, transition economies present an interesting case as the ‘learning’ required by accountants in those countries far exceeds that of their counterparts in developing countries that

adhere to common laws. For transition economies, IFRS presents not only a systemic change but also a change in the mind-set of the people who are expected to operationalise the precepts. The continental European accounting model, characterised by emphasis on financial reporting conformity with tax regulations and conservatism (Vellam, 2004; Jermakowics and Gornik-Tomaszewski, 2006) poses a steep challenge for accountants in those countries to learn the principles-based paradigm advocated by IFRS.

The management literature on organisational change posits that the process of change is determined by two variables: the “density of administrative and technical competence” and the “leader’s sense of urgency” (March, 1974). When both variables are high, the organisational change is generally mandated as ‘execute now’. When either of the variables is diminished, the organisational change is expected to result only gradually.

Using the above meta-theory on organisational leadership and change, this paper attempts to analyse two of the transition economies, namely Russia and Kazakhstan, both of which had a sense of urgency to implement IFRS but had varying degrees of density of administrative and technical competence. Russia, the larger of the two, adopted the IFRS on a voluntary basis (possibly realising its lack of technical competence) allowing accountants to adapt to the learning process gradually. Kazakhstan on the other hand mandated the process (possibly overestimating its administrative and technical competence) of adoption of IFRS.

Compliance with IFRS is particularly important for transition economies to attract foreign investments to accomplish economic reforms. Shedrov and Sevastyanova (1998), note that compliance with IFRS is generally perceived as being provision of transparent and accurate information which is valued by foreign investors. Consequently, compliance with IFRS is expected to facilitate the inflow of foreign direct investments (FDI) to Russia and Kazakhstan (Alam and Banerji, 2000; Shedrov and Sevastyanova, 1998).

The purported benefits of IFRS however may be reduced substantially with non compliance. Ball (2006) noted that poor compliance due to inconsistent application of standards results in low comparability of financial reports, increases information costs and risks for investors and consequently impacts the international capital flow negatively. This implies that the ability of transitional regimes to learn new paradigms and the process by which such learning is brought about are key to economic success.

When change is warranted, how does two different approaches (gradual vs mandated) to bring about change compare against one another? This is the primary research question that this paper attempts to address. Herein it is argued that the degree of compliance with the precepts of IFRS in either case

would evidence the degree of learning that the accountants have had under each of the approaches. In order to evidence compliance, IAS² 36 – Impairment of assets with specific reference to impairment of goodwill is chosen as an instrument.

The objective of IAS 36 - Impairment of Assets, is to ensure that assets are reflected in financial reports at values not exceeding their recoverable amount. In order to determine the recoverable amounts of assets, the standard requires extensive application of the fair value concept (Wiecek and Young, 2010) which is rooted in the Anglo-Saxon accounting model requiring substantial exercise of judgement. For transition economies such as Russia and Kazakhstan, which originate from the communist economic model, the concept of ‘fair value’ is alien (Ichizli and Zacchea, 2000). In Soviet accounting, assets were valued at historical cost with rare revaluations, if any, being made under the control of the State (Paraszczak, 1978). During the communist era, the Russian and Kazakhstan accountants neither found a need for the ‘true and fair view’ concept, nor the need for transparent external financial reporting. (Ichizli and Zacchea, 2000; Nobes and Parker, 2004). Bailey (1995) remarked that the figure of profit reported under the Soviet accounting system was a mere residual amount left after the compilation of accounting records which carried little economic significance.

There is considerable support for the view that IFRS reporting is complicated and its requirements are time consuming to implement (Pawsey, 2010; United Nations Conference on Trade and Development (UNCTAD), 2008). The complexity is doubled in the cases of transition economies as accountants in these countries are required to orientate themselves with paradigms totally unfamiliar to them (Lopater, 2003) which is time consuming and achieved at a cost. To test the level of compliance in transition economies, this research intends analyzing the compliance patterns of IAS 36 as it encompasses the difficulties mentioned above. IAS 36 was perceived as one of the most complex and difficult standards to implement by 75% of the accountants surveyed in Belgium (Jermakowicz, 2004). A research by Larson and Street (2004) also indicate that problems with compliance are common in countries with underdeveloped market environments such as Bulgaria, Poland and Romania for the same reasons mentioned above.

Several studies provide evidence of deviations from IAS 36 requirements in various countries (Bepari, Rahman, and Mollik, 2011; Carlin and Finch, 2010b; Carlin, Finch, and Khairi, 2010; Carlin, Finch,

² International Accounting Standards (IASs) were issued by the predecessor body of the International Accounting Standards Board (IASB). These standards are international financial reporting standards that were adopted by IASB when it took over in 2001 and as such they form part of the body of IFRS requirements (IASB, 2011c)

and Laili, 2009; Carlin, Finch, and Tran, 2010). These findings indicate that firms in Australia, Hong Kong, Malaysia and Singapore exhibited an inadequate level of compliance with disclosures concerning cash-generating units (CGU), discount and growth rates although they had common law rootings and developed market infrastructures. It therefore presents a convincing argument for the use of IAS 36 as an instrument to measure the compliance and hence the learning in transition economies.

Accounting development in Russia

Since the collapse of the Soviet Union in 1991, Russia has been undertaking reforms to abandon the command economic principles to transit into a market oriented model. In July 1991 the Russian Parliament passed a legislation which paved the way for privatisation of state-owned enterprises (Joskow, Schmalensee, Tsukanova, and Shleifer, 1994). In January 1992, a Presidential decree released prices from the government control (Berkowitz, DeJong, and Husted, 1998) and by the end of 1994, the first phase of structural changes to the Russian business framework was completed giving it the semblance of a market economy (Vasiliev 2001). The introduction of a stock exchange, Russia's membership in International Organization of Securities Commissions (IOSCo) and its inclusion in international credit ratings in 1995, brought about increased attention to the need for accounting reforms (Vasiliev, 2001). In 1998, the Russian government launched the "Program for the Reformation of Accounting in accordance with International Accounting Standards" to convert Soviet accounting standards to conform with international practices (McGee and Preobragenskaya, 2004). Subsequently, the Russian Ministry of Finance developed Russian Accounting Standards (RAS), corresponding with IFRS as much as possible (Bogdan and Cristea, 2008). McGee and Preobragenskaya (2004) note that RAS significantly changed accounting practices in Russia with marked departures from its traditional accounting practices which included emphasis on disclosure of information as opposed to technical procedures, Introduction of terms hitherto unknown to Russian accountants such as "materiality", "contingency", "provisions" etc. and the concepts of 'substance over form' and 'fair value'. According to a recent survey involving 200 Russian firms, companies that prepared a second set of accounts complying with IFRS rules was found to have increased from 47% in 2009 to 61% by the end of 2011 (Baker, 2011). Economic statistics also show an increasing integration of Russian economy into global business and trade which can also be considered as a driver for the rising demand of IFRS. (Tarr and Volchkova, 2010).

McGee and Preobragenskaya (2005) also note that Russia opted for a 'gradual approach' in adopting international standards allowing companies to

voluntarily prepare IFRS compliant reports on a 'as-needed-basis'. At present IFRS is not adopted in its entirety in the country. However, a voluntary preparation of IFRS-compliant reporting is permitted in addition to mandatory RAS-compliant financial reports (Deloitte, 2011).

There are a number of considerations that favored the gradual approach to IFRS adoption in Russia. In 2004, the Task Force on Implementing IFRS, organised by Organization for Economic Cooperation and Development (OECD), recommended it as it believed that the sheer size of the Russian economy would not allow an accelerated implementation ("The Russian Corporate Governance Roundtable," 2004). The gradual approach was also supported by major audit firms operating in Moscow (Gregson, 2008). The lack of qualified personnel was a further factor that favoured gradual adoption. Vaynshteyn (2009) and Bagaeva (2010), reckoned that the gradual adoption process would avail the time required for Russian accountants to be trained in making professional judgements. The significant financial resources required for the transition was also cited as yet another reason for this approach as it would allow spreading the implementation costs over a longer period (Vaynshteyn, 2009). McGee and Preobragenskaya (2005) attributed the selection of this strategy to the fact that the local security market is still in its infancy and demand for IFRS reporting had only started to increase recently.

Accounting development in Kazakhstan

Kazakhstan gained its independence in 1991 after the collapse of the Soviet Union. In the aftermath, the demise of its central planning model caused a fall in its output which was primarily produced by industries under the federal jurisdiction (DeMelo, Denizer, and Gelb, 1996; Pomfret, 2007; Myant and Drahokoupil, 2008). In order to reverse the downward trend in the economy the government opted for a fast track transition to a market-based economy (Havrylyshyn, 2001; Irnazarov, 2009).

In the course of its reforms in the financial sector, the Kazakhstan Accounting Standards (KAS) were developed, which were used by all business entities prior to adopting IFRS in 2006.

Kazakhstan fully adopted IFRSs in 2006 to accelerate its integration into the global economy (Tyrrall, Woodward, and Rakhimbekova, 2007). The adoption was considered an important component in enhancing competitiveness of local firms and to avail loans from offshore financial institutions (Gielen et al., 2007). The accounting legacy inherited from the Soviet era, coupled with the constraints suggested for Russia earlier in this paper, equally applied to Kazakhstan impeding its quest for rapid transformation. Particularly, the transition to IFRS was problematic as the stock exchange of Kazakhstan (KASE) was in its infancy with only 100 firms (10%

of private sector firms in the country) were being listed as of 2006. This, coupled with the fact that most of these firms were state-owned, reduced the need for high quality transparent financial reports. Tyrrall et al. (2007) suggested that under these conditions, the relevance of IFRS to Kazakhstan was low for firms that operated domestically.

Motivation and contribution

Transitional economies are unique as they, unlike those in the Anglo-Saxon world, are required to adopt paradigms which are completely alien to them. The true impact of their transition to market-based economies can therefore be objectively viewed in these cases.

While considerable studies deal with transition economies in isolation (Chamisa, 2000 in Zimbabwe; Hassan, 2008 in Egypt; Ballas, et.al., 2010 in Greece; Peng and van der Laan Smith, 2010 in China; Albu, et.al., 2011 in Romania; Phi Anh and Nguyen, 2013 in Vietnam), comparative studies between transition economies are rare. The present study notes that while Russia chose a gradual approach, Kazakhstan employed a rapid strategy to transition into market economy and consequently the adoption of IFRS. These accounting settings provide a unique opportunity to investigate the levels of compliance in the contexts of two very similar post-communist countries with contrasting strategies to IFRS adoption.

For the above reasons, it is of research interest to examine the level of compliance with IFRS with IAS 36 as its proxy, both in Russia and Kazakhstan. The findings of which will provide useful information for policy makers in both countries and academics in general on the dynamics of organisational change process achieved though voluntary and mandated impositions.

In addition, previous attempts by researchers investigating the level of compliance with IAS 36 have been confined to the Anglo-Saxon accounting environments (Carlin and Finch, 2010; Carlin et al. 2009; Carlin, Finch and Tran, 2010; Carlin, Finch and Khairi, 2010; Massoudi et al. 2010 and Bepari et al. 2011). An extensive search of IFRS related literature did not find any studies that empirically investigated compliance with IAS 36 in transition economies or a comparison thereof with similar economic environments. This paper is hence a pioneering effort to investigate the gap that exists in literature. Further, this paper refines the method employed by Bepari et al. (2011) to include an assessment of the appropriateness of the discount rates used by Russian and Kazakhstan accountants for a more granular assessment. Consequently, this research is more rigorous than the previous attempts in this genre. Accordingly, the following research questions are addressed in this paper:

1. Was there a change in the levels of compliance with the disclosure requirements of IAS

36 for goodwill impairment testing by Russian and Kazakhstan firms over 2007-2008-2009? – evidence of a positive change year-on-year will indicate the extent to which companies in each of the countries have imbibed the new paradigm which we argue as testimonious of learning.

2. Was there a difference in the levels of compliance with the disclosure requirements of IAS 36 for goodwill impairment testing between Russian and Kazakhstan firms in 2007-2008-2009? – evidence of any differences between the countries year-on year would shed light on the effectiveness of the approaches taken by the respective countries.

3. Was there an association between the levels of compliance with the disclosure requirements of IAS 36 for goodwill impairment testing and firm-specific factors over the periods 2007-2008-2009 in Russian and Kazakhstan firms? – Evidence of which will indicate whether firm-specific factors play a deterministic role in the change process.

The rest of the paper is structured to include literature review, hypothesis development, description of the research sample and methodology followed by results and discussion

2. Literature Review

According to IAS 36, an asset is considered impaired if its carrying amount exceeds its recoverable amount. The recoverable amount of the asset is the higher of its fair value less costs to sell in an active market and the value in use, which is the present value of the future cash flows discounted with an appropriate rate. Evidently, goodwill impairment testing mandates complex procedures to be performed and disclosed. These disclosures include (IASB, 2011):

1. A description of CGU(s). This disclosure is important as it provides information on business prospects of CGUs to which goodwill relates.

2. The carrying amount of goodwill allocated to CGU(s). This information allows tracing allocated goodwill to specific CGU(s).

3. A method selected to determine a recoverable amount of CGU

4. If selected method is fair value less costs to sell, a description of key assumptions used in its determination.

5. If selected method is value in use, the growth and discount rate(s) applied to projected cash flows and a description of key assumptions used to estimate future cash flows.

A number of studies that deal with IAS 36 extoll the advantages of complying with its contents. Wines, Dagwell, and Windsor (2007) noted that the new goodwill impairment testing regime is more closely aligned with an actual assessment of asset value than an arbitrary ‘cost less amortization’ method which was followed previously. A similar argument was also put forward by the Financial Accounting Standard Board (FASB) that the Statement of Financial

Accounting Standard 142, analogues of IAS 36, would lead to a better reflection of underlying economics of the acquired assets in the financial statements (FASB, 2001).

Despite the purported advantage of the standard, there are many reasons that could deter managers from complying with them. Wines et al., (2007) argue that IAS 36 has introduced a potential for creative accounting as the evaluation of future cash flows is subjected to a substantial degree of discretion suggesting the application of the standard may be quite different to its prescription. Watts (2003) noted that leeway available in calculating asset's value-in-use may be used by managers to delay or advance impairment write-offs by applying arbitrary discount and growth rates to future cash flows.

Beatty and Weber (2006) investigating the association between impairment write-offs of firms and earnings based incentives argue that managers would take impairment write-off decisions only if they are not affected by these incentives. In a similar vein, Guler (2007) found that goodwill impairment losses were less likely to be recognized if managers had significant holdings in 'in-the-money' stock options and bonus incentives. These findings are consistent with Agency Theory that predicts that managers are likely to use the discretion available in accounting choices in a manner that increases their personal wealth (Jensen and Meckling, 1976) and hence refrain from complying.

Ramanna (2008) examined whether unverifiable discretion inherent in IAS 36 is used opportunistically and if so what firm characteristics increase the likelihood of such discretion. The author found evidence that firms with numerous business segments and higher market-to-book ratios and higher ratios of assets without observable market values were more likely to exercise such discretion. Similar opportunism was also found to exist in the study by Godfrey and Koh (2009) who investigated the relationship between goodwill write-offs and firms' investment opportunities and concluded that increase in investment opportunities was associated with smaller impairment charges. Vichitsarawong (2008) on the other hand found that goodwill impairment signaled a decrease in relative efficiency of firms, thus confirming the usefulness of goodwill impairment numbers in reflecting underlying economics of firms but implying that it is yet another reason for non compliance by managers. Similar inference also could be made from the findings of Li, Shroff, Venkataraman, and Zhang (2010) who report that impairment losses are negatively associated with revenue and profit in subsequent years consistent with results of Vichitsarawong and Hirschey and Richardson (2002) who found the effect of revelation of impairment losses was negative and material at about 2-3 percent of firms' share price.

The question of compliance with goodwill impairment disclosure requirements as prescribed by

IAS 36 was investigated in Australia (Carlin and Finch, 2010b), Malaysia (Carlin et al. 2009) Hong Kong (Carlin, Finch, and Tran, 2010) and Singapore (Carlin, Finch, and Khairi, 2010) using the same method in all four studies with results strikingly consistent across the countries researched. For example, a significant number of firms in all four countries failed to provide information to allow reconciliation of goodwill allocated to CGUs with total reported goodwill. A large proportion of firms in Malaysia and Singapore did not define CGUs and the methods used to estimate recoverable amounts attributable to CGUs. Poor compliance with requirements to disclose discount and growth rates was also exhibited by firms in the countries investigated.

Carlin et al. (2009), Carlin and Finch (2010b), Carlin, Finch, and Khairi (2010) and Carlin, Finch, and Tran (2010) suggested that deviations from disclosure requirements can be explained by the difficulties experienced by firms due to the complexity of the accounting standard. An alternative explanation could be that the non-compliance was a product of opportunistic behavior on the part of managers by a tendency to define larger rather than smaller CGUs, which leads to lower likelihood of impairment losses. (Lonergan, 2010). Similarly, unwillingness to disclose discount and growth rates is deemed to be associated with managers' desire to manipulate impairment charges (Carlin and Finch, 2010b).

The complexity of the accounting standard that deters full compliance can be argued to be a direct result of 'learning' in transition economies, especially for countries from the former Soviet-bloc. Gurkov and Kuz'minov (1995) in a survey to identify the learning-order priorities amongst middle managers in Russia find 'Accounting' to be the most important subject that managers desire to have additional training in. The authors conclude that this is so because, in Russia, learning of 'accounting' in the workplace is mainly facilitated by a 'mentor' approach where "a chief accountant transmits 'professional secrets' to the most able and devoted bookkeepers" instilling the character of 'learning by doing'.

Due to the 'learning by doing' approach, accountants in former communist countries such as Poland, Czech Republic and Romania have demonstrated the persistence of communist mentality with knowledge and skills gained prior to the transition, preferring more 'prescriptive' regulation and less coices in accounting treatments (Vellam, 2004).

IAS 36 is a suitable proxy to analyse the effectiveness of learning among accountants in transition economies as it contains little prescription. The compliance patterns between years and between the countries chosen in this paper will hence reveal the adaptability to 'pricipal based' approaches by

accountants and the effectiveness of implementation approaches adopted by the respective States.

Massoudi et al. (2010) and Bepari et al. (2011) constructed 'compliance-scores' to measure the level of firm compliance with IAS 36 which revealed that the level of compliance depended on the type of auditor, ownership concentration, goodwill intensity, firms' profitability and type of industry. In this research, we adopt the method advocated by Bepari et al. (2011) with modifications to answer the following research hypotheses.

3. Hypothesis Development

Examination of the level of compliance by Russian and Kazakhstan firms over 2007-2009

Compliance with a complex standard such as IAS 36 can be reasonably assumed to improve over time with managers and accountants gaining familiarity. Hence longitudinal measures of compliance provide greater insights in comparison with snap-shot analyses. This study suggests that in the context of transitional economies personnel training efforts may have positively influenced the transparency of accounting information and hence it is possible that in Russia and Kazakhstan compliance with IAS 36 could have improved over the years. In order to examine the longitudinal changes, the standard null hypothesis in such situations is to hypothesize that there is no difference between the levels of compliance over the consecutive years. Accordingly, the following hypothesis is formulated to address the first research question.

Hypothesis 1: the level of compliance with IAS 36 disclosure requirements for goodwill impairment testing by firms in Russia and Kazakhstan has changed during the overall period 2007 to 2009 and in the sub periods 2007-2008 and 2008-2009.

Comparison of the levels of compliance between Russian and Kazakhstan firms over 2007-2009

This study finds the accounting settings in Russia and Kazakhstan provide a unique opportunity to compare the levels of compliance in the contexts of (a) transitional economies; (b) divergent approaches to IFRS adoption. While the mandatory adoption of IAS 36 in Kazakhstan leads one to believe that the compliance levels will be higher, it is also possible that Russian firms could surpass this expectation due to the voluntary nature of their adoption. In order to investigate this aspect longitudinally, the following hypothesis is formulated:

Hypothesis 2: the levels of compliance with IAS 36 disclosure requirements for goodwill impairment testing by Russian firms are different from the levels

of compliance by Kazakhstan firms in each of the years 2007; 2008;2009.

Several studies on compliance with IFRS indicate that the levels of compliance by firms in various countries are associated with firm characteristics (Owusu-Ansah, 2005; Naser, Alkhatib, and Karbhari, 2002; Bepari et al. 2001). It is therefore essential to consider firm-specific factors that influence compliance with IAS 36 to interpret the compliance levels envisaged in hypotheses (1) and (2). In this study we examine the impact firm-specific factors such as goodwill intensity, firm-size and profitability on the levels of compliance by Russian and Kazakhstan firms to interpret the results of hypotheses (1) and (2).

Previous research findings regarding the impact of firm size on levels of compliance provide mixed results. Findings by Ballas and Tzovas (2010) on Greek firms and Owusu-Ansah (2005) on New Zealand firms support the notion that the level of compliance is higher for large firms as they are resourceful and are pressured to do so by external forces. Street and Gray (2002) however, did not find firm size to be associated with the level of compliance by firms drawn from 32 countries. Bepari et al. (2011) on the other hand, found that firm size was related to the compliance level by Australian firms but only when other industry variables were not controlled. Given that large firms in Russia and Kazakhstan are capable of hiring skilled personnel, engaging services of the Big-4 audit firms and are more likely to raise or borrow money from overseas, this study expects a higher level of compliance by those firms. Hence, it could be conjectured that larger firms may exhibit a higher level of compliance than smaller ones.

According to Bepari et al. (2011) the level of compliance with IAS 36 disclosure requirements is associated with goodwill intensity which is measured as a percentage of goodwill to total assets. The authors suggest that firms with larger proportions of goodwill were more motivated to disclose information than firms with smaller proportions of goodwill. In line with this finding, this paper seeks to identify whether a similar position exists in Russia and Kazakhstan.

Inchausti (1997) suggests that more profitable firms have incentives to signal 'good news' and therefore they provide more transparent reporting than firms with 'bad news'. However, Wallace, Naser and Mora (1994) and Dumontier and Raffournier (1998) observed no association of profitability with the level of compliance by Spanish and Swiss firms. Recent empirical studies by Owusu-Ansah (2005) and Bepari et al. (2011) provide evidence that profitability was positively associated with levels of compliance by New Zealand and Australian firms. In this study we posit that more profitable firms in Russia and Kazakhstan would be motivated to exhibit greater

transparency and hence greater compliance, to communicate a favourable message.

In summary, the testing of hypotheses developed in this study would establish whether increasing familiarity with IAS 36 resulted in positive changes in the level of compliance by Russian and Kazakhstan firms over time; and whether firm-specific factors such as firm size, goodwill intensity and profitability had significant association with the levels of compliance by firms. The comparison of the levels of compliance between Russian and Kazakhstan firms may provide evidence of success in contrasting approaches to IFRS adoption.

4. Data, Definitions and Design

In order to address the research questions, this study used published on-line financial reports prepared under IFRS rules for years 2007, 2008 and 2009 of listed companies in Russia and Kazakhstan.

Since this study's intention was to compare the levels of compliance within and between the countries, the period of investigation starting from 2007 was selected corresponding with the mandatory adoption of IFRS by Kazakhstan firms. The voluntary IFRS reports of Russian firms were then compiled and compared against the same period. The first year of IFRS adoption in Kazakhstan was excluded from the research period as it may not be representative due to the difficulties of first-year implementation. Similarly year 2010 was also excluded to keep this report comparable with the three-year window that has been adopted by the compliance studies referred to earlier. Upon screening the financial reports of Russian and Kazakhstan firms over 2007 to 2009, for those that had continuous trading records that carried a non-zero value as goodwill, the total number of firms meeting the above mentioned criteria was found to be 37 and 17 respectively. The details of the screening are provided in Table 1 below.

Table 1. Selection of Russian and Kazakhstan firms

	RTS	KASE
Total number of firms listed on stock exchange as at 1/01/2009	227	96
Minus firms whose reports were unavailable	22	4
Minus firms that did not prepare reports under IFRS	72	0
Minus firms that did not have goodwill in each year over 2007-2009	96	75
Total number of firms included into research sample	37	17

Source: (KASE, 2011; RTS, 2011)

The resulting sample comprised 111 and 51 firm-year observations over the period of three years for Russian and Kazakhstan firms respectively. For comparative purposes, the reporting currency of Kazakhstan firms (Tenge) was converted to Rubles (Russian currency) at the year-end exchange rates to correspond with the Russian firms.

To investigate the level of compliance and to build a basis for comparison over the years and between the countries, a compliance score was computed for each company in each of the years from 2007 to 2009. The following disclosure requirements of IAS 36 goodwill impairment testing were coded either one (1) or zero (0) to calculate the compliance scores consistent with the method used by Bepari et al. (2011).

1. Disclosure of CGUs defined for the purpose of impairment testing. If disclosed, this item was coded 1; if not disclosed 0.

2. Compliance with the requirement that goodwill allocated to CGUs can be reconciled with total goodwill on the balance sheet. This item was coded 1 if compliant; 0 if non-compliant.

3. Disclosure of the method to estimate the recoverable amount of CGUs. This item was coded 1 if disclosed; if not disclosed 0.

4. Disclosure of growth rates applied to projected cash flows of CGUs. If growth rate(s) was disclosed, this item was coded 1; if not disclosed 0.

5. Disclosure of discount rates applied to projected cash flows of CGUs. If discount rate(s) was disclosed, this item was coded 1; if not disclosed 0.

IAS 36 paragraph (A: 17) suggests that the Capital Asset Pricing Model (CAPM) to be used as a starting point in the determination of an appropriate discount rate to assess the value in use for goodwill. Although the subsequent paragraphs of IAS 36 suggest refinements of this value, given the lack of experience that accountants in transitional economies would have had in value judgments, this research expects that as a minimum, the accountants would have based their assessment of an appropriate discount rate using CAPM. Hence, in addition to the model suggested by Bepari et al. (2011), this research, we checked the discount rates disclosed by firms against a discount rate independently derived by us using Capital Asset Pricing Model (CAPM). Accordingly, companies that disclosed a higher discount rate than the independently computed rate were assigned an extra 1(one) to account for the quality of discount rate used by managers. Carlin and Finch (2010a) note that IAS 36 places great emphasis on discounted cash flow (DCF) as the basis to estimate asset recoverable amount and suggest that the use of CAPM is the preferred method to estimate an appropriate discount rate as it represents the current market assessment. Evidently, discount rates are key elements in determining the extent of recognition of losses as inappropriately low discount

rates applied to projected future cash flows would lead to a lesser likelihood of impairment charges being recognized. Given the importance of discount rates, the measure of their appropriateness was included in the calculation of compliance scores by the following process.

6. Appropriateness of disclosed discount rates applied to projected cash flows of CGUs. If discount rates were greater than those independently derived using CAPM, this item was coded 1; if discount rates were smaller than those derived from CAPM this item was coded 0.

In order to benchmark the appropriateness of discount rates, this study used the following CAPM formulas to derive the benchmark discount rates for Russia and Kazakhstan.

$$R_{jRus} = [R_{mRus} - R_{fRus}] * \beta_{jRus} + R_{fRus} \quad (1)$$

$$R_{jKaz} = [R_{mKaz} - R_{fKaz}] * \beta_{jKaz} + R_{fKaz} \quad (2)$$

Where R_{jRus} and R_{jKaz} are expected rates of returns and, $[R_{mRus} - R_{fRus}]$ and $[R_{mKaz} - R_{fKaz}]$ are market risk premiums for Russia and Kazakhstan respectively. Due to the relatively short history of the existence of capital markets in these countries, there are no reliable estimates of market risk premiums available for Russia and Kazakhstan. Hence, this study uses estimates used by Sinadskiy (2003) and Teplova (2005) which equal to 7.76% over the period 2007-2009. This study notes that it was impossible to identify individual betas for either firms or industries in Russia and Kazakhstan as markets in these countries did not provide sufficient data to calculate credible estimates. Ruzhanskaya (2005) also observed that the Russian capital market had little history and was subject to high volatility, which makes calculation of firm-specific beta impracticable. Hence, using country betas (equal to 1) and estimates of risk-free rates based on Government bonds in Russia (4.8%, 5.9% and 8.6% for 2007, 2008 and 2009 respectively) (*Рынок государственных ценных бумаг*, 2011a) and Government bonds in Kazakhstan (5.5%, 5.8% and 6.7% for 2007, 2008 and 2009 respectively) (*Рынок государственных ценных бумаг*, 2011b), the following benchmark returns were estimated. R_{jRus} for Russian market; 12.56% for 2007; 13.66% for 2008 and 16.36% for 2009. R_{jKaz} for Kazakhstan market; 13.26% for 2007; 13.56% for 2008 and 14.46% for 2009.

Computation of total compliance score

The total compliance score for a firm represents the sum of items that were disclosed. It should be noted that IAS 36 allows using either 'value in use' or 'fair value less costs to sell' to determine the assets recoverable amount. If a firm selects the latter method it may not use discount or growth rates when estimating recoverable amounts of assets. In order not to penalize firms using 'fair-value less cost-to-sell' method (or to prevent firms that use DCF to have

an advantage from the improved coding system proposed herein), each score was scaled by dividing the total score of each firm by the number of applicable categories using formula (3), consistent with Bepari et al. (2011).

$$CS_{yt} = \frac{\Sigma A_{yt}}{\Sigma B_{yt}} \quad (3)$$

Where the CS_{yt} represents the scaled compliance score for firm y in year t ; ΣA_{yt} is a total of disclosed items by firm y in year t ; and ΣB_{yt} is total of applicable categories for firm y in year t .

Measures of corporate factors (independent variables)

The following definitions were employed in the determination of firm-specific factors to examine their association with the level of compliance.

Goodwill intensity GI_{yt} for firm y in year t is calculated as a ratio of goodwill GW_{yt} of firm y in year t to total assets TA_{yt} for firm y in year t as prescribed by Bepari et al. (2011).

$$GI_{yt} = \frac{GW_{yt}}{TA_{yt}} \quad (4)$$

Size for firm y in year t is calculated as absolute value of total assets for firm y in year t as supported by Ballas and Tzovas (2010); Morris, Voronina, and Gray (2006) and scaled to its logarithmic value to control for heteroscedasticity;

$$Size_{yt} = \ln TA_{yt} \quad (5)$$

Profitability P_{yt} for firm y in year t is calculated as a ratio of net profit NP_{yt} of firm y in year t to total assets TA_{yt} for firm y in year t as supported by Owusu-Ansah (2005) and Camfferman and Cooke (2002);

$$P_{yt} = \frac{NP_{yt}}{TA_{yt}} \quad (6)$$

In order to examine the differences in the levels of compliance by Russian and Kazakhstan firms over 2007-2008-2009 (hypothesis 1) the present study employed non-parametric Wilcoxon Signed Rank Test. Ho (2006) notes that this test is appropriate when there is a violation of the normality assumption. Accordingly tests for normality for the variables were conducted to justify the use of Wilcoxon Signed Rank Test. For the examination of the differences in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009 (hypothesis 2), Mann-Whitney-U test was employed. Hart (2001) suggests this test as an alternative to t-test when the data distribution is not normal. Also Ho (2006) notes that Mann-Whitney test is appropriate for two independent samples where the measurement of data is ordinal. As data in the research sample satisfies the above mentioned criteria Mann-Whitney-U test was employed to address the second research question. The descriptive statistics of the compliance scores are presented below.

Table 2. Descriptive statistics of compliance scores for Russian and Kazakhstan firms

	Number	Mean	Standard deviation	Min	Max
Russian firms compliance score 2007	37	0.5714	0.3855	0	1
Russian firms compliance score 2008	37	0.77	0.2609	0	1
Russian firms compliance score 2009	37	0.6841	0.2652	0	1
Kazakhstan firms compliance score 2007	17	0.3876	0.3086	0	1
Kazakhstan firms compliance score 2008	17	0.5082	0.3303	0	1
Kazakhstan firms compliance score 2009	17	0.6253	0.3261	0	1

Descriptive statistics show that although there had been an overall increase in the mean of compliance scores for Russian and Kazakhstan from 2007 to 2009, the steady sub-period increases found in Kazakhstan firms is not mirrored in Russia. Russian firms' compliance scores increased in 2008 but declined in 2009, while the mean of Kazakhstan firms steadily rose over 2007-2009. This may indicate that Russian firms' compliance was more volatile than compliance by Kazakhstan firms over the research period. Also, standard deviations for Russian firms show that the distribution of compliance scores was less clustered in 2007 compared to 2008-2009 while

the spread of distribution of compliance scores by Kazakhstan firms remained relatively stable over 2007-2009.

To infer the role that firm-specific variables on levels of compliance, this research uses a generalised ordered logit model (GLM). Since the dependent variable (compliance score) is an ordinal measure, adoption of a logistic regression model was deemed appropriate as it provides a more parsimonious and interpretable model than other corollary models while preserving the multilevel coding scheme of the dependent variable (Williams, 2006).

Table 3. Descriptive statistics for Russian firm-specific variables

	Number	Mean	Standard deviation	Min	Max
Russian firm size 2007	37	461.22	1,383.72	1.36	6,792.56
Russian firm size 2008	37	571.44	1,663.10	2.54	7,168.57
Russian firm size 2009	37	609.84	1,832.50	2.69	8,363.22
Russian firm GW intensity 2007	37	0.0458	0.07192	0	0.38
Russian firm GW intensity 2008	37	0.0413	0.06339	0	0.34
Russian firm GW intensity 2009	37	0.0419	0.06327	0	0.29
Russian firm profitability 2007	37	0.0765	0.06469	-0.03	0.21
Russian firm profitability 2008	37	-0.0019	0.32598	-1.81	0.35
Russian firm profitability 2009	37	0.0424	0.15468	-0.65	0.39

Note: Russian firm size expressed in billion Ruble. Abbreviation: GW stands for Goodwill.

Table 4. Descriptive statistics for Kazakhstan firm-specific variables

	Number	Mean	Standard deviation	Min	Max
Kazakhstan firm size 2007	17	232.04	339.85	0.36	1,076.48
Kazakhstan firm size 2008	17	269.61	431.29	0.34	1,615.34
Kazakhstan firm size 2009	17	326.07	592.70	0.35	2,328.75
Kazakhstan firm GW intensity 2007	17	0.0235	0.03856	0	0.15
Kazakhstan firm GW intensity 2008	17	0.0147	0.01875	0	0.06
Kazakhstan firm GW intensity 2009	17	0.0312	0.07889	0	0.33
Kazakhstan firm profitability 2007	17	0.0547	0.04849	0	0.19
Kazakhstan firm profitability 2008	17	-0.0035	0.18858	-0.54	0.27
Kazakhstan firm profitability 2009	17	-0.0376	0.1523	-0.58	0.11

Note: Kazakhstan firm size in billion Ruble (Ruble: Tenge = 1: 4.75); Abbreviation: GW stands for Goodwill.

Tables 3 and 4, detail the descriptive statistics of firm-specific variables that are used in this study. Standard deviations show that dispersion of Russian firms' goodwill intensity variable was greater than that of Kazakhstan firms. In light of evidence provided by Bepari et al. (2011) it is possible that there exists a relationship of Russian firm goodwill intensity with the level of compliance. Also, the increasing trends in firm size over three years in both countries may indicate that the level of compliance

had changed over the period warranting an investigation of its role in the level of compliance. Descriptive statistics also show that the means of profitability in both countries are volatile.

5. Results and Discussion

Discussion on the changes in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009 (hypothesis 1).

The purpose of this research hypothesis was to determine whether there was a change in the levels of compliance by Russian and Kazakhstan firms over 2007-2008-2009.

Table 5. Wilcoxon Sign Rank test results on the statistical significance of the changes in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009

Compared periods	# of positive ranks	# of negative ranks	p value
Russian scores 2008-Russian scores 2007	16	4	0.004***
Russian scores 2009-Russian scores 2008	2	12	0.003***
Russian scores 2009-Russian scores 2007	14	9	0.071*
Kazakhstan scores 2008-Kazakhstan scores 2007	6	2	0.158
Kazakhstan scores 2009-Kazakhstan scores 2008	4	1	0.078*
Kazakhstan scores 2009-Kazakhstan scores 2007	10	1	0.026**

*** significant at 1%; ** significant at 5%; *significant at 10%; # stands for "number"

The results of Wilcoxon Signed Rank tests in table 5 show that p-values are statistically significant for compliance scores for Russian firms for the overall period between 2007 and 2009 and for the sub periods. Hence, this study rejects the null hypothesis and accepts the alternative that there were differences in the levels of compliance by Russian firms in each of the periods investigated. However, the numbers of positive and negative ranks in each of the periods investigated provide mixed results with an increase in the sub period between 2007 and 2008 followed by a decrease in the next period.

The test results for Kazakhstan firms however indicate the presence of a steady increase in compliance levels although the p-value for the sub period 2007-2008 was not significant. Based on the statistically significant results for the positive ranks

for the overall period, this study concludes that there had been an overall increase in the level of compliance by both Russian and Kazakhstan firms between 2007 and 2009.

The results found herein are consistent with the findings of Bepari et al. (2011), who found a positive trend in the levels of compliance by firms in Australia. A similar improvement in compliance levels over time was also observed by exploratory studies by Carlin and Finch (2010b) in Australia and by Carlin, Finch, and Khairi (2010) in Singapore.

While the increase in levels of compliance in both countries can be attributed to the expertise that the managers would have gained over time and hence their adaptability to change, the temporary decline in compliance during the sub period 2008-2009 in Russian companies begs clarification.

Table 6. Russian and Kazakhstan firms' compliance with IAS 36

Compliance categories	# of compliant firms			Growth in compliant firms		
	2007	2008	2009	2007-2008	2008-2009	2007-2009
Russia						
Disclosure of definition of CGUs	26	34	33	+ve	-ve	+ve
Reconciliation of goodwill to CGUs with total	19	22	23	+ve	+ve	+ve
Disclosure of estimation method for recoverable amount of CGUs	23	30	30	+ve	No change	+ve
Disclosure of growth rates applied to projected cash flows of CGUs	24	33	29	+ve	-ve	+ve
Disclosure of discount rates applied to projected cash flows of CGUs	19	24	21	+ve	-ve	+ve
# of companies with disclosed discount rates higher than CAPM derivation	13	22	12	+ve	-ve	No change
# of companies with disclosed discount rates lower than CAPM derivation	6	2	9	-ve	+ve	+ve
Kazakhstan						
Disclosure of definition of CGUs	7	9	11	+ve	+ve	+ve
Reconciliation of goodwill to CGUs with total	11	13	14	+ve	+ve	+ve
Disclosure of estimation method for recoverable amount of CGUs	12	14	14	+ve	No change	+ve
Disclosure of growth rates applied to projected cash flows of CGUs	6	8	11	+ve	+ve	+ve
Disclosure of discount rates applied to projected cash flows of CGUs	1	1	4	No change	+ve	+ve
# of companies with disclosed discount rates higher than CAPM derivation	1	1	3	No change	+ve	+ve
# of companies with disclosed discount rates lower than CAPM derivation	0	0	1	No change	+ve	+ve

As can be seen from Table 6, the diminished level of compliance during this sub period arose mainly due to a 12% decline in the number of firms complying with the standard in 2009 compared with 2008 in two respects; disclosure of growth and discount rates applied to projected cash flows of CGUs. We opined that such a breach of the standard would have elicited a qualified statement from the auditors of the company suggesting reasons for the breaches. Although 35 out of the 37 companies in Russia were audited by the Big-4 audit firms, none received any qualified report, precluding the possibility of understanding the reasons for the decline. Although surprised, we find this to be consistent with findings in Australia where obvious breaches of IAS 36 did not result in formal statements by audit firms (Carlin and Finch, 2010b). Since inference of reasons for the non compliance is not possible within the ambit of this research, we offer the following explanations for the non compliance in 2009 based on findings in extant literature: (a) The marginal decrease in the number of companies disclosing the basis by which they had define their CGUs suggests the possibility that managers could have revised their initial definition of CGUs but failed to disclose the basis adopted for such revision; (b) managers could have resorted to opportunistic behaviour suggested by Ramanna (2008) and

Godfrey and Koh (2009) which can be argued to be a strong possibility given that between 2008 and 2009, there was a 350% increase in companies that chose a discount factor lower than the CAPM value; (c) it is also possible that there could have been patches of resistance as identified by Carlin and Finch (2010b), Carlin et al., (2009), Carlin, Finch, and Khairi (2010) and Carlin, Finch, and Tran (2010). It is hence possible to conjecture that some Russian managers could have used substantial discretion available in IAS 36 opportunistically.

In summary, the findings above indicate that on the overall, compliance by Russian and Kazakhstan firms has improved over 2007-2009 although, the proportion of firms that exhibited a high level of compliance was somewhat low in both countries. The evidence evince that accountants in both countries were adapting to the new paradigm positively over the period although the approaches taken to bring about the change varied between the Sates.

Discussion on the differences in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009 (research hypothesis 2).

In order to compare the country level compliance between Russia and Kazakhstan, Mann-Whitney U test was employed the results of which are presented below.

Table 7. Mann-Whitney U test results on the statistical significance of the difference in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009

Pairs	Mean rank Russia	Mean rank Kazakhstan	p value
Russian firms 2007-Kazakhstan firms 2007	30.35	21.29	0.045**
Russian firms 2008-Kazakhstan firms 2008	31.51	18.76	0.005***
Russian firms 2009- Kazakhstan firms 2009	28.12	19.68	0.066*

*** significant at 1%; ** significant at 5%; *significant at 10%

The results of Mann-Whitney U test show that p-values are statistically significant for each of the periods under investigation. Therefore this study rejects the null hypothesis and accepts the alternative that there was a difference in the levels of compliance between Russian and Kazakhstan firms in each of the years from 2007 to 2009. The average ranks of Russian firms are higher than that of Kazakhstan firms in each of the years indicating higher level of compliance by Russian firms over Kazakhstan firms. The present study argues that the differences in the levels of compliance between Russian and Kazakhstan firms can be explained by divergent approaches to IFRS adoption and the institutional characteristics that are distinguishable between the countries. From the information available, it is possible to conjecture that voluntary adopters would have had greater incentive to comply than those who were mandated to do so. Given that both countries had similar economic settings such as post-communist accounting regimes, fledgling capital markets, and the need for foreign investments, the differences in their

levels of compliance can be reasonably attributed to the adoption strategies that were put in place.

We draw the above conclusion based on the fact that the present regulations influencing IAS 36 is similar in both countries. Both Russia and Kazakhstan do not permit fair value accounting and there are no equivalent national standards corresponding to IAS 36. Both countries amortise their goodwill over 20 years on a straight line basis which is regulated by the respective tax regimes (Sosnauskene, 2008; World Bank, 2007; KPMG, 2005). The differences in compliance levels, despite the similarities in circumstances, can be explained by the process that each country had adopted to learn the new paradigm. Developing and transition countries that voluntarily adopt new paradigms appear to exhibit superior compliance levels than those that mandate as evidenced by Peng, et al, 2008; Peng and van der Laan Smith, 2010 and Qu and Zhang, 2010 in the case of China. On the otherhand, high rates of non-compliance were found in Kuwait and Pakistan which manated the adoption process (Mir and Rahaman, 2005).

In summary, evidence from this research suggests that although learning of the new paradigm has taken place in both countries over the period of evaluation, Russia, which adopted the process voluntarily, appears to have had greater learning than Kazakhstan.

The above conclusion can be challenged on the grounds that organisational characteristics that are relevant to the adoption of IFRS could have played a part in determining the levels of compliance. It can be argued that the increased level of compliance in Russia could be attributed to factors such as firm-size, goodwill intensity and profitability which directly influence the decisions on CGU formation and impairment.

Firm-size is considered as a pertinent factor in compliance studies (Ballas and Tzovas, 2010; Owusu-Ansah 2005) as it is believed that larger firms would have the means and motives to comply with accounting standards. Larger firms also can be argued to have greater number of business segments permitting the formation of CGUs than smaller firms.

Although extant literature fails to provide conclusive evidence on the nature of influence that goodwill intensity has on compliance levels (Bepari et al. 2011), the general expectation is that firms with

greater goodwill intensity would have sufficient motivation to comply with the accounting standard than those without. Given that the presence of goodwill is a necessary condition in the context of this research, we posit that firms with larger goodwill intensities would exhibit greater compliance levels.

Prior literature suggests that profitability lends to opportunistic behaviour on the part of managers in impairment decisions (Inchausti, 1997; Owusu-Ansah 2005; Bepari et al. 2011). The need to bolster profits may motivate managers to use the degree of discretion provided in the standard the presence of which may shed light on the difference between compliance levels between Russia and Kazakhstan.

Discussion on the impact of firm-specific factors on the levels of compliance in Russian and Kazakhstan firms over 2007-2008-2009

The Table 8 below present the GLM estimates derived together with their levels of significance for a logistic regression model with compliance scores (dependent variable) and firm-specific variables (independent).

Table 8. Generalised ordered logit estimates for firm-specific factors for years 2007, 2008 and 2009

2007	Size: log(TA)		Goodwill (GW)		Profitability (PR)	
	Russia	Kazakh	Russia	Kazakh	Russia	Kazakh
Estimate	-0.178	0.264	0.730	9.860	10.637	-9.346
Std. Error	0.080	0.118	2.005	9.547	3.0218	6.2704
z value	-2.21	2.235	0.364	-1.033	3.52	-1.491
Pr(> z)	0.027 **	0.025 **	0.715	0.301	0.000 ***	0.1361
2008	Size: log(TA)		Goodwill (GW)		Profitability (PR)	
	Russia	Kazakh	Russia	Kazakh	Russia	Kazakh
Estimate	-0.161	0.050	13.72	37.68	-0.405	0.4416
Std. Error	0.085	0.107	6.192	14.90	0.9828	1.8031
z value	-1.892	0.467	2.216	2.528	-0.413	0.245
Pr(> z)	0.058*	0.640	0.026 **	0.011 **	0.6797	0.8065
2009	Size: log(TA)		Goodwill (GW)		Profitability (PR)	
	Russia	Kazakh	Russia	Kazakh	Russia	Kazakh
Estimate	-0.161	0.316	5.145	-12.48	-5.878	0.9471
Std. Error	0.081	0.106	2.791	8.0613	2.1376	1.4564
z value	-1.998	2.979	1.843	-1.549	-2.750	0.650
Pr(> z)	0.045 **	0.002 ***	0.065*	0.1214	0.0059 **	0.5154

*** significant at 1%; ** significant at 5%; *significant at 10%

Overall, the size of the firm appears to be a significant influence on the levels of compliance in both Russian and Kazakhstan firms even though the 2008 estimate for Kazakhstan was not significant. The positive and significant coefficients found in the case of Kazakhstan, fits the a-priori expectations that larger firms' would have the means and motives to comply with the accounting standards. However, in the case of Russian firms, although the coefficients were statistically significant, their signs don't fit with

theoretical expectations. In Russian firms, size appears to be negatively influencing the level of compliance. The result of this regression conclusively suggests that the increased compliance levels found in hypothesis (2) for Russia couldn't have been influenced by firm-size.

It is also apparent from the estimates listed in table (8), that the influence of goodwill intensity in Russian companies is pronounced in two out of the three years while in Kazakhstan, its influence appears

to be pronounced only in one year. Although the results fail to provide conclusive evidence that the compliance levels in Russia were influenced by its goodwill intensity, the statistically significant measure and the appropriate sign of the coefficient lends support to the argument that it is possible that in addition to the gradual approach, goodwill intensity also could have played a role in eliciting superior compliance levels.

On the influence of profitability, although the Russian sample returned statistically significant results in two out of three years, the conflicting signs of the coefficients preclude conclusive determination of its impact. As for Kazakhstan, none of the coefficients were significant leading to the conclusion that profitability has not played a significant influence in the levels of its compliance. Although the results obtained herein are contrary to the expectations that profitable firms would have the incentive to signal 'good news' by utilising the discretion provided in the standard, it is not surprising, as, the perception of profitability between Anglo-Saxon countries and the transitional economies markedly differ. Morris et al. (2006) noted that Russian managers viewed the State as the primary user of accounting information with little appreciation of its relevance in the commercial sense. The authors note that the profit numbers reported in transitional economies are primarily based on tax principles as opposed to the principles of financial health envisaged in accounting standards.

Taken together, the findings of this research permit us to reasonably conclude that the learning process in transition economies is greatly facilitated by a gradual approach. The mandated approach while is capable of eliciting favourable learning environment, is not as efficient as the former.

Conclusion

This paper investigated the effectiveness of gradual versus mandated approaches to bring about changes in transition economies using IAS 36 as an instrument. The study also examined the association of firm-specific factors on compliance levels to shed light on the above investigations.

Evidence from this study suggests that while both mandated and gradual approaches to bring about changes are effective, the latter approach elicits greater results than the former in transition economies when aided by, to a lesser degree, the presence of goodwill intensity. However, despite the increase in compliance levels in both Russia and Kazakhstan, signs of resistance to comply were also observed. Particularly non-compliance patterns were evident in disclosure of growth and discount rates indicating the possibility of lack of enforcement on the part of regulators in these countries. The above results are consistent with findings by previous research in Australia, Hong Kong, Malaysia and Singapore (Bepari et al., 2011; Carlin and Finch, 2010b; Carlin,

Finch, and Khairi, 2010; Carlin et al., 2009; Carlin, Finch, and Tran, 2010).

Examination of the association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors revealed a positive association of the level of compliance by Russian firms with goodwill intensity in each of the years from 2007-2009 and two out of the three years in Kazakhstan firms. The tests results were used to diffuse the argument that heightened compliance scores in Russia could have been influenced by firm-specific factors. None of the GLM estimates for the firm-specific variables, i.e. firm-size, goodwill intensity and profitability led us to believe that these factors could have influenced the compliance levels of either country. While we concur with the notion that goodwill intensity could have played a minor role in the levels of compliance in Russian firms, the evidence does not support this conclusively.

The findings of this study have several implications. First, the paper provides evidence that organisational change and learning required by the adoption of IFRSs in transition economies would be more successful if a gradual approach is taken. Gradual adoption processes provide the necessary duration to assimilate and to debate the applicability of accounting regulations in local environments. The success of Russia in this regard can be attributed to the numerous round-table discussions (The Russian Corporate Governance Roundtable, 2004) that it had initiated akin to those that were initiated by China (Peng and Bewley, 2010). Gradual adoptions also provide opportunities for transition economies to influence the International Accounting Standard Board (IASB) to revise its IFRS requirements to suit local conditions – a kind of push-pull phenomenon (Peng and Bewley, 2010 – referring to Wang, 2007 in Chinese). Second, although the level of compliance with IAS 36 in Russia and Kazakhstan improved over time, evidence is provided indicating the existence of a partial compliance problem which may require greater attention of policy makers in both countries. Echoing the World Bank report, the problem of partial compliance may be overlooked by the countries in the absence of fair value accounting and the current depressed market values in Europe but as markets recover, the idle assets of the Soviet era would have far reaching impact if full compliance is not ensured (World bank, 2007). Third, the non significance of firm-specific factors on compliance needs to be considered by the regulators of both countries. Since none of the firm-specific variables fully conform to a-priori expectations, it is testament of incomplete transition to market economy. Fourth, the present study extended the methodology by refining the measurement of firms' compliance scores. The appropriateness of discount rates was incorporated into the calculation of total compliance scores for firms allowing for a more granular assessment of the level of compliance with IAS 36. Researchers and

analysts may find this approach useful when empirically investigating compliance with IAS 36.

The present study has several limitations. First, since IFRSs were adopted in Kazakhstan in 2006 the research period is relatively short - covering only three years. Evidently, an examination of a longer period would allow for more robust conclusions. Future researchers may be interested in investigating compliance with IAS 36 over an extended period. Second, this study attempted to infer the degree of learning and change that these transition economies have experienced using secondary data. A more in-depth, qualitative data using interviews with accountants in these countries would provide a robust assessment of this process. Third, the sample size of this research was relatively small. It is possible that the number of firms with goodwill in their asset base would increase in Russia and Kazakhstan over time and research with a larger sample would provide an opportunity to increase the statistical power of tests and to achieve more conclusive results.

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