IFRS adoption in one Norwegian and one Russian Bank: A Comparative Study

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Sammendrag

Internasjonale regnskapsstandarder (IFRS) har blitt en viktig del av verdens finansielle miljø og Russland og Norge er intet unntak når det gjelder denne trenden. Formålet med denne oppgaven er

- å beskrive forskjeller/likheter når det gjelde innføring av IFRS i en norsk og en russisk bank

- å analysere disse forskjellene på grunnlag av institusjonell og regnskapsteori

- å forstå utfordringen knyttet til innføringen av IFRS.

Denne caseundersøkelse tar for seg en norsk og en russisk bank som nylig har blitt partnere. Intervju med ansatte var den viktigste kilde for datainnsamling. Det ble utarbeidet et teoretisk grunnlag på bakgrunn av Millers teori samt at det ble bruk institusjonell tilnærmingsmåte. Denne oppgaven viser at tvungen introduksjon av IFRS har ført til en hel rekke konsekvenser som er avhengig av opprinnelige regnskapstradisjoner.

I tilfelle med Norge ble ideen om introduksjon av IFRS presentert på en hierarkisk og proaktiv måte. Dette førte til en hurtig og komplett harmonisering når det gjelder IFRS. I tilfelle med Russland ble ideen om IFRS introdusert på en hierarkisk og reaktiv måte. En av følgene ble en langvarig reform (som varte i ca. 10 år) som kjennetegnes av "kontinuitet" og "endringer". Hovedforskjellen stammer fra forskjellige regnskapstradisjoner.

IFRS kan sees på som et språk mellom forskjellige nasjonale regnskapspraksiser, men man må ta i betraktning at store forskjeller når det gjelder opprinnelige regnskapstradisjoner kan forhindre at IFRS vil kunne utføre denne funksjonen. I tilfellle med Norge og Russland kan IFRSvære et språk for forretningssamarbeid, men det er behov for interesse fra bedriftenes side og kompetanseforbedring i Russland. Denne oppgaven viser caseundersøkelsens begrensninger og gir anbefalinger for videre undersøkelse.

Abstract

International Financial Reporting Standards (IFRS) have become an integral part of the global financial environment and Russia and Norway now is no exception to this global trend. The present research seeks:

- To describe differences/similarities of IFRS adoption in one Norwegian and one Russian Bank,
- To analyze these differences based on accounting and institutional theory,
- To understand challenges of IFRS adoption.

The case study for the present research is one Norwegian and one Russian bank, which became partners recently. Interviews with employees are viewed as major tool of data gathering. A theoretical framework driven by Miller's theory and an institutional approach is elaborated. The present research shows that the forced introduction of IFRS has lead to a wide range of consequences depended on initial accounting traditions.

In case of Norway, idea of IFRS introduction was presented in hierarchical and proactive way. This resulted in quick and full compliance to IFRS. In case of Russia, global idea of IFRS was introduced in hierarchical and reactive way. As a consequence there is long reforming in time (app. 10 years), characterizing by both parameters: "continuity" and "change". The main differences stem from different initial accounting traditions.

IFRS can be seen as a language between different national accounting practices, but one should take into account that big differences in initial accounting traditions may prevent IFRS to carry out that function. In case of Norway and Russia, IFRS can be a language of business cooperation, but there is a need for necessity and competence improvement in Russia. The research finally reveals limitations of the study and gives implications for further research.

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1. Introduction

"A little revolution now and then a good thing."

Thomas Jefferson, 1787.

In most European countries, International Financial Accounting Standards (IFRS) have created a new era of accounting and financial reporting. Norway and Russia are not exceptions. Many companies that are applying IFRS for the first time experience a sharp move away from their past accounting traditions - such as from the traditional continental European principle of protecting creditors or from the caution principle (value assets at the lowest possible value, value liabilities at the highest possible value) to full shareholder value orientation and to the principle of "fair value" in accounting. Fair value accounting, in particular, is confronting accountants and auditors with a major challenge: they are no longer able to value assets and to test for possible asset impairment (for example, impairment of the book value of certain assets such as intangible assets and goodwill with their fair value) without the support of business controllers and management accountants, who provide reliable and "testable" planning data. Furthermore, management needs to put a new focus on their internal controlling and management accounting systems to better support the external IFRS view and to steer the business proactively.

IFRS can now be seen as global standards, a "move" towards globalization of accounting, aimed to facilitate international trade, to supply a transparent comparable global accounting environment, the common accounting language, so to say. But this concept is implementing in countries with different national accounting traditions. So IFRS can be seen as an opportunity to harmonize accounting as an international language of business. But how does this global idea penetrate two national accounting practices and adapted by them?

I focus on two counties, namely Norway and Russia. In Norway IFRS introduction was committed due to agreements with EU, in Russia due to the national regulation. Both countries are very different in accounting traditions. But does introduction of IFRS mean that comparability between Norwegian and Russian business is better now? What are differences and similarities between national accounting systems and IFRS? Are these differences reflected on IFRS adoption? Can IFRS be a facilitation of business cooperation between Norway and Russia? What are possible barriers to that?

I explore case of one Norwegian and one Russian bank, which can become partners. Both of them operate in completely different accounting environment. The idea is to study how banks adopted IFRS.

Based on the mentioned above, this research seeks:

- To describe differences/similarities of IFRS adoption in one Norwegian and one Russian Bank,

- To analyze these differences based on accounting and institutional theory,

- To understand challenges of IFRS adoption.

The research is designed as follows. It consists of six sections: introduction, methodology, theoretical framework, empirical study, analysis and conclusion. In section 2, the methodology is presented, used in order to get valid and reliable data for providing grasping insight into the present phenomena. Section 3 will present the theoretical framework that will be used to structure and analyze the empirical data. In section 4, I illustrate and discover the empirics during the data collection. In the last section, according to the theoretical framework chosen above, I'll analyze the present phenomenon and summarize the result of the research and give the implications for the further researches.

2. Methodology

"You can't manage knowledge — nobody can. What you can do is to manage the environment in which knowledge can be created, discovered, captured, shared, distilled, validated, transferred, adopted, adapted and applied."

Chris Collison and Geoff Parcell, 2005:25.

Due to Easterby-Smith (2003), methodology is combination of techniques used to enquire into a specific situation. Method can be thought individual techniques for data collection, analysis, etc. It is stated that methodology gives the reader an idea of how to conduct a scientific research and what tools are to be used to collect empirical data as well as the validity and reliability of the results.

A good research undertaking commences from the selection of the topic, problem or area of interest (Creswell, 1994; Mason, 1996). The main aim of the research has been specified in the previous chapter. In its turn, this section is intended to give an overview of the research methods and data gathering techniques employed in the study. The empirical data for the research is based on a case study performed in particular organizational settings, namely SpareBank 1 Nord-Norge and Saint-Petersburg Commercial Bank "Tavrichesky". The choice of the companies is made due to the fact that I was asked to perform this research by the representative of SpareBank 1 Nord-Norge, so it would not be difficult to get access to rich information and people working there.

2.1. Two empirical contexts: two case studies

On the one hand, my research is aimed to provide a deep insight into a Russian company (Saint-Petersburg Commercial Bank "Tavrichesky"), transforming its accounting system. On the other, it will provide information about results of IFRS introduction in SpareBank 1 Nord-Norge. The research is supposed to be primarily based on a qualitative data, namely face-to-face informal interviews (structured and unstructured). The secondary data would also be widely used to get a broader understanding of the research question. In its turn, this section is written to give the overview of the research methods and data gathering techniques employed in the study.

2.2. Science Perspective

My research implies choice of initial assumptions about how I interpret the reality and how I am going to understand this reality. The nature of reality is considered under ontological assumptions, while the nature of knowledge is a realm of epistemology. According to Burrell and Morgan (1979), social world can be regarded either as having empirical existence external and independent of cognitions of any individual or as consisting of concepts and labels created by people themselves to explain and to understand the reality (Hopper and Powell, 1985). Respectively, the knowledge about world can either be acquired through observations or is attributed with a more subjective and essentially personal nature (Hopper and Powell, 1985). The first approach presents logic of positivism, the letter one suggests paradigm of social constructionism.

In my study I tend to consider the reality as entity determined by people. In research the focus is not only on actual facts and events, which externally exist in reality, but also on enterprises and their employees, on what they individually and collectively, are thinking and feeling (Easterby-Smith et al., 2002). Therefore in our basic ontological and epistemological assumptions I am adherent to more subjective trend of understating and studying the social reality.

Hopper and Powell (1985) claimed that ontological and epistemological assumptions had direct methodological implications. So, based on chosen scientific perspective and initial assumptions, I consider qualitative method to be the most suitable for the research. The choice of scientific perspective helps also to develop the specific research design based on case study and in-depths interviews.

2.3. Research design.

There are many choices to make the research design. "… Research designs are about organizing research activity, including the collection of data, in ways that are most likely to achieve the research aims." (Easterby-Smith, et.al, 2002) There are many kinds of factors that can affect the decision of how research should be designed and implement in practice. For example, the topic of the research, as the important factors, will influence the research process. The topic will directly influence on the choice of specific research and what kinds of data will be used. The research design is contextualized in terms of Churchill's (1999) design typology; conceived as "explorative", it is seen in practice to involve "descriptive" elements as well. Main research question should be defined as "What are differences/similarities of IFRS adoption in one Russian and one Norwegian bank." I do not know much about that issue, of course I have a literature review, but still I lack knowledge about that phenomenon. So, explorative research will be the choice.

The empirical data for the research is based on a case study performed in particular organizational settings, SpareBank 1 Nord-Norge and Saint-Petersburg Commercial Bank "Tavrichesky". The choice of the enterprises is made due to the fact that SpareBank 1 wants to enter Russian market. But due to Russian legislation, in order to do that, SpareBank should have Russian partner. The data used to create the case study has following sources: interviews (both structured and unstructured) with employees of all level, participant observation. Due to my choice of research method (case study) the generalization or transferability (Linkoln and Guba, 1985) of results to other enterprises may be quite problematic.

2.4. Qualitative Methods

My research method for studying IFRS adoption is based on qualitative data. In order to get qualitative data qualitative methods should be used, it is obvious. Van Maanen (1983) discuss that qualitative methods – an array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world.

2.4.1. Interview

The main tool for gathering data for my research is interviews. An interview is a purposeful discussion between two or more people (Kahn and Cannell, 1957). The use of qualitative research interviews allows collecting a rich and detailed set of data, although it is necessary to have a sufficient level of competence to conduct these and to be able to gain access to the type of data associated with their use.

Qualitative research interviews include two broad types that are generally referred to as in-depth or unstructured interviews and semi-structured interviews.

Classification:

1. Typology A
    a. Structured
    b. Semi-structured
    c. Unstructured (non-direct)
2. Typology B
    a. Standardized
    b. Non-standardized
3. typology C
    a. informal
    b. respondent

In my research I use non-standardized informal unstructured interview.

Saunders (2007) argues that interview is best to perform in case of:

1. large number of questions,
2. questions are complex or open-ended,
3. order and logic of questioning may need to be varied.

From analysis of my research I have made a conclusion, that interview is the best fit for me. Number of various interviewing techniques exists, from the whole range I choose critical incident technique. The essence of this technique is as follows:

- Critical Incident Technique – a set of procedures for collecting direct observations of human behaviour in such a way as to facilitate their potential usefulness in solving practical problems and development broad psychological principles.

Interviews were performed at three levels: CEO, heads of department, employees. Some people were interviewed more than once (e.g. CEO's head and head of economic department). The duration of interviews and the number of questions varied from one interviewee to another. Each interview lasted between 40 and 60 minutes on an average.

There are people presenting all levels of management among my interviewees. But I was aware of the fact that interviewee can provide researcher with "a language system delivering a partial and particular type of socially created perspective on everyday life" (Hopper *et al.*, 1987). He may cheat or lie, or he may tell the exact truth as he perceives it but in, for him, selective and favorable views (Alvesson, 2003). Goffman (1959) stated that he may "tend to conceal or underplay those activities, facts, and motives which are incompatible with an idealized version of himself…" (p. 48). Especially it was a great challenge for me while interviewing CEO.

2.4.2. Participant observation

The next tool used in my research for gathering primary data is participant observation. The roots for such method lie within field of sociology and anthropology. Gill and Johnson (2002) state that researcher attempts to participate fully in the lives and activities of subjects and thus becomes a member of their group, organisation or community. This enables researchers to share their experiences by not merely observing what is happening but also feeling it.

Through performing participant observation researcher can play various roles. They are presented on the graph:

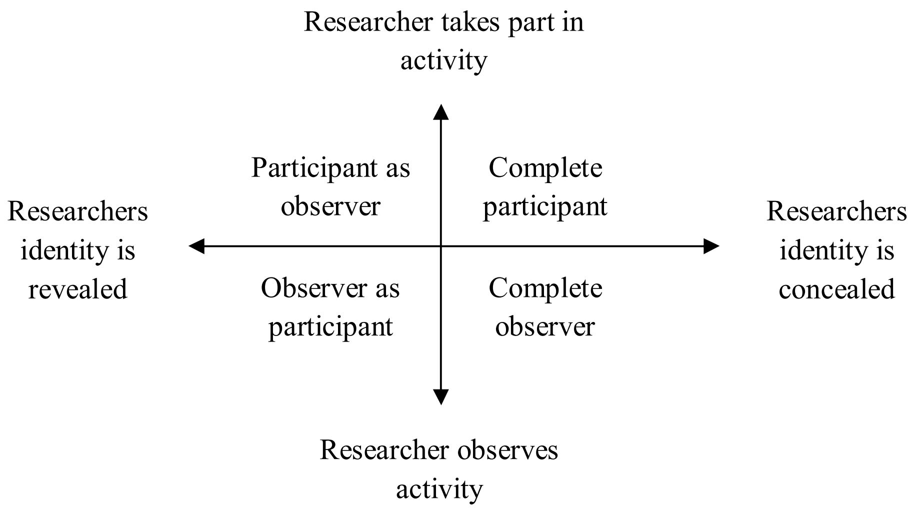

Figure 1. Roles of researcher. *Adapted from Easterby-Smith (2002) Management research*

The role of "Observer as participant" is most suitable for me because of purpose of my research and access to rich data. Also I feel myself comfortable being at this role.

2.4.3. Case study

Hamel (1993) states case studies have proven to be investigations of particular cases. "An empirical inquiry that: investigates the contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used" (Yin, 1989). In the research, I use a single case study. I focus on company, which is a "pioneer" in the field of IFRS introduction.

Lekvall and Wahlbin (2001) argue that a case study can be used for identification of processes, underling values and motives. A specific case made it possible to better understand the problem and explore the problem. Case study can help the researchers better to explore the problem. Hamel (1993) stresses that the researcher must be careful when drawing conclusions. He means that before the conclusions can be considered accepted more studies, with a different approach should be conducted. By studying case, it is more clearly to find out and show the problem to the researchers and readers. Yin (1989) states the most frequently encountered definitions of case studies have merely repeated the types of topics to which case studies have been applied. The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result (Schramm, 1971). About case study, there are different applications. Yin (1989) describes as below: "The most important is to explain the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies. A second application is to describe an intervention and the real-life context in which it occurred. Third, case studies can illustrate certain topics within an evaluation, again in a descriptive mode. Fourth, the case study strategy may be used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes. Fifth, the case study may be a metaevaluation - a study of an evaluation study."

2.5. Validity and Reliability

The data, which collected, should be valid and reliable. Easterby-Smith (2002) thought validity is a question of how far we can be sure that a test or instrument measures the attribute that it is supposed to measure. George Kelly defined validity as, «The capacity of a test to tell us what we already know» (Bannister and Mair, 1968). Easterby-Smith (2002) states reliability is primarily a matter of stability. If the collected data were not accurate, relevant and couldn't pertain to the topic, for example: if it were not valid, the data would be useless. In order to create the valid and reliable knowledge, my interviewees are people working with MCS and IFRS directly, namely head of economic department, head of financial department and head of filial.

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. While reliability is concerned with the accuracy of the actual measuring instrument or procedure, validity is concerned with the study's success at measuring what the researchers set out to measure. With other words, validity is often defined by asking the question: Are you measuring what you think you are measuring? (Kerlinger, 1979, P.138, cited in Kvale, 1996, P. 238) Researchers should be concerned with both external and internal validity.

Yin (1989) suggested using multiple sources of evidence as the way to ensure construct validity. The method of having a variety of data collecting techniques in research, so it is called data triangulation and is the central rules in my research. In order to increase the validity, based on some similar implementation process, I collected data both from primary and secondary sources.

Reliability is generally seen as a very difficult concept in qualitative research, especially when it is defined as 'the extent to which studies can be replicated' (Le Compte and Goetz, 1982).

Researchers should evaluate stability and transparency in how sense it was made from the collected data. As a researcher, it doesn't mean to record all you hear from the interviewees. Get answers what researcher need, and guide interviewee tracing the questions what you want to ask. By investigator triangulation, it will keep the reliability. Reliability is enhanced by the triangulation of data collection and multiple analysis methods (Yin, 1989). Reliability is understood that different researchers investigating the same issue would get the same observations, or the same findings. In order to increase the reliability of my research, I not only portray from the interviews but also to browse the formal and official website or companies' annual report. Using all kinds of different materials to prove and eliminate the bias from the individual. It will give me possibility to evaluate the problem from different points of view.

According to the principle of reliability, I considered some factors. First, the enterprise selected should have a very good foundation in accounting, so as to enable me to be able to collect the enterprise's archives and reporting framework intact. Second, the enterprise chosen is representative enough in order to draw some conclusions about IFRS introduction. The present research is aimed:

- To describe differences/similarities of IFRS adoption in one Norwegian and one Russian Bank,
- To analyze these differences based on accounting and institutional theory,
- To understand challenges of IFRS adoption.

To fulfill this, it relies upon a mix of qualitative and interpretative techniques. Interviews with employees are viewed as the major tool of data gathering. Data is obtained and reinforced from different sources, entailing document search, informal interviews and participant observation. This means that multiple sources of evidence are applied, and that data is triangulated from different "texts" and sources. In doing so, the aim is to increase the validity of the project, to generate a better and clearer understanding of the phenomenon, as well as to provide rich opportunities for further research.

The current situation in these banks is completely different. IFRS is completely introduced in SpareBank and they use this system as primary one. Of course they have some challenges connected with that system. The main one is that IFRS was designed for large corporations, but not for medium-sized banks. It takes a lot of time to prepare information, which is required to be in accounting report. Further, IFRS provides some information, which has no value, medium bank just do not need it.

From the other side, IFRS is introduced in Tavricheskiy de jure, but not de facto. It exists only because Central Bank of Russia requires it. But information, provided by that system is used completely. There is one person, responsible for IFRS preparation. She claims that the bank simply does not need such a system. "We do not have foreign investors, clients or partners, so there is no need of such a huge system."

Despite interviews with employees are viewed as the main source of data gathering in my research, data will be obtained and reinforced from different sources, entailing document search, informal interviews and participant observation. This means that multiple sources of evidence are applied, and that data will be triangulated from different "texts" and sources.

In my opinion this strength point of triangulating data from different sources will help me to minimize risks from interview. I am aware of the fact that interviewee can provide researcher with "a language system delivering a partial and particular type of socially created perspective on everyday life" (Hopper *et al*., 1987). He may cheat or lie, or he may tell the exact truth as he perceives it but in, for him, selective and favorable views (Alvesson, 2003).

Another risk with the chosen design is connected with a high rate of power distance in Russia, if we talk in terms of G. Hofstede. It was not easy to appoint an interview with a member of top management of Russian bank. From the previous experience, many of them are usually not orientated on any kinds of research or educational activities. So, it is almost impossible to appoint an interview with persons of high rank in Russia without using any kinds of relations with people, who are in touch with them. After this problem will be solved, it will be the next great challenge for me while interviewing persons from the top management of the companies, because they, probably, don't perceive the information concerning strategic management of their company, their objectives and everything connected with strategy as a "common knowledge", they would prefer it as a "commodity for sale" (Merton, 1973). So, it is not obvious, that you will get desirable information while interviewing a top manager of Russian company; in most cases he/she will give you an evasive answer.

Considering above-mentioned risks of interviewing I have chosen multiple sources of evidence, and by doing so I will try to triangulate data from different texts and sources.

2.6. Ethical aspects of study

Because ethical aspects are engraved in many questions of qualitative research and often surface in the context of interviewing, I believe it's really important for research to be epistemologically rooted. That means the researcher needs to be observant of what they believe and how their beliefs are changing in the course of the research process.

Interviews will be the main tool of data gathering for my research. In this connection such aspects as confidentiality and carefulness should be considered. Despite the introduction of IFRS is not a military top secret, I should be careful with information I receive and use it in a research purpose only. The protection of confidential communications is also indispensable.

During my research probably I will get an access to company's internal documentation which is unpublished or is not in free access. In this case I shouldn't use it in my research without permission. The researcher needs to keep good records of research activities, such as data collection, interview records and correspondence in order to avoid careless errors and negligence.

Another challenge while doing qualitative research is objectivity. From the philosophical point of view, every assertion is subjective because it is influenced by personal perception of the problem under consideration. In other words, there are no objective researches. My approach is to disclose personal (or financial) interests that may affect research. The researcher should avoid bias in data interpretation and other aspects of research where objectivity is expected or required, he should be unaffected by external non-scientific interests.

Important ethical principles in research are honesty and integrity. From my point of view it is an aspect of personal moral character and experience. Researcher should strive for honesty in all scientific communications and honestly report data, results, methods and procedures. To speak more general, every person, who keeps his promises and agreements, acts with sincerity and strives for consistency of thought and action, is more honest in a daily life. Moreover, I am convinced that honest in a daily life person will also follow this ethical principle in a research. Ideals of honesty, fairness, and compliance with research guidelines and policies, as well as the goal of integrating one's work as a researcher with one's broader life experience and values is, probably, the basic ethical principle while doing a qualitative research.

3. A Theoretical Frame of Reference

"The only thing that doesn't change is change."

Anonymous.

Miller (1994) argues that accounting has come to be regarded as a social and institutional practice, one that is intrinsic to, and constitutive of social relations, rather than derivative or secondary. He also claimed that the manner in which accounting has become embedded in so many areas of social and economic life has been a continuing concern. And the focus throughout has been on accounting as a practice, a view that accounting is, above all, an attempt to intervene, to act upon individuals, entities and processes to transform them and to achieve specific ends. Accounting can now be seen as a set of practices that affects the type of world we live in, the type of social reality we inhabit, the way in which we understand the choices open to business undertaking and individuals, the way in which we manage and organize activities and processes of diverse types, and the way in which we administer the lives of others and ourselves.

Miller (1994) states that for accounting techniques, ranging from double-entry bookkeeping to costing, invent a particular way of understanding and acting upon events and processes. There are complex linkage between the calculative practices of accounting and other managerial practices. These calculative practices are more than imperfect mirrors of economic reality. Accounting practices create the costs and the returns whose reality actors and agents are asked to acknowledge and respond to. Miller (1994) identifies three distinctive aspects of this view of accounting as social and institutional practices. First there is emphasis on accounting as a *technology*, a way of intervening, a device for acting upon activities individuals and objects in such a way that world may be transformed. As one of the pre-eminent means of quantification in certain western societies, accounting accords a particular form of visibility to events and processes, and in so doing helps to change them. It is this transformative capacity that is emphasized here. To reconfigure an organization into profit centers, cost centers, investment centers, strategic business units, or whatever is to change lines of responsibility and the possibilities of action by a change in the form of visibility. It is a singular capacity of accounting to be able to change the world in these different ways. By reducing diverse activities and processes to the end point of the single future, accounting makes comparable the entities of which it produces calculations. In the process, accounting helps make possible a particular way of governing individuals and activities.

The second aspect identified by Miller (1994) is a focus on the complex language and meaning intrinsic to accounting. The term *rationales* can be used to designate this aspect of accounting as a social and institutional practice. The third perspective suggested by Miller (1994) is the way in which economic domain is constituted and reconstituted by the changing calculative practices that provide a knowledge of it. For it is through the calculative machinery of accountancy that highly disparate ways of producing and providing things are made knowable in economic terms. The calculative technologies of accountancy make operable at the levels of firms, organizations, departments, divisions, and persons the abstract images of economic theory. The domain of economic processes is itself seen to be in important part the outcome of calculative practices and rationales. It is accounting that renders such processes visible in financial terms.

In the light of Miller theory, phenomenon of IFRS adoption can be shown as:

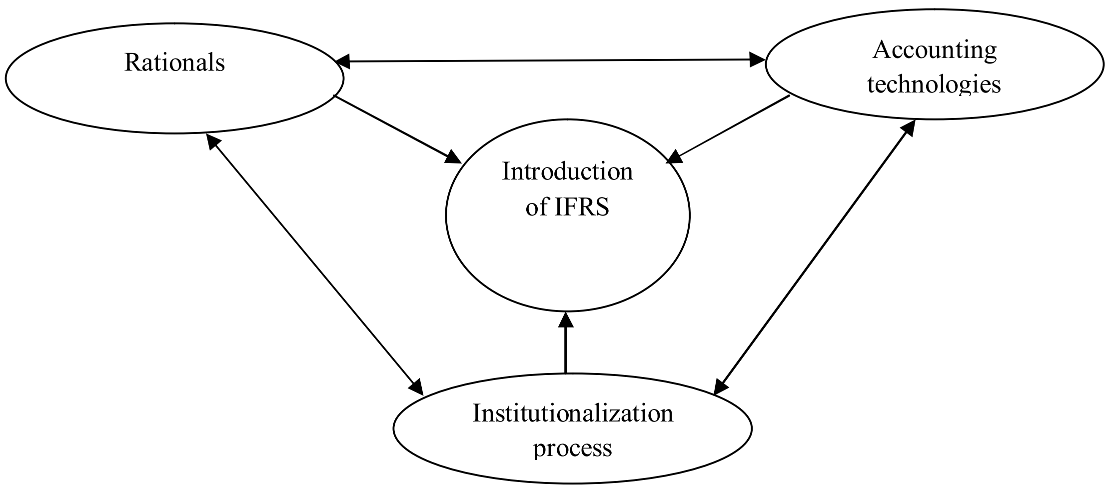

Figure 2. IFRS adoption in the light of the Miller's theory.

Miller (1994) argues that these three dimensions of accounting are complementary. Technologies depend on rationales as a way of setting out the ends and objectives of particular ways of calculating. Specific rationales can entail appeals for more accounting, or a new way of accounting. And, at different pints in time, or in different settings, a particular calculative technology together with the rationales that give them their wider significance can be to constitute and reconstitute the realm of financial flows into which organizations can be transformed.

Speaking about IFRS in that sense it should be mentioned that this system of standards provide a new global context to the objective of accounting. Let's discuss that point from three interlinked perspectives suggested by Miller, namely rationals, technology and institutionalization.

3.1. Rationals

Accounting, in a system approach, is viewed as an important calculative practice. (Miller and O'Leary, 1987) Accounting systems consist of certain rules guiding how a particular environment should be converged into numeric values and a number of interrelated technical elements, for instance, accounting objectives, postulates, principles, techniques and reports, through which such rules may literally be translated into practice (FASB, 1976). In the system approach, accounting operates in a mechanistic way, i.e. in a routine, efficient and predictable way by generating a description of what has happened and reflecting organizational actions (Manninen, 1996).

For accounting practices are more than the numerical computations of costs, profits, losses and returns. Accounting practices include particular discursive representations and vocabularies. It is these rationales, often borrowed from other bodies to expertise, that mobilize the calculative technologies of accounting. It is through such meanings that accounting practices are endowed with a significance that extends beyond the task to which they are applied, yet without determining the consequences or outcomes of their deployment in any particular setting. An understanding of accounting as a social and institutional practice suggests a need to attend to these rationales, as well as to the calculative practices that make up accountancy. For it is these rationales, rather than ones specific to the activities and processes in question, that come to articulate ways of knowing and managing organizations.

3.1.1. Intended Function of Accounting

The primary objective of accounting is to provide financial information about economic affairs of an entity to interested parties for use in making decisions (Mellemvik, et al., 1988). From the opinion, it will find out how and why the enterprises are influenced by accounting. Two basic objectives have been identified (AICPA, 1974; Chan, 1985), namely the accountability and the decision-making objectives. Accountability objectives can be seen that enterprises understand the management of resource use by account information. And decision making will be based on the account information. The point, Rosenfield (1974) and Gjesdal (1978) stated the objective of accountability and decision making.

Now, Russia government reforms the accounting standards, which are convergence with IFRS/IAS. It is looking for the way to communicate with external economic environment based on the same "commercial language", in order to reduce the uncertainty and do better decision making in the business. As Mellemvik (1988) argues,accounting is a language designed to reduce uncertainty with a view to improving control and decision making. Thus, it is accounting's intended function. The following figure will illustrate the relationship of accounting as a language for control.

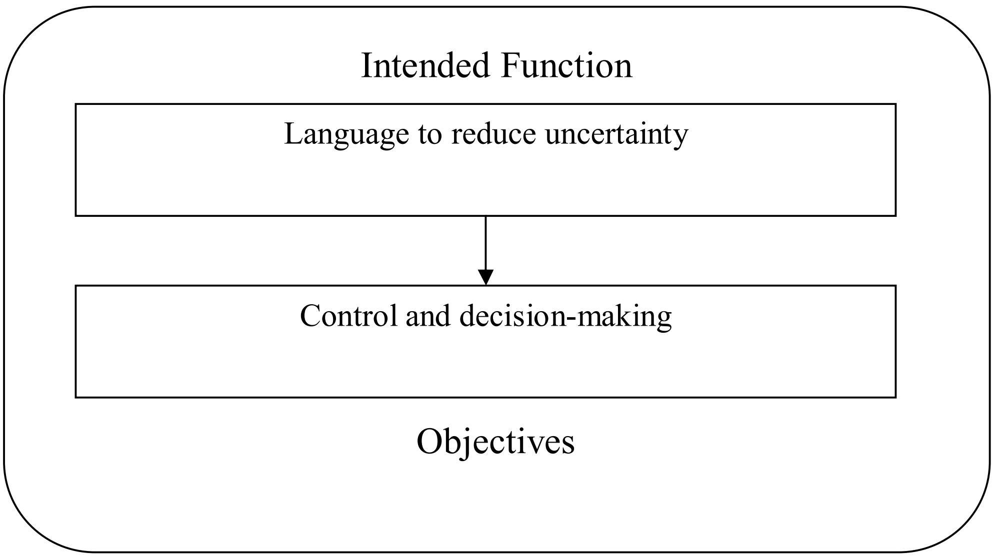

Figure 3. Intended function of accounting. *Adapted from Mellemvik et al., (1988)*

IFRS from rational's perspective do not invent new functions of accounting, it just erase borders between national economics, making them more comparable. But do it provide a new global context to existing functions of accounting? Edwards and Bell (1961) stated, that intention in connection with both accountability and decision making is that the true and fair information should produce certainty or at least reduce uncertainty. But is it true considering IFRS adoption process? Can IFRS become global transparent language? And how then IFRS can be seen from technology perspective?

3.1.2. Functions in context of accounting

The concern with accounting as a social and institutional practice emerged in large part within the discipline of accounting itself. The starting point here was a concern with contexts of accounting. Accounting practices had been studied by a number of social scientists since at least the early 1950s. Hopwood (1978) argued that even in cases where accounting has been studied in its organizational context, emphasis still has been placed on gaining a comparatively static understanding of the more individual, or at the most group, aspects of the process. Budgeting, a key focus of accounting research during the 1970s, tended to be examined without consideration of its social and organizational aspects, according to Hopwood (1978).

This appeal for a more dynamic appreciation of accounting in its organizational context was to be one of many. But, by 1980, the appeal to study accounting in the context in which it was located was given a wider social science setting. By this date, a view was emerging that a much bolder step was required. It was important that accounting be situated in its social as well as its organizational contexts. The study of the organizational and social roles of accounting was declared, portentously but accurately, to be "an area of enormous and largely uncharted complexity." (Burchell, 1980). An accounting had come to occupy an ever more significant position in the functioning of modern industrial societies; it had become one of the most influential modes of management of organizational and social arrangements (Burchell, 1980).

This appeal to study the roles of accounting in their organizational and social contexts entailed a distinctive understanding of the conditions and consequences of accounting technologies. The call to study accounting in its organizational and social contexts took as its starting point accounting as it operated within organizations. But it added a rider which may now appear self-evident: organizations do not exist in the vacuum. Organizations, and accounting practices within them, are intrinsically dynamic and social entities. Organizations are reciprocally linked to a multiplicity of interests. Some of these interests are located primarily within organizations, some of them are located in the environment within which organizations operate, and some of them straddle the boundaries between organizations and their environment.

3.1.3. Accounting as institution

A concern with the social and institutional aspects of accounting emerged also in disciplines beyond accounting. Here, institutional theorists depicted accounting as a key element in the "myth structure" of rationalized societies (Meyer and Rowan, 1977). Institutional theorists argued that formal organizations are driven to incorporate the practices and procedures defined by prevailing concepts of what is rational (Meyer and Rowan, 1977). They argued that to the extent that organizations incorporate such practices and procedures, they increase their legitimacy and their survival prospects. The process by which formal organizations come to take on more and more of the rationalized aspects of their environments was held to be a general one. Institutionalized techniques were also seen as a key part of the process by which organizations take on the rationalized aspects of their environments. Technical procedures of production, accounting, personnel selection and much else besides were part of this process. Aside from their possible efficiency, such institutionalized techniques helped establish a conception of an organization as rational, responsible and modern.

From an institutional perspective, accounting was seen as just one of the ways in which organizations come to incorporate rational conceptions of ways of organizing. Accounting provided a set of techniques for organizing and monitoring certain activities. Furthermore, it provided it provided a language or a vocabulary by which to delineate organizational goals, procedures and policies. To understand accounting practices one needed to trace the casual processes that linked accounting with its institutional environment. Institutional theorists substantially strengthened the intellectual case for accounting research moving beyond the confines of the firm and the organization, to address all aspects of accounting understood as a social and institutional practice.

3.2. Technology

The second perspective suggested by Miller (1994) is a technology. Technology is a way of intervening; a device for acting upon activities individuals and objects in such a way that world may be transformed. As one of the pre-eminent means of quantification in certain western societies, accounting accords a particular form of visibility to events and processes, and in so doing helps to change them. It is this transformative capacity that is emphasized here. To reconfigure an organization into profit centers, cost centers, investment centers, strategic business units, or whatever is to change lines of responsibility and the possibilities of action by a change in the form of visibility. It is a singular capacity of accounting to be able to change the world in these different ways. By reducing diverse activities and processes to the end point of the single future, accounting makes comparable the entities of which it produces calculations. In the process, accounting helps make possible a particular way of governing individuals and activities.

Initially, technologies are different among countries. These differences stem from an alternative approaches on national accounting traditions. This issue also can be explained by different historical contexts of the accounting. Speaking about technology in the light of IFRS, one should take into account, that IFRS can provide new ways for fulfillment of existing activities. But it depends on mode of IFRS adoption. It can be adapted either as main accounting system, either as hybrid accounting system.

3.2.1. Structure of Accounting Theory

Belkaoui (1993) argues that existing accounting rules and techniques are based on accounting theory. Theory itself consists of following elements:

1) The *accounting postulates* are self-evident statements or axioms, generally accepted by virtue of their conformity to the objectives of financial statements, that portray the economic, political, sociological, and legal environment in which accounting must operate.

2) The *theoretical concepts* of accounting are also self-evident statements or axioms, also generally accepted by virtue of their conformity to the objectives of financial statements that portray the nature of accounting entities operating in a free economy characterized by private ownership of property.

3) The *accounting principles* are general decision rules, derived from both the objectives and the theoretical concepts of accounting, that govern the development of accounting techniques.

4) The *accounting techniques* are specific rules derived from the accounting principles that account for specific transactions and events faced by the accounting entity.

3.2.2. Activities of Accounting

Registration

Accounting can be recognized as a set of rules about recording the business transactions and reporting. "Accounting records dating back several thousand years have been found in various parts of the world. These records indicate that at all levels of development people desire information about their efforts and accomplishments" (Schroeder and Clark, 1998). "Accounting is based on an analytical view of the world, and in a functionalist sense it can be seen as a set of rules about how to record transactions and how to report" (Mellemvik et al., 1988).

Measurement

During the economic development, the role of accounting is not only bookkeeping and registration but also having control, predict, measurement, communication and decision-making, etc. "The goal of accounting theory is to provide a set of principles and relationships that provide an explanation for observed practices and predict unobserved practices" (Schroeder and Clark, 1998). The American Accounting Association said accounting is "…the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information." The Accounting Principles Board claimed that the function of accounting is "…to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions." And the FASB asserted that the role of financial reporting in the economy is "to provide information that is useful in making business and economic decisions."

Communication

Accounting can be seen a kind of communication tool in the business transaction. It improves and promotes the understanding of business behavior. "Accounting is a language and therefore a medium of communication" (Ashton and Bizzell, 1975-1976; FASB, 1980).

3.3. Institutionalization

The third perspective of accounting, offered by Miller (1994) is institutionalization perspective. Accounting can be seen from the process-oriented perspective, which includes three different types of processes; processes related to the elaboration of accounting standards (norms), processes also talked about how accounting is handled in practice, and processes stated how accounting is used (Bourmistrov and Mellemvik, 2003)

From establishing a norm of accounting to practicing and using, the system accomplishes the accounting process. Norm system will affect accounting practice and use, whereas the system of accounting practice and use will also influence the norm system. The whole accounting procedure will interact with the environment of accounting. As Mellemvik (1988) argues, accounting involves wide range of activities, which can be divided into different processes connected with the accounting norms and the accounting actions. These accounting processes in general openly imply that they are influenced by and influence the environment. Due to Berngevarn a generic accounting process can be modeled as figure:

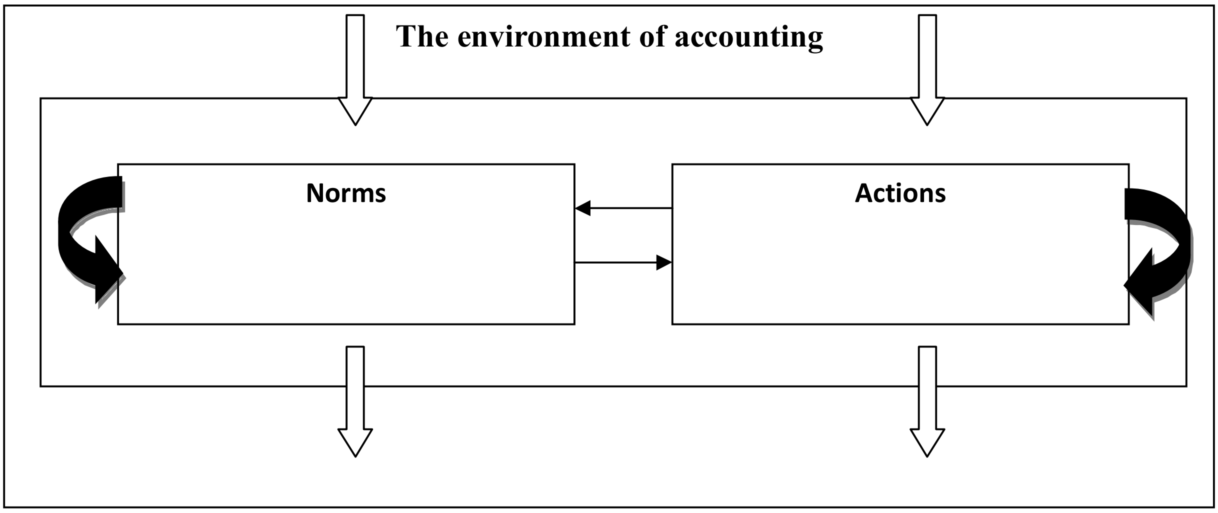

Figure 4. Accounting process. *Adapted from Bergvern, 1995*

The bold black arrows in the figure indicate that levels learn from its own experience. Two thin arrows between Norms and Actions shows a learning process from each other. As FASB (1976) stated, accounting systems consist of certain rules guiding how a particular environment should be converged into numeric values and a number of interrelated technical elements, for instance, accounting objectives, postulates, principles, techniques and reports, through which such rules may literally be translated into practice. Accounting is closely linked with the economic and political process. A number of parties exist, according to their economic benefit, are interested in the development of accounting standards.

As a matter of fact, institutional theory has come to be regarded as a dominant theoretical perspective in organizational theory research (Lemke et al., 2001; Dillard et al, 2004). Institutionalization is a pattern to install values with the aim of promoting certainty and to persist the organizational structures over time. Scott (1987) in his turn claims, that institutional compliance assures organizations to be enlisted or approved by powerful external collective actors. But speaking about institutionalization processes, we should speak about organizational change. How could it be defined?

3.3.2. Organizational Change

The next issue need to be defined is an organizational change. The organizational change can be analyzed and understood from several perspectives. One perspective frequently use also in library research, views the ability to adapt and change as dependent upon organizational structure. What is for instance the relationship between change ability on the one hand and organizational variables such as hierarchy, complexity and size on the other (Burns and Stalker, 1961; Aiken, 1971; Boyd, 1979). The organizational change in bureaucratic organizations can be seen as resulting from the self interest of the bureaucrats, e.g. budget maximizing (Niskanen, 1971) or bureau-shaping (Dunleavy, 1991). The organizational change and developments can be analyzed from the perspective of demographic composition, e.g. sex, age, tenure etc (Pfeffer, 1985). Kilduff and Dougherty (2000) in their re-visiting the classics to shed light on change and development in a pluralistic world gave this advocacy for management revamp a good shot. Change as “threats” as enshrined in the classical writings of March and Simon’s (1958). Organizations now look out of place and are to be engaged with active critique. Change as “opportunities”, on the other hand, could be spotted in the classical writings of Burns and Stalker’s (1961). The Management of Innovation, which aimed to build change into the very fabric of organization, to constantly search for new techniques and routines, and to take ideas from the environment if we are to survive in a changing environment. This classic enlarges theoretical alternatives as put by Kilduff and Dougherty. However, what is most importantly revealed in the re-visiting is that change and pluralism is actually an “intrinsic aspects of management” in Thompson’s aptly named Organizations in Action (1967). It simply declared that coping with uncertainty is management’s major task; any coalitions are in process, conflicts are inevitable, and “super” politicians are needed to mediate differences in, and to prevent immobilization of the organization. Kilduff and Dougherty (2000) described such startling management as a kind of “roller coaster ride” (2000:781). This writings indeed continue to shape the world we live in.

Accounting as a social and institutional practice has come to view the phenomenon of accounting as a symbol of legitimacy. Institutional environments are described by a myths range of external and internal and requirements that are required organizational compliance. Organizations are often acquiesced with these rationalized institutional beliefs, not because they consist of reality or in order to secure efficacy, but to maintain appearance and demonstrate them to be rational and modern organizations. (Oliver, 1991; Meyer and Rowen, 1997; Carruthers, 1995) So, the organizations meet the institutionalization to meet their survival and legitimacy requirement. But how does the organization meet institutionalization? What are mechanisms of that process?

3.3.3. Institutionalization Mechanisms

Within the general framework of institutional theory, DiMaggio and Powell (1983) developed the concept of institutional isomorphism. As pointed out by Aldrich (1979), “the major factors that organizations must take into account are other organizations”. So, the concept of institutional isomorphism is related to organizational competition for economic fitness, institutional legitimacy, etc. According to DiMaggio and Powell (1983), this concept seems to be a useful tool for understanding the politics and processes that penetrate a modern organization.

DiMaggio and Powell (1983) propose three major ways in which an organization conforms to the symbolic order: by coercive, mimetic, and/or normative processes.

1) *Coercive* isomorphism that stems from political influence and the problem of legitimacy; 2) *Mimetic* isomorphism resulting from standard responses to uncertainty; and 3) *normative* isomorphism, associated with professionalization. In normative process, Scott (1987) portray that states usually adopt an inducement strategy to enforce their members to conform to their authorities and rules.

Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Mimetic processes, not all-institutional isomorphism, however, derive from coercive authority. Uncertainty is also a powerful force that encourages imitation. Organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful. Normative pressures, a third source of isomorphic organizational change is normative and stems primarily from professionalization (DiMaggio and Powell, 1977). But why then the organizational changes can deviate from the expected form? How does it happen?

3.3.4. Travel of Ideas

Czarniawska and Sevon (1996) present two prospects concerning why, and to what extent organizational changes and their results deviate from the intended forms. Czarniawska and Sevon (1996) states translation is a key concept for understanding organizational change. Firstly, organizational change is a long process and occurs in a step-by-step approach. Secondly, the politically oriented actors modify and amend the original ideas in correspondence with their intention and represent them in a new guise (Jacobsson, 2004). Meyer and Rowan (1977) argues, that organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures. Therefore, the three types of coercive, normative and mimetic always can explain the process of institutionalization of the organization.

But how change is absorbed within a particular organizational setting? What is its effect on the institutional structure? The framework based on the work of Czarniawska and Jorges (1996) is chosen to deal with these issues.

In doing their job Czarniawska and Jorges (1996) provide an alternative conceptualization of organizational change. They approach it in terms of process by which ideas are turned into things, and then things into ideas again, transferred from their time and place of origin and materialized elsewhere. This is what has become known under a phenomenon "travel of ideas". To deal with this phenomenon, the concept of translation is introduced, which is considered to be key one for understanding organizational change. Watching ideas travel "we observe a process of translation – not one of reception, rejection, resistance or acceptance" (Latour, 1992:116). The concept of translation is meant to capture "displacement, drift, invention, mediation, creation of a new link that did not exist before…" (Latour, 1996). Having defined the terms, I am able to trace the process of ideas' travelling. Generally speaking, travel of an idea can be designed as a four-stage process that includes translation of the idea into an object, translation of the object that expresses the idea to others, translation of the idea into actions, institutionalization of the action-expressed ideas within an organization.

For an idea to travel successfully, it has to be somehow popularized and/or promoted. While governments may take the part of fashion leaders, the most noticeable role in this process usually belongs to so-called “idea-bearing” organizations. The term is used here to encompass that what DiMaggio and Powell (1983) label two forms of professionalization, namely professional networks and universities. In their turns, Czarniawska and Jorges (1996) are more concerned with the role of professional consultants in translating organizational change. Having popularized and/or promoted by professional consultants, ideas are rarely adopted in minds of people in their entirety. Nevertheless, they give rise to multitude of master-ideas, blue prints and paradigms which dominate in and between organizations through the time.

Summary

Summing up theoretical approaches stated above, one can draw a scheme of IFRS adoption by Norway and Russia. These two counties have their own accounting environment, but these environments exist in the global environment of accounting. IFRS as idea was created on the global level and after that it penetrated national accounting practices. In case of Norway this commited by agreements with EU, in case of Russia this committed by the national regulation. After penetration, IFRS should influence directly Norm and Action levels within countries, these levels should engage self-learning processes and interrogation process between Norm and Action levels of the single country. As a result IFRS is expected to become international communication link between action levels.

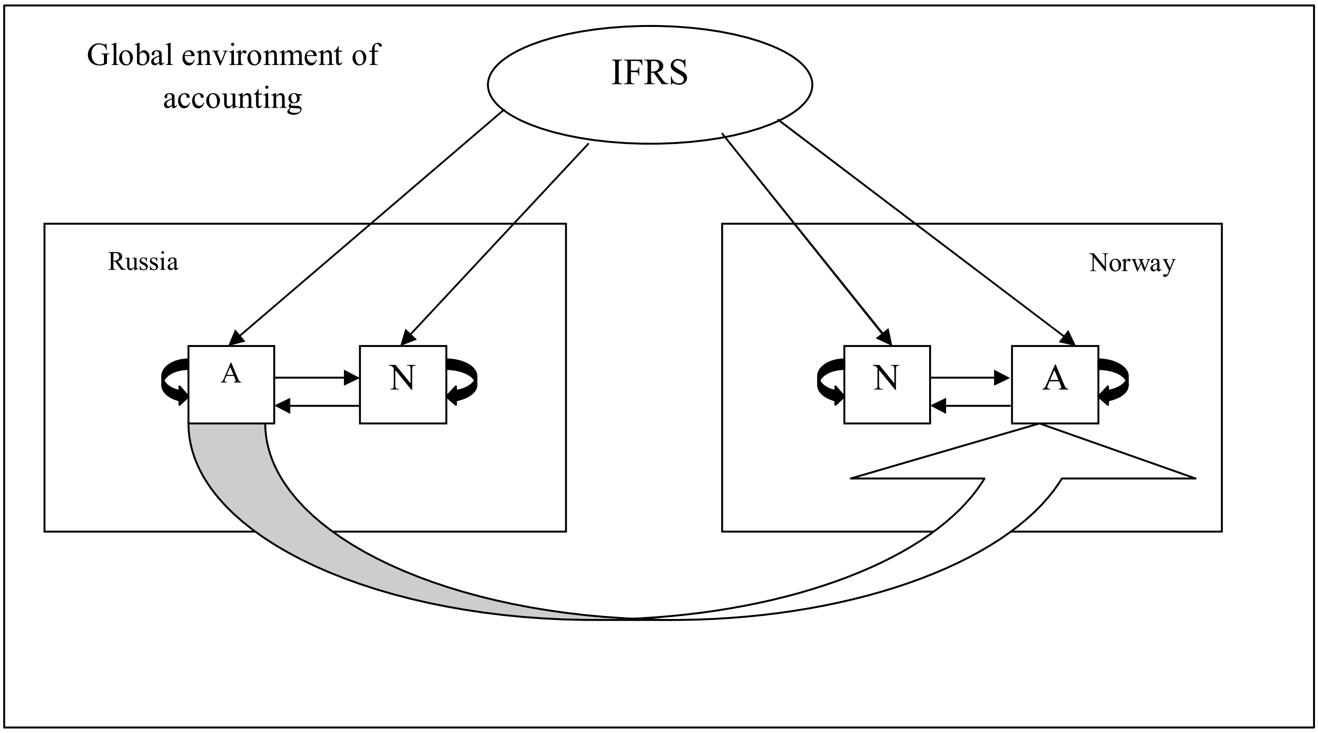

Figure 5. Theoretical model of IFRS adoption in Norway and Russia

But will these really happen in practice? What are motives of IFRS adoption? What are differences and similarities between national accounting and IFRS? What are adopted by companies accounting solutions? How the adoption process can be characterized? Will IFRS become an communication link or is it an illusive goal?

4. Empirical part

The finance community has been concerned for many years about the absence of global accounting and financial reporting standards to help compare the financial statements of companies from different countries. One of the serious and almost entirely neglected aspects is that managers and auditors need standardized and reliable internal controlling and management accounting data to support IFRS. This is essential for supporting management in their decision-making and steering their organization towards the IFRS-based performance concept, as well as supporting IFRS-based financial accounting and facilitating 'fair value' valuation of goodwill and intangible assets. It is believed that IFRS represent a major step forward for transparency and comparability of companies from an investor perspective (Daum, 2007). However, organizations are still failing to acknowledge the links between traditional, local financial accounting standards or GAAP and locally developed management accounting practices. IFRS and their fundamentally different accounting philosophy has broken these links through the introduction of a new era of financial accounting and reporting based on the previously unknown 'fair value' principle, which meets the international investors' requirements. This is very different from traditional concepts such as the continental European 'prudence principle', which protects local creditors. Development of a new, proven best practice to create controlling, management accounting and analytical data supporting decision-making based on an IFRS performance concept in Russia is still in its early stages (www.pwc.com). But how does this process evolve in a particular organizational setting? How did it start? What benefits can the implementation of IFRS provide to a concrete organization? What challenges do meet this process? Is there any resistance within organization? If so, why? What changes have happened due to that process?

The present chapter is designed as follows. Firstly I give an overview of my case studies. Next I provide short analysis of economic environment these organizations working in and describe reasons for the implementation of IFRS. After that I provide knowledge about believed benefits and existing challenges of IFRS from the CEO and top-management point. I then try to figure out, the question of resistance and work out the reasons for that. Next I switch to change happened due to this process from the view point of employees, top-managers and CEO. After that I describe differences in introduction and current IFRS status between Norwegian and Russian bank. Finally, I summarize the progress of IFRS implementation within the highlighted organization and working out some recommendations for further research.

4.1. IFRS in Russia: Norm Level.

On December, 26th, 1997 the Financial Accounting Concept of Russian market economy (further - the Concept) had been approved by the Methodological council about financial accounting and the Presidential Council of professional accountants Institute.

I believe, we can consider this date as an official start of transition to the International Financial Reporting Standards (IFRS). This claim is confirmed with the greatest activity shown by Ministry of Finance in the developing of new Russian Accounting Standards (RAS) within 1998-1999. For this period five new Statements - RAS 5/98, RAS 7/98, RAS 8/98, RAS 9/99 and RAS 10/99 have been re-worked. Furthermore, some of Statements was re-developed for approaching to the international standards. Before preceding to the characteristic of a current state of the Russian financial accounting and its conformity to the international standards, some words have to be spent to tell about the Concept in the sense of legislative and statutory acts.

4.1.1. The need for change

These documents states, that the concept of financial accounting, existing in conditions of planned economy, has been caused by public character of the property and requirements of the government economy. The main consumer of the information formed in financial reports was the state, namely planning, statistical and financial bodies. The system of the state financial control tackled challenges in deviation revealing from the concerned models of economic behavior.

Evolution of public relations and the civil-law environment predetermines necessity of adequate transformation of financial accounting concept. The new concept of financial accounting and rules developed on its basis is expected to provide not only the control of the financial information but also to create elements of the market infrastructure creating a favorable climate for private investments including foreign ones, o one can conclude that this

Concept is investor-oriented. Further in the Concept the financial accounting purposes are formulated, but the purpose of the accounting for external and for internal users is defined separately. The purpose of financial which one was considered as the basic - formation of reliable information for decision-making process - is defined now as the purpose for internal users, and on an arrangement in the text one can draw a conclusion, that it has a minor role.

4.1.2. New users

The concept states, that now among interested users are real and potential investors, workers, creditors, suppliers and contractors, buyers and customers, authorities and the public as a whole (the Financial Accounting Concept of Russian market economy, 1997).

For comparison, according to point 3 of article 1 in the Law on Financial Reporting time main aim of financial accounting is creation of complete and trustworthy information about activity of the organization and its property status, the accounting reporting necessary for internal users - to heads, founders, participants and proprietors of the organization, and also external - to investors, creditors and other users of the accounting reporting. So, the Concept in this part contradicts the Law on Financial Accounting - the Concept on the foreground deduces necessity of financial reporting mainly in interests of external users, and particularly-potential investors, and the Law on book keeping - in interests of internal users - heads, founders and proprietors.

4.1.3. RAS adapted to IFRS: Challenges along the way

The first serious challenges in introduction of the new Statements on financial reporting rose in connection with drawing up and reporting representation for 1999. So, RAS 7/98 and RAS 8/98 oblige the organizations to reflect in the reports an of the conditional facts of economic activities and events, taken place after reporting date. However, the Ministry of Taxes of the Russian Federation issued no instructions on data updating of the reports represented to tax bodies in the form of tax declarations taking into account the specified facts. Practically it can mean, that the term «the tax account» in the near future will be legalized and, rather possibly, in the organizations there will be a vacancy of the tax accountant.

The key element for reforming the financial reporting towards IFRS is expected to be development and introduction of new and reworked RAS.

To execute the governmental order of the Russian Federation from 06.03.98 № 283 «About the statement of the Program of reforming of financial reporting to the IFRS» the order of the Government of the Russian Federation № 587 P confirms from 22.05.98 the Plan of RAS introduction in practice.

4.1.3.1. RAS compare to IFRS and US GAAP

Nowadays two most widespread systems of the international standards exists in the world, namely - IFRS (which are the basis for financial reporting reforming) and US GAAP - used basically by the states of the North America (mainly the USA).

IAS and US GAAP are compatible standards; they are based on uniform requirements and approaches to the organization of financial accounting and the accounting reporting. Distinction is that GAAP are more detailed and can actually be applied by all participants of enterprise activity without additional instructions and explanations, but IFRS define only the general principles to formation of the accounting information and, therefore require working out of statutory acts of lower level which would regulate the financial accounting of organization on concrete sites (the basic means, is material-industrial stocks, calculations, etc.). The last is caused by that IFRS in the world is used by greater number of states and corporations, than GAAP. This distinction is defined by features of national economies and traditional approach to the organization of financial accounting.

4.1.3.2. A need for further support

Hence, development of RAS is expected to be accompanied by working out of corresponding methodical recommendations or the instructions which main objective should be unification of registration processes in state. Now there is only one such document - Methodical instructions on financial accounting of the fixed assets, confirmed by the order of the Russian Ministry of Finance from 20.07.98 № 33n.

One more circumstance constraining translation process of domestic financial accounting and the accounting reporting to the international standards is the uncertain position of the Ministry of Finance of the Russian Federation concerning introduction of IFRS and workings out of methodical recommendations about their implementation. Official translation of IFRS, greatly advertised by representatives of the Russian Ministry of Finance in publications and conferences is released by commercial organization "Askeri" in amount only of 1000 copies (thus, that the quantity of accounting workers in the country by various estimations makes from 2 to 3 million). But let's try to figure out is there any correspondence between RAS and IFRS? Maybe there are some common standards?

4.1.4. Differences between RAS and IFRS: Legislative Level

During the analysis I have paid attention to the some phenomenon (see Appendix 1). First, a number of the standards with smaller numerical value have lately date of introduction. This results from the fact that IFRS are in a condition of constant perfection and processing, and it, in turn, causes working out and introduction of new editions of previous operating standards. Secondly, the considerable part of the questions regulated by IFRS is opened to some extent in standard documents of the Ministry of Finance of the Russia and the Ministry of Taxes and Tax Collection of the Russia. Besides, in the table there are no references to legislative acts which should to some extent regulate financial accounting and reporting process. However, the methodological principles which have been put in pawn in these documents differ from methodology of IFRS.

Application of the international standards of the financial reporting at the Russian enterprises can lead to considerable distinctions in data about results of activity of the enterprise in comparison with the data prepared under existing Russian standards. For example, use of various standards can change values of such important indicators, as profit and the costs. In the same conditions, according to the Russian reporting, the profit will be result of enterprise' activity, and at recalculation under the international standards the profit can possibly transform into the loss, argues "Accounting report" magazine (1999). But one of the IFRS benefits is possibility to perform cross-border comparison of economy. Of course, to get a clear picture of Russian economy will be possible only in case of mass IFRS usage. But, nevertheless, if there will be total transformation of profit into the loss. It question in competence of enterprises, not the accounting system.

But former minister of economy claims, that many principles and practical methods of IFRS can be accepted without infringement of requirements to the RAS. But owing to historically different problems some data having huge value for reporting of IFRS, are not included into the Russian financial reporting. Therefore for improvement of the accounting information quality the Russian enterprises need to organize the analytical account so that to capture all necessary data for preparation of the financial reporting under IFRS format ("Accounting report magazine", 1999). So, RAS can be used as a base for IFRS introduction, but it should be adjusted properly and be ready for some changes. One should take into account that many of existing differences between the Russian and international standards have the roots in distinction of used principles and methods of the account which will be considered further.

4.1.5. Differences between RAS and IFRS: Level of Practice

This analysis base on the research, performed during my job in Russia via SZESS JSC as economist. Our group was responsible for preparation of IFRS introduction. One of the objectives was to perform deep comparison of RAS and IFRS.

4.1.5.1. Documents circulation

Basis of the account are initial documents on which records in registers are made. In Russia compulsion of corresponding registration of initial documents is fixed as one of financial accounting rules: the Basis for records in financial accounting registers are the primary registration documents fixing the fact of economic operation fulfillment. Degree of regulation in the field of document circulation is stricter in the field of financial accounting. All is under regulation: there are typical forms of the majority of used documents, and for the documents which typical forms are not present, there is a detailed list of obligatory requisites: the name of the document (form), a form code; drawing up date; the maintenance of economic operation; measuring instruments of economic operation (in natural and term of money); The name of posts of the persons responsible for fulfillment of economic operation and correctness of its registration, personal signatures and their decoding. Deviations from the unified typical forms of documents, if they exist, are not allowed.

In Russia document circulation is the basis for the control of enterprise activity from the point of tax bodies. Accordingly, this field of activity is rigidly supervised from the state. In the west firm document circulation is internal business of the firm, and quantity of shown requirements minimum.

4.1.5.2. The account policy

Babchenko (2005) stated the definition of a registration policy is a management prerogative both in Western and Russian practices. Disclosing of the applied account policy is an indispensable component of the annual accounting reporting. But freedom level of administrative personnel in the sense of policy's definition is essentially different. The western system provides a greater number of possible alternatives for the accounting. In the Russian system the choice of a registration policy is often reduced to an order of account registers used, not changing the result shown in the reporting. It is, of course, important in case of tax inspection, but it does not make an essence of a registration policy in a broad sense this word.

Western firm is obliged to open only those methods of the account which essentially influence the financial results presented in the reporting, and can affect the decisions of users made on the basis of this information. The order of conducting the account is not important, if it steadily leads to correct results in the reporting and provides enough level of control. In Russia the enterprise is obliged to open all decisions considering the account policy if it had a choice of various registration methods even if it does not influence or influences slightly to the represented reporting. Also, though possibility of a deviation from principles (assumptions and requirements), fixed in the legislation on book keeping, is declared, the real application of such possibility in the practice is impossible. The reason is the necessary coordination of such deviations with the state bodies, but the procedure of such coordination is not defined clearly till that moment.

Change of an account policy is supposed in Russia in following cases: enterprise reorganization (merges, divisions, joining); changes of proprietors; changes of the legislation in the Russian Federation or in system of financial accounting regulation in the Russian Federation; workings out new ways of financial accounting. In the western practices it is stated, that the applied principle can be changed if necessary. It is natural, that such change should be proved. It is possible to notice also, that the concept of accounting change in the west is wider, than in Russia and consists actually of change in the registration policy (principle change), change in estimated indicators (change of estimate) and change in economic unit structure (change of entity). In Russia, tax accounting is dominates financial one, so Russian accountants do not have much freedom.

4.1.5.3. National features: language, the numerical notation, terminology

Difference between the Russian financial accounting and the Western one begins from the language. End users of the reports executed under IFRS, not always know Russian or other national language. an official working language by preparation of IFRS is English language. In 1997-1998 publishing house "Askeri" had been published official translation of the International standards of the financial reporting which not absolutely adequately reflects their essence, as my interviewee from bank “Uralsib” stated. It occurs that certain terminology bears the difficult semantic loading strongly differing in the different countries. For example, the English term «cash» is usually translated into Russian as "current cash" though in financial accounting concept of a word «cash» wider is all money resources, including accounts in banks, plastic cards, etc.

On the other hand, the certain word-combinations applied in the international standards, can not have adequate expression in Russian, for example, the translation of the word-combination «fair value» may be not clear for the Russian-speaking reader.

There are many distinctions caused by cultural traditions of the western countries. For example, in the Anglo-American reporting other system of a number designation is used: a comma thousand, and a point - a fractional part from whole, for example separate: 1,234,567.89. In Russia the German notation is applied and for branch of copecks from rubles the comma (1 234 567, 89) is used. In the western reporting the sign «-» (minus) is not used. The number which will be subtracted at result calculation is resulted in brackets.

4.1.5.4. Currency

Usually the companies keep account and make the reporting in currency of that country where they operate. According to RAS all Russian accounting reporting is represented in national currency of the Russian Federation - in rubles. At reporting drawing up according to the international standards the enterprise has the right to choose independently currency for reporting drawing up, using not only ruble, but also other monetary units, for example Euros.

The companies working in the conditions of a hyperinflation, according to the international standards should correct the financial reporting taking into account change of purchasing capacity of money as the financial reporting without inflation can mislead the user. Besides, inflation complicates comparison of indicators of the financial reporting for the different accounting periods. In the Russian account amendments on inflation practically are not applied, that considerably complicates possibility to provide the authentic reports.

4.1.5.5. Rules of posting's record

The classical formula of balance «debit balance = credit balance» in the western formulation looks different way: «assets = liabilities + equities» where to the Russian “credit balance” correspond with two different categories: "obligation" and "capital".

Other feature of foreign practice is absence of debit and credit balance under accounts. Usually the western accountants tackle this issue by division of accounts, where the analysis debit and credit balance, into two separate accounts is required, for example "Sale" account 90 is divided into accounts «Incomes of sales» and «Costs of sales».

In Russia two ways of records correction are applied, namely red reversing entry and black reversing entry. The basic distinction between them is that the first reduces balance under accounts, and the second increases them. Accountants in many western countries use only black reversing entry.

Some aspects of the western accounting, for example reporting drawing up by kinds of activity and transactions with participation of the interconnected parties, demand more detailed disclosing of the information, than it is necessary by the Russian rules of the account and the reporting that involves drawing up more a detailed plan of accounts.

4.1.5.6. Distinctions in time of economic operations' reflection

In some cases date of economic operations' reflection under IFRS and the Russian reporting can be different for following reasons:

- under IFRS the conformity principle according to which expenses concern for the period when they have been made is accepted;

- rules of reflection of some operations are various.

In Russia bank remittance registers at the date of bank extract's reception, and in the West - at the moment of check's preparation or the commission on translation (all arising divergences act in film in the end of a month "adjustment" operation).

4.1.5.7. The chart of accounts

Unlike the Russian standards, IFRS do not regulate, what should the chart of accounts consists of. Such practice is traditional for the USA and the Great Britain where each company can use the own plan of accounts. In other countries, for example in France, as well as to Russia, the plan of accounts it is standardized also and its application is necessarily for all enterprises. It is interesting, that unlike the Russian plan of accounts, the French plan of accounts has variable number of figures in account number. For example, account 2 - «the Basic means», and account 281 - «the Saved up deterioration of the basic means».

At transition to the international standards some CIS countries (Ukraine, Moldova, Kazakhstan, etc.), and since 2001 and Russia have changed the plan of accounts so that to simplify for accountants gathering of the information and construction of the financial reporting within the limits of IFRS.

4.1.5.8. Professional judgment

As FASB stated, according to IFRS principles the information represented in the financial reporting is useful for users due to qualitative characteristics, such as users' clearness, relevance, reliability and comparability. Definition of characteristics' relative importance in each concrete case is professional judgment.

Thus, the professional judgment in the western practice is the major element in culture of an accounting trade. The professional judgment helps to provide formation of trustworthy information which should be needed by the market of accounting services. This information also should be provided by procedure of the control and validity protection of professional judgment towards professional community. That is the professional judgment represents institute of the developed market relations in which the trustworthy information is claimed and there is a monitoring system behind its formation as from its manufacturers (accounting communities), and from consumers (association of investors, etc.)

From the text of RAS 4/99 «the Accounting reporting of the organization» follows some important points. Despite the requirement to form the accounting reporting proceeding from the rules established by statutory acts on financial accounting (only in this case it will be considered authentic and full), given RAS provides basic possibility of deviation from these rules. And it is already area of professional judgment of the accountant.

To speak about professional judgment it is possible both concerning disclosing, and concerning formation of the financial information.

Summary

The basic distinctions between IFRS and the Russian national system of the account are connected with historically caused difference in ultimate goals of the financial information usage. The financial reporting prepared according to IFRS, is used by investors, and also other enterprises and financial institutions. The financial reporting, which was made earlier according to the Russian system of the account, was used by state bodies and statisticians. As these groups of users had various interests and various information needs, the principles underlying drawing up of the financial reporting, developed in various directions.

One of the principles which are obligatory in IFRS, but not always applied in the Russian system of the account, the maintenance priority over the form of representation of the financial information is. According to IFRS the maintenance of operations or other events not always corresponds to what it is represented on the basis of form their legal or reflected in the account. According to the Russian system of the account, operation usually are considered strictly according to their legal form, instead of reflect economic essence of operation. An example when the form prevails over the substance in the Russian system of the account, can be the case of absence of the appropriate documentation for amortization of the basic means.

The international standards of the account order to follow a conformity principle according to which expenses are reflected in the period of expected reception of the income while in the Russian system of the account of an expense are reflected after performance of certain requirements concerning the documentation. Necessity of presence of the appropriate documentation frequently does not allow the Russian enterprises to consider all operations concerning by the certain period. This difference leads to distinctions in the moment of the account of these operations.

As Raushaniya Khazimuratova, Senior Accountant of Alinga Consulting Group stated, one of the most significant problems of the business environment in Russia today is that the country's financial reporting standards are still designed to meet the needs of the tax authorities. International Financial Reporting Standards (IFRS) differ in that they first and foremost protect the interests of the shareholder, who invested his money into a company and balance sheet in hand wants to understand whether he made the right decision or whether he should have just kept his money in the bank (www.acg.ru). Can financial statements prepared according to Russian Accounting Standards (RAS) answer this question? Let's start with the balance sheet. Fixed assets are deducted according to their acquisition price, less amortization, usually calculated according to tax norms. Does this reflect the real value of the assets? The RAS balance sheet does not answer this question. IFRS takes into consideration appraised value, which in most cases reflects market value. Now let's take a look at financial leasing. According to RAS it is possible to show this operation such that neither the property nor the liability is reflected. IFRS can handle this issue in a different way. Next, the investment account. With RAS it does not matter at what price the company's shares were acquired by another company, but with IFRS this does matter. Another difference is in how bad debts are handled. According to IFRS they may be written off immediately; according to RAS this is only possible with documentation confirming the inability of the debtor to pay. Given these differences, the results of a recent study conducted by Romir Monitoring are very interesting. The study was conducted within the framework of the project "Implementing

Reform in Accounting and Reporting in the Russian Federation," funded by the European Union (www.accountingreform.ru/en/view/).

4.1.6. Opinion of accounting profession about changes in Russia

More than 2000 Russian financial professionals were polled for the survey and the results are interesting for those both within Russia and outside of Russia. 75% of respondents believe that financial reporting should reflect "economic reality," rather than conform to pre-determined structure; 66% of respondents believe that tax accounting should be unified with financial accounting; 74% believe that the Ministry of Finance should be responsible for implementing IFRS in Russia; 66% believe that the Ministry of Finance should be responsible for regulating and enforcing IFRS in Russia; More than 60% of respondents would like to be professionally competent in the field of IFRS; More than 80% of respondents would like to improve their knowledge of consolidated reporting; 85% believe that implementing IFRS in Russia will raise the quality of financial reporting among Russian companies. In other words, "action" level of Russia willing to use IFRS, but they also want "norm" level to be more active in the field of IFRS introduction.

However, although information on IFRS is widely available, more than half of all auditors (62%) feel that IFRS training in their city is unsatisfactory or low. This same poll was taken in 2004; there have not been any substantial changes in these numbers. IFRS is of great interest because of the opportunities it offers for business development (attracting investment) rather than simply improving the quality and transparency of reporting. Basic advantages of IFRS compared to RAS, but not necessary on its own, were seen to be:

Improvement in the quality of information available to managers (38%);

Increase in the number of investors (28%);

Increase in the ability to attract investment or loans (27%).

59% of respondents agree that Russian accounting should be based on IFRS. 55% of the supporters of IFRS believe that the standards should be implemented by 2009. However, 61%

feel that IFRS will improve the amount and quality of financial information in Russia if IFRS is modified to reflect certain aspects specific to Russia."

The three main problems with implementing IFRS, in the opinions of the respondents, are as follows:

Absence of legislative support - IFRS are not legally required in Russia (29%);

IFRS is fundamentally different in theory from that of already accepted Russian standards (26%);

IFRS is fundamentally different in practice from the norms already accepted in Russia (25%).

More than 60% of the respondents indicated that they would like to increase their knowledge of IFRS. If to speak of the short-term (2007), 71% of accountants in commercial organizations who indicate their desire to increase knowledge of IFRS, wish to reach an "intermediate" or "good" level, while other respondents indicated a desire to reach a "good" or "excellent" level. This desire to increase knowledge in the area increases if we look further ahead (to 2008). Then there is a greater tendency toward the goal of an "excellent" or "level of teacher" level of knowledge of IFRS.

Half of all respondents say that audit has a generally positive influence on the reliability of financial information in Russia. Furthermore, the overwhelming majority believe that audit can raise the reliability of financial information in Russia (76%), with teachers and students showing the greatest confidence in this category.

Russian accounting standards are constantly evolving and improving. Today there are two possibilities. Either maintain parallel accounts, using rather expensive software, or do transformation of accounts from RAS to IFRS. While the second option is less expensive, the results are less accurate. Regardless, if it is necessary to evaluate a company, then IFRS is a better source of accurate information – both for the owner of the business and for potential investors and clients.

According to a recent study by the Ministry of Finance, the level of trust in IFRS in Russia has risen significantly in the last three years. When asked the question, "Do you trust information reported in IFRS," 58% of business professionals answered "yes" in 2007, as compared to 48% in 2004. The portion of companies in Russia using International Financial Reporting Standards has also increased – to 16% in 2007 vs. 11% in 2004. This gain was led by companies operating in the financial and insurance markets, which saw the number of businesses using IFRS double - from 26% to 52%. Businesses in the financial and insurance sectors will be required by the Ministry of Finance to adopt IFRS standards by 2010. The Russian Central Bank has also been "actively encouraging" companies to use IFRS as well, according to the study. The poll also revealed that about 40% of respondents think that IFRS data can be helpful in making management discussions. 30% believe that keeping records in IFRS can help draw investors while 25% believe that IFRS records can be helpful in obtaining loans. 25% believe that IFRS reports can help satisfy shareholder interests "to the maximum degree." Of those companies which do not use IFRS, 32% stated that they do not do so because there is no corresponding law or governmental order about the required application of IFRS. Another major reason is the lack of an official translation of IFRS standards into Russian. While at one time the need to adopt IFRS standards in Russia was driven by a basic need to improve basic accounting in Russia, the need is now driven by the international nature of Russia's economy and Russia's need to invest in businesses and infrastructure.

Ending discussion about Russian norm system, it possible to conclude that it is rather strict. Often case of form dominance over substance taken place. Furthermore, Russian norm system is conservative enough, as consequence the resistance to change is rather high. Nevertheless, growing interest toward IFRS can be seen. But this happened not only because of IFRS advantages, but also due to weaknesses of RAS.

But what is happening in Bank Tavrichesky? Is its CEO also so optimistic about IFRS introduction? Do they have any intension to force IFRS introduction? Or they just follow the stream together with Central Bank of Russia? How these RAS and IFRS differences materialized in practice of the banks? What are challenges in the banks?

4.2. Bank Tavrichesky

The bank was registered by the Central Bank of Russia on April, 21st, 1993 under № 2304. Since November, 25th, 2004 Bank "Tavrichesky" is the participant of system of obligatory insurance of contributions. Besides, Bank "Tavrichesky" has licenses of the professional participant of a securities market for realization broker, dealer, deposit activity and activity on management of securities, and also the license of the exchange intermediary for fulfillment future transactions.

In the end of 2002 and in June, 2004 the Bank has received the first and unique in Russia registration certificate on issue of the prepaid financial product "PayCash".

Bank "Tavrichesky" is included in the Register of banks and other credit organizations which can represent itself as the guarantor before customs bodies of Russia. The size of the registered and paid authorized capital of Bank for 01.04.2008 is 400 220 000 rubles.

The bank is included into number 12 of the largest banks of St.-Petersburg. Bank "Tavrichesky" has 7 nonresident branches in following cities: Sosnovy Bor, Kingisepp, Syktyvkar, Pechora, Moscow, Murmansk and Irkutsk.

In St.-Petersburg the bank has 15 structural divisions located out of head office of bank (2 additional offices, 13 operational cash desks and changes). Strategy of development of Bank is based on complex all-round service of the enterprises and the organizations - big clients of Bank, including service of workers of these enterprises. At the same time recently the Bank pays the big attention to development of a network of branches in St.-Petersburg, being guided on service of a wide range of clients. The big attention in Bank is given to development of hi-tech service for clients, in particular, to system of remote access to the account "Bank-client" and development of mobile commerce and payments through the Internet.

4.3. IFRS introduction: Focus on action level

Starting from the very beginning, it seems that Bank Tavrichesky until recently did not have a clear strategy or, better to say, a strategic plan. What the company really cared about are the customers i.e. whom to work with and how not to make upset those who were chosen. This was the point all goals stem from. The main focus was on the corporate bodies. The tools being used were analytical prioritization of customers and suitable services to developed, brainstorming and meeting with customers were used from time to time. However, here I suppose one thing might be mentioned: "considering …" Considering globalization issues, particular environment, sustained range of perspective customers and other details that make things easier.

According to my observations, Bank Tavrichesky did not use any of the standardized systems for analyzing results and external environment; company used its own system based on Excel. And what are considered to be really important are profitability and a quality of a performance.

According to my interview with a head of financial department of Bank Tavrichesky in 2003 all Russian banks were forced by Central Bank of Russian Federation (CBRF) to shift accounting system towards IFRS. The choice consisted of two options: to use only IFRS, either to keep traditional system of accounting and IFRS together. Here is worth to mention, that CBRF did not require the complete IFRS reports, but only a few standards, but till 2010 the full reporting under IFRS will be required as well. CEO of Tavrichesky chose to keep traditional system together with IFRS. The head of the economic department explained this choice by the fact that *"this radical change should not bring important benefits for a bank or our stakeholders."* At that moment, IFRS is introduced in Tavricheskiy de jure, but not de facto. It exists only because Central Bank of Russia requires it. But information, provided by that system is not used completely. There is one person, responsible for IFRS preparation, namely the head of financial department, my main interviewee. In order to provide a clear structure of interview, I have split it in a few sub-chapters.

4.3.1. Benefits of IFRS introduction

From the very beginning I was very curious about such skepticism of IFRS benefits my interviewee pointed out *"As you know, we have contracts with the wide range of Russian companies, but there is no international ones among our clients. So, we just do not need it. Our system of accounting has been working well since bank's foundation, so why should we change it? I do not believe that IFRS will let us obtain improved managerial information."* During our further discussion another facts were revealed. For example, unwillingness of Tavrichesky to force IFRS introduction: "*Yes, I understand, that Russian traditional accounting was always a puzzle for foreign partners. In the light of possible cooperation with SNN I am afraid, that our partner will feel very uncomfortable with RAS. We expected that introduction of IFRS will let our partner be more confident in information presented, we are very proud of an international cooperation but at that moment we do not have possibility of such a shifting".* My interviewee claimed that Tavrichesky is not ready to tackle that issue. As for me, Tavrichesky lacks intension to implement IFRS. From one side, it is consequence of unprepared norm level, from other side, Tavrichesky just do not need IFRS. But at the same time, bank understands preference of its foreign partner and need of IFRS introduction. But at that moment unwillingness to make a radical change outweighs.

4.3.2. Attitude toward role of CBRF and IFRS introduction

After that I asked about reasons of such unreadiness: "*You know, we have a good proverb - Fish begins to stink at the head. I mean, that CBRF takes very passive roles, considering IFRS introduction. From the very beginning we were told, that there will be seminars covering IFRS topics, there will be official translation of IFRS to the Russian. But at that moment there is nothing, furthermore CBRF is not sure about interpretation of some IFRS terms."*After that claim, I was wondering, how the role of CBRF can be characterized in the process of IFRS introduction. *"Actually, they want us to use IFRS, but they just force us, not help. Here is a good example of such attitude. Recently new rules 302-P was issued, they begin to work from 01.01.08, but in the fact they influence on the accounting reports in 2007. When we asked CBRF about such a phenomenon, we were answered, that this are the conditions of transition period. As a result our department gets a huge amount of extra work.*"

So, by bank employees norm level is seen as an enemy, not an ally. It results to negative attitude towards IFRS intro, which transforms in its turn to the resistance to change.

Regarding possible benefits of that introduction, I get a following answer: *"Introduction of IFRS is rather doubtful, because of well developed national accounting system. From my point of view, there is only one undoubted benefits – IFRS can provide to Russian economy the ultimate degree of transparency, but only in the case of mass implementation of IFRS. Our company always stated itself as transparent and trusted one, but we should not be at the first role while IFRS implementation. We don't believe its benefits overweight its cost at that stage."* It seems, that introduction of IFRS can provide a wide range of benefits, but not for middle-sized bank. No doubt, these benefits consider to be a competitive advantage which is hard to copy. But are there any risks, connected with IFRS introduction? And all at all what will outweigh?

4.3.3. IFRS intro: risks and challenges along the way

One doubtful aspect of IFRS introduction is technical perspective of that issue, after my question regarding process of transition for RAS to IFRS, my interviewee claims: *"Actually, I am the only person responsible for balance preparation under IFRS principles. At that stage it takes me approximately one month in order to make a transition to chosen standards. During that month IFRS is my only responsibility. We do not have any special program for such a transition. I make all the operation in Excel on my own. I am afraid to imagine, what will happen when we will use the full IFRS system. In that case I should ask CEO to organize special department considering IFRS issue. From my experience, it should consist at least of 2 accountants with strong IFRS background. The problem is not only to prepare this report, but also to approve it with CBRF, because they need an explanation for any essential deviation from RGAAP."*

Another discussion with the head of economic department was dedicated to risks and challenges, connected with IFRS introduction. First of all he complains: *"Unfortunately, there is no official translation of IFRS into the Russian language. Most of our accountants are unable to read English that is why they cannot work with a primary source of IFRS."* The next challenge, I was informed, is connected with a lack of knowledge in the field. As my interviewee put it himself: "*Our financial department has been working with Russian GAAP long ago. This system has shown itself as reliable one. So, from the view point of employees, there is no need to change something, that working very well. To tackle this issue, we arranged courses in IFRS for employees who work with that system. In contrast to English courses, courses in IFRS are obligatory for accountants who are responsible for preparing financial statements."* The last point of concern was stated out by my interviewee in a following way: *"Our financial department has been working with Russian GAAP long ago. This system has shown itself as reliable one. So, from the point of employees, there is no need to change something, that working very well."* After I wonder of way for overcoming these challenges: *"Of course, there are ways to tackle these challenges. But it is enough for us at that stage, that we are aware of their existence. When we will be ready for IFRS introduction, be sure we will overcome them. As for now we just do not want to deal with IFRS."*

It seems the challenges mentioned above are not so crucial for the company so far as the ways of overcoming were developed. The crucial is a lack of intension to make these changes, or better to say – resistance to change?

4.3.4. Resistance to change

From the point of CBRF, there is no resistance at all. Its representative stated that lots of time has been spent to explain that the old system of financial accounting would no longer be supported by the government, and that a new system was necessary to meet the needs of government and foreign investors. From his point, after such an explanation the position of employee should be shifted from "This is a waste of time. Do we need change if it was working just fine before? If it is not broken, do not fix it. They never tell us what is going on!" to "How soon will this happen? How will this impact me? Will I receive new training?"

But from the point of the head of the economic department the situation is not so optimistic. She claims that resistance is moderately high, especially within the financial department. Speaking about reasons for such a strong resistance, he said "*Just imagine, people within our financial department has been working from the beginning of our bank with Russian GAAP. It is incredible, that they simply shift their mind to IFRS after few presentations. They are people after all, not machines. Of course, we try to get involved young specialist with* *knowledge of IFRS, but they lack competence about our company. So, we have a gap between "old" accountants and "young" ones. I hope this gap will be reduced in a few years."*

It seems to me there is a gap not between "old" and "young" accountants, but between design and realization of the idea. At this moment IFRS are not fully adopted by company and by employees. And I am not sure how soon this issue could be handled out.

4.4. IFRS in Norway: norm level

In 2002, the European Union decided that firms listed on stock exchanges within the European Economic Area have to report consolidated financial statements according to International Financial Reporting Standards, IFRS. This new reporting regime started in 2005. As part of the IFRS adoption, financial statements prepared according to local or national accounting standards for 2004 had to be restated to IFRS in the 2005 accounts (IFRS 1, paragraph 36). IFRS are clearly more value-relevant than national standards for countries with a weak tradition of disclosing information useful for investors (Ball, 2006 and Daske, et.al. 2007). IFRS in particular, as the most relevant reporting regime for investors, (Ball, 2006). But unconditional comparison tests performed by independent researchers reveal that NGAAP get a high score on the value relevance measure, as compared to IFRS. In fact, the value-relevance of the NGAAP figures is significantly higher than that of the corresponding IFRS figures, stated one of my interviewee. Improved value-relevance of the balance sheet (equity) turns out to be offset by reduced value-relevance of the income statement (earnings). When evaluated by return or abnormal return regressions, using price deflated earnings and/or change in earnings as explanatory variables, the scores on the value-relevance measures are also typically in favor of NGAAP earnings. These results are also valid when the sample is weighted according to firm size, intangible asset intensity and profitability. No improvement in value relevance seriously challenges the benefits of adopting IFRS for countries such as Norway with an advanced accounting regulation prior to IFRS adoption. This result is consistent with the finding of Daske, et. al. (2007) that the capital-market benefits of adopting IFRS are weaker when national GAAP are closer to IFRS (see also Callao, et. al. 2007 and Horton and Serafeim, 2007). Although NGAAP are based on an earnings-oriented conceptual framework with emphasize on matching cost with earned revenue, it turns out to be of minor importance when it comes to unconditional value-relevance differences in comparison with a balance sheet-oriented alternative. IFRS contain additional value relevant information as compared to NGAAP: 2 Using price regressions, the adjustment of the book value of equity from NGAAP to IFRS is significant; suggesting that increased measurement at fair value improves value-relevance of the balance sheet (but not earnings). The adjustment of the normalized net operating income from NGAAP to IFRS is significant – although this is not true for overall earnings. Thus, information about net operating assets, revenue recognition and cost determination according to IFRS is on the margin valuable to investors. Transitory components in earnings due for example to revaluations, seem to harm the overall value relevance of earnings (but not of the balance sheet) and prove the necessity of reporting these items separately so that earnings may be normalized (see Bradshaw and Sloan, 2002). This suggests that the adoption of IFRS in countries already having an advanced accounting regulation may still be important from a value-relevance perspective.

Intangible intensive firms report a net operational income that on the margin is more value-relevant according to IFRS than NGAAP. Since more intangible assets are capitalized according to IFRS, the capitalization of intangible expenditures as assets in the balance sheet is more value-relevant than expensing them as incurred (Lev and Zarowin, 1999, Aboody and Lev, 1998 and Lev and Sougiannis, 1996). For example, development expenditures are required to be capitalized according to IFRS if they are assets, while they more often are expensed as incurred according to NGAAP – although an option to capitalize is available. Internally-generated goodwill is indirectly capitalized according to IFRS due to the non-amortization of purchased goodwill and other intangible assets with indefinite economic lives, while these assets are systematically amortized according to NGAAP. IFRS require intangible assets with indefinite lives to be tested annually for impairment.

In Norway and other countries with a developed accounting regulation prior to the adoption of IFRS, the advantage of implementing this reform has been questioned. On the other hand, IFRS have marginal value-relevance relative to NGAAP. These benefits may outbalance implementation costs, especially when taking into account the positive effects of a harmonization leading to increased value-relevance in countries with a less developed accounting system (Daske et. al. 2007). This is an advantage for all investors investing in the international capital market.

4.4.1. Differences between IFRS and NGAAP

International Financial Reporting Standards, IFRS, are issued by the International Accounting Standards Board, IASB, in London. IASB aims at developing international accounting standards of high quality for the benefit of accounting harmonization worldwide. In 2002, the European Union decided that all firms listed on stock exchanges within the European Economic Area, EEA, i.e. the European Union and some smaller countries outside the EU, should report consolidated financial statements according to IFRS, beginning in 2005 (EU Regulation 1606/2002). These firms are now the main users of IFRS, along with firms from many countries allowing or requiring IFRS. Norwegian Generally Accounting Principles, NGAAP, are the national accounting regulation in Norway, a member of the EEA. The most important regulations are the Accounting Act of 1998 and the national accounting standards, issued by the Norwegian Accounting Standards Board, NASB. IFRS are based on a balance sheet-oriented conceptual framework, i.e. the approach starts with defining assets, debt and thereby equity as the residual. Comprehensive income in terms of reported earnings and 'dirty surplus' constitutes the change in equity not related to capital expansion or withdrawal, for example paid dividends. When the balance sheet is the starting point, as is the case in classical valuation theory, it is adjacent to measure the balance sheet at fair values and to make the net income equal to the net change in fair values, at least when these values can be measured reliably. Cost accounting is accepted when there is no reliable alternative. Over time, IFRS have increasingly pointed at fair value as a principle of measurement. NGAAP are based on an earnings-oriented conceptual framework in which the calculation of annual performance is the starting point for developing relevant accounting. A project, or a firm, creates values if its internal rate of equity return is greater than the cost of equity. This suggests that the aim of accounting should be to report an income and a book value of equity such that the return on equity becomes a reliable measure of the internal rate of equity return (Hendriksen and van Breda, 1992). This return is calculated on the basis of transactional investment costs being matched with future economic benefits generated by those costs. Net income should therefore be the costs matched with earned revenues – and the balance sheet is in principle the transactional cost value. Nevertheless, when cost is lower than fair value, it is written down, suggesting a partial adjustment to fair value (conservatism). Impairment losses add noise to the calculation of the internal rate of equity return. The major difference between IFRS and NGAAP, as these accounting regimes have developed over time, is that the preferred principle of measurement in reality has become fair value according to IFRS and cost according to NGAAP. However, none of these reporting regimes are completely faithful to their ideal measurement principle. IFRS have the cost model as an alternative or a requirement when fair value is not easily and reliably measurable, while NGAAP have the fair value model as a requirement when market value is lower than cost and when fair value of financial instruments is reliably measurable in liquid markets. All in all, the discrepancy between IFRS and NGAAP is not large in practice – and could be summarized by IFRS allowing for more reporting at fair value (see also Jensen and Bernhoft, 2007).

IFRS and NGAAP are similar in the fact that initial recognition should be at cost, which usually equals fair value at the time of acquisition. Thereafter, the two reporting regimes may disagree on measurement. IFRS permit either the cost model or the revaluation model; although the latter is accepted only if fair values may be measured reliably. NGAAP, on the other hand, require the cost model. According to prudent historical cost, the carrying amount of an intangible or fixed asset is the cost less accumulated depreciation less accumulated impairment losses. The revaluation model implies that the carrying amount is fair value when a revaluation takes place. Between revaluations, the amount is reduced by depreciation and possible impairment. The times of revaluations should be so regular that the carrying amount does not differ materially from its fair value.

Some of the most important differences between IFRS and NGAAP are:

1) Under NGAAP company has depreciated goodwill over its estimated life-time. According to IFRS goodwill is not to be depreciated, but is subject to an annual impairment test to determine any need for amortization.

2) According to IFRS, research expenditures should be expensed when incurred, while NGAAP render the option of recognizing research expenditures as an intangible asset – an option seldom used by stock exchange listed firms. Development expenditures leading to future economic benefits should be recognized as an intangible asset according to IFRS, while NGAAP have the option to expense immediately – an option often used.

3) Periodic maintenance of an asset is accounted for as an investment according to IFRS, which is depreciated over time until the next periodic maintenance. NGAAP also allow it to

be reported as a future obligation (provision). An annual maintenance provision is taken over the period until the next periodic maintenance expenditure. Generally, provisions are more rarely recognized as debt according to IFRS than NGAAP, since it could be questioned whether future expenditures, such as maintenance and some types of restructuring really are present obligations according to the definition of debt.

4) Most financial instruments are measured at fair value and amortized cost according to IFRS. In accordance with NGAAP, financial assets and debt are measured at cost, unless they are short-term financial instruments traded in a liquid market. In that case, they are measured at fair value.

5) Investment properties are measured at fair value according to IFRS and cost according to NGAAP.

Furthermore, some differences were discovered during my interviews at SNN:

Options

Under NGAAP, company has expensed any inherent value of option agreements. Under IFRS 2, option programs for employees and management should be accounted for at fair value at the granting date.

Dividend

Under NGAAP, suggested dividend has been accounted for as short-term debt, whereas IFRS requires suggested dividend to be classified as equity until the suggested dividend is approved by the shareholders meeting.

Government Grants

Under NGAAP, funds received under the public “Skattefunnordning” for research activities are accounted for as a reduction of operating expenses. Government grants should under IFRS be classified as revenue.

Currency conversion effects

Accumulated currency effects related to foreign subsidiaries has been set to zero at the date of transition to IFRS.

A good illustration for those differences can be comparison of balance performing under NGAAP and IFRS principles adapted from SNN annual report 2007, see Appendix 2.

4.4.2. The intangible IFRS

In addition to these five areas, differences between IFRS and NGAAP typically appear in relation to pensions, deferred taxes and to some extent share-based payments. The auditing firm Ernst & Young has registered descriptive data about the IFRS implementation of 110 companies listed on the OSE in 2005. 28% of the firms reported a reduction in the 2004 net income, while 72% reported an increase. On average, the increase in net income was 17%. The largest effects on reported net income are caused by non-amortization of goodwill (40%) and capitalization of development expenditures (28%), suggesting that accounting for intangible assets causes the largest differences in reported income between IFRS and NGAAP.

After comparison tests experts drawn the conclusion that the value-relevance of key accounting figures prepared according to IFRS is not superior to the corresponding figures prepared according to NGAAP, when they are evaluated unconditionally and conservatively as two independent samples. This result is robust against empirical specifications in which firm size, intangible asset intensity, profitability and the degree of non-recurring items are controlled for.

When analyzing the marginal value-relevance of adopting IFRS for firms already reporting according to NGAAP, these results appear:

- Stock holders' equity reported according to IFRS is on the margin more value-relevant as compared to a balance sheet reported according to NGAAP, since more fair values increase value-relevance.

- A normalized net operating income reported according to IFRS is on the margin more value-relevant as compared to a corresponding NGAAP figure, especially for intensive intangible assets firms.

For firms with a high degree of intangible assets, the main difference between IFRS and NGAAP is the reporting of goodwill and R&D-expenditures. IFRS are marginally more value-relevant than NGAAP due to goodwill impairments instead of goodwill amortization. Acquisition cost allocated to goodwill remains in the balance sheet, making the

IFRS balance sheet more value-relevant on the margin. In addition, the marginal value relevance result might prevail due to more capitalizing of development expenditures at costs in the balance sheet according to IFRS, relative to the practice of expensing such expenditures according to NGAAP, even though NGAAP gives an option to capitalize. More assets and measuring them at fair values in the balance sheet increases value-relevance, and to the extent that they are measured at cost, they also contribute to the value-relevance of net operating income (cf. the return and abnormal return regression results).

The advantage of adopting IFRS has been widely discussed and questioned in countries characterized by having a developed accounting regulation prior to IFRS. The unconditional value-relevance of IFRS is not larger than that of NGAAP, and, thus, raises some doubt about the superiority of the balance sheet orientation; empirical findings demonstrate that IFRS have marginal value-relevance relative to NGAAP. I believe that these benefits might very well outweigh the implementation costs, especially when taking into account the positive effects of a harmonization leading to increased value-relevance in countries with a less developed accounting system, an advantage for all investors investing in the international capital market. But what is happening in the action-level? What are the results of IFRS implementation? Were any challenge while introduction? Is the any hidden menace of such an implementation?

4.5. SpareBank 1 Nord-Norge

Sparebank is a Norwegian savings bank without external owners. The Norwegian spare banks are a separate type of juridical entity that differs from commercial banks. There are a total of 123 savings banks in Norway. The first savings bank was created in 1822, and in the following 75 years there was created savings banks in most municipalities of Norway. The banks had both a saving upbringing function for the commoners, so they didn't have to burden society if they got sick and old, and served an important part in local communities' development, self-financing and development.

Historically the savings banks concentrated on privat customers, combined with small industry and the primary sector. Loans were attempted financed through deposits. Today the difference between savings banks and commercial banks are smaller, partially because savings banks now can issue stock-like grunnfondsbevis where the owners are both given dividend and representation in the governing bodies of the banks. The savings banks can now also convert themselves to public limited companies, but so far only one bank, Gjensidige NOR, had done so. Part of this later merged to form DnB NOR while the rest of it returned to the saving bank form, becoming Gjensidige.

Traditionally the savings banks have had a strong local foundation, and a goal for the municipalities was often to have their own savings bank. After World War II there were about 600 savings banks in Norway. Partially because of municipal mergers, but primarily because banking after a while demanded broader and deeper competence and because the savings banks need to be bigger to capture larger customers, there was from the 1960s and about 25 years onwards a number of mergers among savings banks. Today there are 123 savings banks, of which some are large, regional savings banks. Parallel there has been cooperation in Information Technology and product development, and a lot of the savings banks have joined one of two alliances: Sparebank 1 and Terra-Gruppen. Since most of the small commercial banks have been merged or bought by the large Nordic finance groups (DnB NOR, Nordea, Danske Bank etc., the savings banks remain as the last bit of decentralized banking in Norway. All savings banks are organized in the Norwegian Savings Bank Association. (www.wikipedia.org)

4.6. IFRS in Norway, action level.

From January 1st 2005 SNN, as a company listed on the Oslo Stock Exchange, implemented IFRS related to financial reporting for SNN. The implementation is based on a decision by the EU-commission, where all listed companies in the European Union and the European

Economic Area have to apply IFRS in their consolidated financial statement from January 1st 2005. The second important date is January 1st 2007, from this date all SNN group reporting under IFRS principle. But how did they manage to implement IFRS so quickly? What was the process of IFRS implementation? Were there any unforeseen challenges or menaces? Of course, it is rather hard to cover 3 years ago topics. But my interviewees do their best.

4.6.1. Understanding IFRS

My first question was dedicated to links between decision-making process and new accounting system, because one of accounting objectives is to provide trustworthy information for reliable decision making process. Does CEO accept and understand IFRS as a reliable source for decision-making: *"In the bank decision-making process is linked closely to credit process. But from my point decision-making process was not influenced much by IFRS. Except one point, all balance sheets in IFRS should be in fair value, that influenced investments, what we do. Previously it was easier for us. We can have them booked as costs. We should take it into consideration. Now we should do all according to IFRS. So we should be aware that everything is market-to-market value. But for now I can say, that we understand IFRS, don't we."*

4.6.2. Proactive change

After that claim I wondered, how such a big group manage to implement IFRS so quickly: *"2-3 years ago we prepared us, because we did not know much about IFRS. We have studies it before."* That statement was a revelation to me; it is hard to imagine that a bank managed to substitute accounting system so quickly. But who was the trigger for such substitution and were there any alternatives considering IFRS introduction? *"The trigger for IFRS's implementation was partly the Oslo Stock Exchange and partly the market. Considering choices… de jure we had them, but not de facto."* It seems to me, that SNN realized, that IFRS introduction would be inevitable, but such an awareness results to the learning process, not to resistance.

But were there any adjustments of bank structure considering such a mobilization, my interviewee claims: *"No, but challenges and requirements for existing employees in* *accounting and credit department have increased."* From that point is possible to conclude, that SNN structure is flexible enough to adopt a new accounting system without any adjustments. Furthermore, level of employees lets to increase a volume of work for them.

Of course, my next question was dedicated to the resistance issue: *"Norwegians love to apply and implement new rules. If we are told do it, we should do it. That is a general comment, in that respect bank employees do what they are told. On the other hand a lot of bank employees do not see the necessity of providing such a huge amount of information under IFRS. This causes a lot of work and usage of resources, which could be applied for business purposes. But I could not say we are happy with IFRS, we are loyal to them, but we are unhappy with disadvantages they caused. But we do overcome them."* It can be seen from that claim, that there is no resistance among employees. Partly it comes from mentality, partly from organizational culture.

4.6.3. Resistance to change

But how then CEO of SNN managed to introduce IFRS, not caused resistance among employees… What was the first step? "*It starts with our own knowledge. We started at 2003/4 with studying group and we also had lots of meeting inside our holding, considering this issue, so it was a huge process, but only for the accounting departments, no one else. 2005 was the first year we made group accounting under IFRS, so studying took 2 years before that. But it was only in group, for other banks we use NGAAP. First we go through all items in the balance sheet, most of them were ok for us, but also there were some items we should work for, namely, credit and financial items. After that we organize special groups, we put together people from the credit area and capital market. They worked for two years and worked out some recommendations considering IFRS introduction. The turning point is 2007, from those years all the accounting inside group is made under IFRS principles."* So, CEO was aware of possible IFRS introduction, it results in good preparation process in order to minimize possible risks and challenges. They did their best to meet upcoming changes fully armed with knowledge.

4.6.4. Challenges of IFRS introduction

But what was the main challenge? *"The main one was our IT-system; we should adjust it considerably to IFRS. So we need to explain what we need to our IT-companies, because they do not understand anything considering IFRS. So we have to learn them. Yeah, that was the hardest part. But together with credit department we manage to overcome this challenge."* From that point it can be seen, that the only weak point in bank system was IT component, but SNN manage to replace it with a new system and that challenge did not become crucial.

4.6.5. Advantages/disadvantages of IFRS

After that claim our discussion comes to the point of advantages and disadvantages of IFRS: *"From point of our bank one of the main advantages is cross-border comparison, because we have a lot contacts and businesses abroad, we have international loaners. Disadvantages – too much market-to-market and far too much detail. IFRS was made for huge financial institutions and do not fit for a smaller kind of institutions."* From that point it possible to conclude, that SNN realizes that IFRS is not an ideal system without disadvantages. The bank aware about weak points of the system and try to reduce their destructive influence.

It seems to me, that SNN has made a huge amount of preparation considering future IFRS implementation. Here could be named a lot of components, from pre-study of IFRS system till organizing group, which should be focused on necessary changes of IT-system. From my point, exactly those efforts let SNN to proceed successfully with such a risky affair of accounting system change. But here also should be mentioned similarity between NGAAP and IFRS.

4.7. Summary

Summing up, status of IFRS in both countries is rather different. Comparative table should be used to systematize and present those differences.

Table 1. Differences in IFRS adoption between SNN and Tavrichesky

Aspect	SNN	Tavrichesky
Time of adoption	App. 2 years, completed	More than 10 years already, still going
Current state	Main and only accounting system, fully functional accounting system used for decision-making and financial reporting.	Detached accounting system, exists only because of CBRF requirements
Process of implementation	Has few stages: pre-study of IFRS system, realizing necessary changes, working out recommendations, applying changes.	Only pre-study of system was made.
Current attitude towards IFRS	Loyalty	Tolerance
Willingness to go ahead with IFRS	High	Low
Resistance among employees	Low	High

These differences will be analyzed in the next section.

5. Analysis

In order to analyze data presented in empirical part, some kind of a system should be used. I suppose that following complex table helps to organize data collected and to draw a proper analysis and conclusion.

	Aspect	Norway	Russia
Norm level	Rationals	Compliance with EU	Compliance with Russian regulation, modernization of Russian accounting
	Technology	Small differences NGAAP/IFRS; Historical cost vs. Fair Value	Big differences, Juridical vs. Economic meaning of accounting
	Institutionalization	Coercive learning; Fast and full compliance to IFRS in regulation	Learning from international community by mimetic/normative ways? Slow adoption of RAS to IFRS IFRS as a parallel?
Action level	Rationals	Compliance, though incremented benefits < incremented costs.	Hesitant compliance, lack of necessity
	Technology	Quick and full IFRS adoption	Preparation of few reports and follow a few standards.
	Institutionalization	Proactive and hierarchical learning	Reactive and hierarchical learning

5.1. Norm level

From rational's perspective IFRS in Norway was introduced due to compliance with EU. As to Russia, IFRS were introduced by government, but number of enterprises realizes inefficiency of RAS and moves towards IFRS by themselves. So the process of adoption was partly triggered by political influence, partly by market demand.

From the perspective of technology, there are small differences between NGAAP and IFRS, the most significant distinction is different accounting principles, which is essential for both systems. Namely they are "Fair Value" and "Historical Costs". This issue can be linked to principles in accounting theory in the relevant part of the chapter. So this different can be characterized as difference on the principle level. In case of Russia there are big differences between IFRS and RAS stemming from different approaches to accounting. IFRS provides an economical approach, but RAS provides juridical approach. So, the different between IFRA and RAS has a conceptual character.

From institutional perspective, the process of IFRS adoption in Norway was partly initiated by political influence, in terms of DiMaggio and Powel (1983) it can be described as coercive isomorphism. Speaking about Russia, the process was initiated by government. But government made that decision because of disadvantages of RAS, not because of EU regulation. Actually, EU does not have any political influence within Russia. So the process of IFRS adoption from point of DiMaggio and Powel (1983) can be described as combination of mimetic and normative isomorphism.

5.2. Action level

From the rational perspective it can be seen a compliance of IFRS in SNN, in spite of that incremented benefits < incremented costs. That inequality can be explained by the well-developed national system of accounting. In case of Tavrichesky, there is lack of necessity, which results in hesitant compliance of IFRS.

From technology perspective IFRS adoption in SNN can be characterized as quick and full. This issue took place partly because of small differences between NGAAP and IFRS, partly because of bank activities considering IFRS adoption (preparation, analysis and adjustment).

As to Tavrichesky, IFRS adoption here results in a preparation of few reports and a following a few standards. It can be explained by big differences between IFRS and RAS and lack of necessity for IFRS introduction.

From institutional perspective, process of IFRS adoption at SNN can be characterized as proactive and hierarchical learning. That means good preparation, weak resistance, promotion by need of foreign customers, etc. As to Russia, the same process can be better described as reactive and hierarchical learning. So characteristics of the process are as follows: lack of necessity, impossibility of direct learning of the process (due to lack of competence and lack of official translation of IFRS), strong resistance and weak preparation.

After analysis, figure 5, presented in theoretical chapter, can be adjusted as follows:

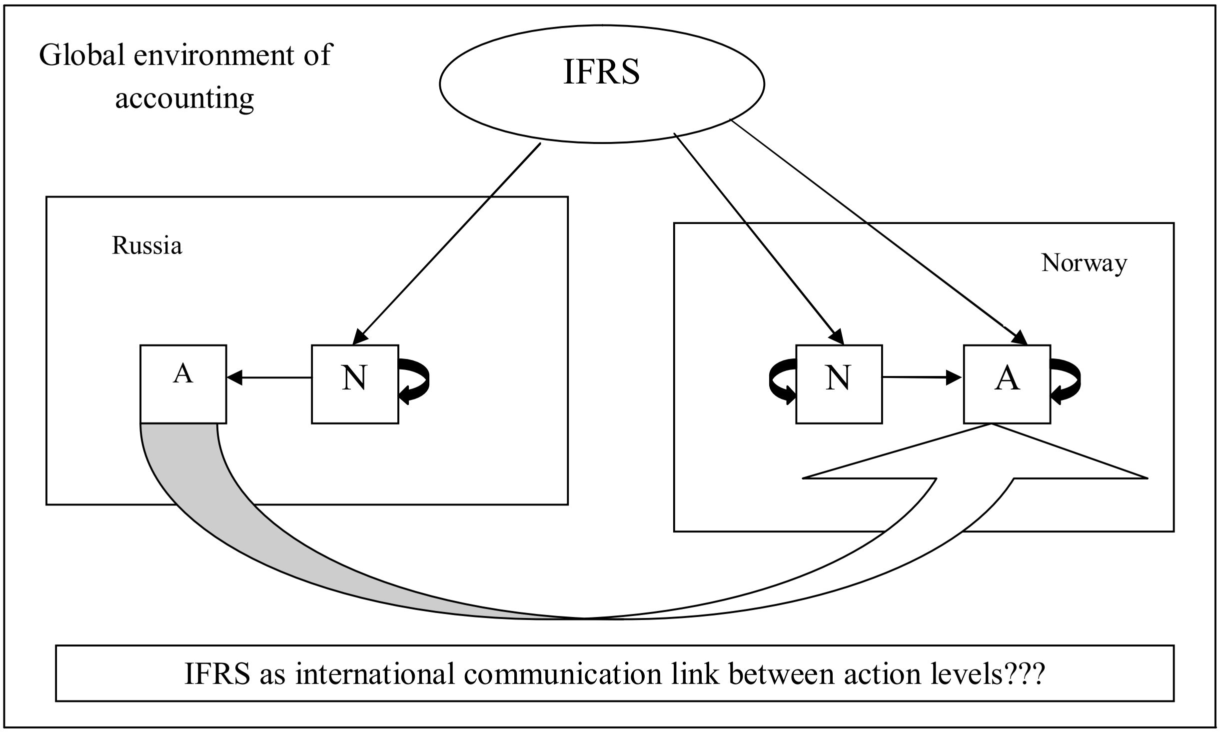

Figure 6. Adjusted theoretical model of IFRS adoption in Norway and Russia

Let's analyze two different ways of IFRS adoption, namely Norwegian and Russian perspectives, after that source of difference would be analyzed.

5.3. IFRS "compliance": a Norwegian way?

Global accounting idea was introduced in a hierarchical and proactive way in Norway. This approach secures quick and full compliance to IFRS. Process itself can be described as follows:

new IFRS => New set of Norms => New set of accounting procedures in Action system => business as usual, coupling with a possible disadvantages of a new system. This process also met a very low resistance. In addition to that, pretty competent action system learns in normative/mimetic ways from the source of idea (i.e. IFRS). Action system was prepared for possible negative consequences. Such a competence allowed in terms of Czarniawska (1996) to translate an idea successfully into the action system. In its turn, it results in a full and quick institutionalization of IFRS.

5.4. IFRS "hesitance": a Russian way?

As to Russia that global idea was introduced in reactive and hierarchical way. The result is that Action system waits to Norm system to change. There is absence of proactive learning due to lack of competence of Action system to learn from IFRS directly. Among factors for such a "hesitance" can be named lack of necessity and strong resistance, which result in slow changes of accounting system. It resulted in only compliance with incremental analysis of the Norm system. As a consequence there is long reforming in time (app. 10 years), characterizing by both parameters: "continuity" and "change". It results in its turn into slow institutionalization of IFRS.

5.5. Sources of differences

Differences in the IFRS implementation/adoption process may be explained by different initial accounting traditions. So the sources for differences can be described as follows:

- Accounting in both countries has different context, economical in Norway vs. juridical in Russia (see Mellemvik et. al., 1988).

- There are not big differences, as in case of RAS, between NGAAP and IFRS.

- RAS is too different to IFRS, furthermore it is well institutionalized in the action system.

- Though IFRS is recognized to be better suited for depicting economic reality (due to economical context of the system) of Russian enterprises. This recognition is not sufficient alone to make changes. So there is need for necessity and need for competence to understand the IFRS idea to practice of the enterprise (see Czarniawska, 1996).

5.6. Implications: IFRS as an accounting language of international cooperation?

Analysis shows that IFRS can be a language of business cooperation between enterprises in different countries; Norway and Russia are not exceptions. But big differences in accounting tradition may prevent accounting to fulfill this role. The compliance with IFRS in national regulation is not enough. There is a need for clear motivation and competence improvement at the level of Russian enterprises.

Conclusion

My research seeks to answer the following questions:

- What are motives of IFRS adoption?
- What are differences and similarities between national accounting and IFRS?
- What are adopted by companies accounting solutions?
- How the adoption process can be characterized?

The purpose of my research is:

- To describe differences/similarities of IFRS adoption in one Norwegian and one Russian Bank,
- To analyze these differences based on accounting and institutional theory,
- To understand challenges of IFRS adoption.

In order to fulfill this theoretical framework driven by Miller's theory, DiMaggio and Powell's theory and Czarniawska's theory was chosen. Analysis of empirical finding by chosen theoretical framework discovered big differences between Norway and Russia.

In case of Norway, idea of IFRS introduction was presented in hierarchical and proactive way. This resulted in quick and full compliance to IFRS. Competence of action system allowed to translate an idea successfully and resulted it in a quick and full institutionalization of IFRS.

In case of Russia, global idea of IFRS was introduced in hierarchical and reactive way. As a consequence there is long reforming in time (app. 10 years), characterizing by both parameters: "continuity" and "change". Also there is absence of proactive learning due to lack of competence of Action system to learn from IFRS directly.

The main differences stem from different initial accounting traditions, lack of necessity in the Russian case, huge difference between RAS and IFRS and lack of competence at the Action level of Russia.

IFRS can become a language between different national accounting practices, but one should take into account that big differences in initial accounting traditions may prevent IFRS to carry out that function. In case of Norway and Russia, IFRS can be a language of business cooperation, but there is a need for necessity and competence improvement in Russia.

The existence of limitations is a usual feature of any study. They results from used methodology and theoretical framework and conducted empiric. My research enables to show a picture of IFRS adoption in Norway and Russia, considering two current banks. So, expected "weak" points of reseacrh are believed to be as follows. My study covers rather short period of time, comparing to terms of IFRS introduction in and Norway (app. 2 years) and Russia (app. 10 years). So it is hard to reconstruct what was the process itself. But my research provides deep insight to the results and differences of the IFRS adoption process. The generalization or transferability of results to other companies may be quite problematic, due to chosen research method (two case studies). Limitations may arise as a result of the chosen scientific position. Interpretive technique for the analysis of empirical part may lead to certain degree of subjectivity.

Based on mentioned above, some implication for further research can be named. First of all, one direction for further research is studying Russian Norm system. How does it change? Who are main actors (Ministry of Finance, etc.)? The second direction for future studies is to research the question how IFRS can be used by Russian enterprises to improve accounting and management?

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Appendix 1

Difference between NGAAP and IFRS, adopted from SNN annual report 2007.

	NGAAP	Effect of IFRS	IFRS
Balance Sheet			
Assets			
Loans and advances to customers	45404	-20	45384
Shares	415	75	490
Financial derivatives	0	449	449
Investment in Group companies	208	-85	123
Investment in associated companies and joint ventures	662	-42	620
Other assets	918	-377	541
Liabilities			
Deposits from customers	27873	1	27874
Debt securities in issue	18723	18	18741
Financial derivatives	0	372	372
Other liabilities	1494	-478	1016
Subordinated loan capital	1321	53	1374

Equity			
Dividend Equalization Fund	197	158	355
Saving Bank's Fund	1883	-5	1878
Other equity	119	-119	0
Income Statement			
Income from investments	150	-136	14
Gain/losses and net value changes from investments in securities	41	54	95
Administrative costs	213	33	246
Tax	187	3	190

Appendix 2

Correspondence between IFRS and Russian accounting principles (adapted from Pashigoreva and Pilipenko, 2004)

Number and name of IAS	Brief description	Compliance with Russian accounting principles
IAS 1 "Presentation of financial statements"	Requires: • Availability of data from prior periods • Accrual principle • Disclosure of accounting policies in financial reporting	In a whole corresponds to RAS 1/98 "Accounting policies"
IAS 2 "Inventories"	Inventories are evaluated at the lowest value (market or actual costs) The following methods of evaluation are used: FIFO, LIFO, average or retail price method Costs of inventories do not include overhead costs In hyperinflationary economy	Inventories are evaluated at actual costs Retail price method is not applied Costs of inventories do not include overhead costs Revaluation of inventories is not applied (RAS 5/01)

	revaluation of inventories is applied	
IAS 4 "Depreciation", substituted by IAS 16, 22 and 38 from 01.07.99	All assets with long period of economic life are depreciable Depreciable period are defined by an enterprise or imposed by the Government	There are several limitations in RAS 6/01 and RAS 5/01
IAS 7 "Cash flow statements"	The cash flow statement is obligatory and reflects inflows and outflows from operational, financial and investment activities, transactions with foreign currency, interests, dividends, income taxes and non-cash transactions	The cash flow statement are prepared basing on other principles (RAS 4/99)
IAS 8 "Net profit or loss for the period, fundamental errors and changes in accounting policies"	Extraordinary items are rare and should be clearly separated from results of primary activity	Corresponds to RAS 9/99 and RAS 10/99 in parts of extraordinary incomes and expenses; RAS 8/98 discloses contingent economic events

	Detected changes of prior periods could be reflected in the current and prior financial statements	Changes in financial statements are disclosed in the period, when they are detected
IAS 9 "Expenses on R&D", substituted by IAS 38 from 01.07.99	All expenses could be capitalized and depreciated during 5 years All enterprises have to report on R&D, reflecting R&D expenditures, methods and periods of depreciation	Not obligatory Such reporting is not obligatory (partly RAS 14/00 and RAS 13/00)
IAS 10 "Events after the balance sheet date"	Unforeseen loss is considered the loss of future periods, when it is obvious that future event will submit the possibility of loss. Contingent income is disclosed, if it may be earned with some level of certainty. Dividends are registered according to the dividend policy of an enterprise, not at their announcement	Corresponds to RAS 7/98 Usually, dividends are registered in the period of their announcement
IAS 12 "Income taxes"	Assumes distribution of taxes in every period. Taxes are expenses for gaining the profits; therefore they should be accrued in the period, when corresponded incomes and	No tax distribution between periods

	expenses are accrued	
IAS 14 "Segment reporting"	Financial statements are prepared for a company's geographical segments and departments in different industries.	Companies with subsidiaries present financial statements according to RAS 12/00
IAS 15 " Information reflecting the effects of changing prices"	Adjustments of depreciation and costs should be disclosed	No such standard
IAS 16 "Property, plant and equipment"	Historical cost Granted assets are evaluated at fair value Costs of reparation and modernization may be include into asset's value	Not applied Market evaluation is applied Expenses for reparation are period costs, costs of modernization increase (diminish) initial value of asset and should be reflected in additional capital RAS 6/01
IAS 17 "Leases"	Financial (long-term) lease can be characterized: • Transfer of ownership to	In a whole corresponds to national accounting policies

	lessee in the end of leasing period • Asset's leasing period equals period of economic life	
IAS 18 "Revenues"	Accrual principle of recognition Profits from participation in equities of other organizations recognized at the moment of announcement of a right for such participation Granted assets are considered as extraordinary income Assets and liabilities of foreign subsidiaries are calculated at exchange rates on the balance sheet date Unless sale or liquidation of foreign subsidiaries, the parent company recognizes amounts of exchange rate difference as a part of equity	Corresponds Corresponds Corresponds Not considered in RAS 9/99 Not defined
IAS 21 "The effects of changes in foreign exchange rates"	Cash items are recalculated at the exchange rates on the dates of transactions (non-cash items - at historical rates/ rates on the date of	From 2000 the exchange rate differences are recognized as extraordinary incomes -

	revaluation) Exchange rate differences in foreign subsidiary's financial statements are recognized as deferred profit/loss in consolidated statements (in the case of foreign subsidiary's sale they are included into profit/loss of current period). Exchange rate differences in foreign subsidiary's financial statements connected to minority interest increase minority capital	RAS 3/00
IAS 23 "Borrowing costs"	The alternative method implies that borrowing costs could be included into asset's purchase costs, if there is a direct connection between such borrowing costs and asset's purchasing, construction and production Chosen alternative method should be constantly applied, even if asset's book value exceeds replacement value	Partly corresponds to RAS 15/01 "Loans, credits and borrowing costs". Borrowing costs of general loans are written off at average rate of the rest of unpaid loans in current financial period. If production is interrupted, borrowing costs should not be written off
IAS 24 "Related party disclosures"	One party (company) is considered related if another party has opportunity to control its activity or influences its important financial and	Other criteria of dependence are suggested (RAS 11/00)

	managerial decisions. Criteria of dependence: • Controlling interest (controlling block of shares) • Existence of special agreements (contracts) on establishing of control	
IAS 25 “Accounting for investments”	Securities are evaluated at the lowest price (market or actual costs) Long-term financial investments are evaluated according to chosen accounting policy	In a whole corresponds
IAS 27 “Consolidated financial statements and accounting for investments in subsidiaries”	Preparation of consolidated financial statements are encouraged, if parent company possesses more than 50 % of another company or may influence its activity Besides consolidated balance sheet, separated balance sheets of subsidiaries should be presented	Preparation of consolidated financial statements is obligatory according to RAS 11/00, but sometimes they are not prepared as it is not required by tax authorities
IAS 28 “Accounting for investments in	The compliance between accounting policies in a parent company and	Need for unification of accounting principles is formally confirmed by the

associates"	subsidiaries should be provided In the case of differences in accounting principles, financial statements of subsidiaries should be corrected in accordance to the parent company's principles	Ministry of Finance
IAS 29 "Financial reporting in hyperinflationary economies"	Criteria for definition of hyperinflationary economy: • The majority of population keeps their money in stable foreign currency • Prices of credit sales compensate the presumable decrease of purchasing ability • Interest rates and prices are pegged to price index • Total level of inflation for the last 3 year is 100% and higher Financial statements of enterprises operating in hyperinflationary economy should include the effect of inflation	Influence of inflation is not removed except for changes in assets' values. Some elements of accounting for inflation effects were used in tax accounting (use of deflating index) for calculation of taxable income form realisation of fixed assets and other assets

Appendix 3

Interview guide for bank employees.

1) What is the main mission of the bank? Which activities does the bank perform? Which type of them is the most important? Why?
2) Can you describe decision-making process at the bank? How IFRS did influence it?
3) Which actors inside and outside the bank are involved in bank governance? Who is the most powerful? Why?
4) How is the quality of the bank's services defined? What kinds of performance indicators are used? Was it somehow changes due to IFRS implementation?
5) What is the source of control in your organization?
6) How do you see the future of the bank?
7) Was the structure of your organization changed due to IFRS introduction?

1) What are the main sources defining the accounting practices at the bank?
2) What are the purposes of the bank's accounting system?
3) How are accounting and decision-making processes at the bank linked? Did this link become stronger/weaker due to IFRS introducing?
4) Which reports are prepared and submitted and how often? To whom? Are they discussed and/or approved? Are they public available? Who conducts audit of these reports if any? Were there any changes due to IFRS introduction?
5) Who are the primary users of accounting information at the bank and outside it? What kind of information do they require if any?

1) Can you compare Norwegian system of accounting and IFRS?
2) Why, from your point of view, IFRS were implemented in Norway (Russia)? Who played the most important role in this process? Who resisted at most?
3) Who are the most important actors in IFRS implementation (at your bank, on the Norway (Russia) level)?
4) How can you describe the role of international financial organizations in this process?
5) Why do you think a shift towards IFRS was necessary?
6) How can you describe the process of IFRS introducing?
7) Could you name stages of IFRS introducing? What is the most difficult one? Why?
8) By whom and what sanction can be implemented in case of refuse to use IFRS?
9) What are advantages and disadvantages concerning the new system? Which challenges are you facing now or are expected to encounter in the future?
10) What standards are the most difficult to implement? Why?
11) How can you describe attitude of bank employees to these changes?
12) Was it necessary to introduce IFRS in Norway (Russia)? Why?