

THE INFLUENCE OF IFRS IMPLEMENTATION ON BUSINESS MANAGEMENT IN FINNISH BORN GLOBALS

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Jonna Wirtanen
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Department of Accounting and Finance
HELSINGIN KAUPPAKORKEAKOULU
HELSINKI SCHOOL OF ECONOMICS



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Objective

The main objective of this study is to understand whether the implementation of the International Financial Reporting Standards influences Finnish Born Global companies' business management. The study aims to present benefits and drawbacks experienced by Finnish BGs. Particular focus is placed on understanding how the adoption of external reporting standards may influence internal processes, planning, and ways of action within an organization.

Data

This study utilizes the existing research literature of Born Global companies, international harmonization of accounting standards, and the convergence of financial and management accounting. In the empirical part, the results of semi-structured interviews in three Finnish Born Global companies will be introduced. Two of the companies have already adopted IFRS while one of them is still reporting according to the Finnish Accounting Standards. The study will be performed as an exploratory, qualitative field-study.

Results of the study

The findings of the study show that positive effects from the adoption of the IFRS by Finnish BGs are to be found. All in all, the IFRS financial statements are seen as a comprehensive information package; the management gets improved financial information easier for their decision-making needs.

Key words

IFRS adoption, Born Global, Business Management

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Tutkimuksen tavoitteet

Tutkielman tavoitteena oli ymmärtää, mitä vaikutuksia IFRS:n käyttöönotolla voi olla suomalaisten Born Global (BG) yritysten liiketoiminnan suunnitteluun. Tutkielma pyrkii esittämään hyötyjä sekä haittoja, joita suomalaisissa BG yrityksissä on havaittu. Erityisenä kiinnostuksen kohteena on ymmärtää, miten ulkoisen raportointijärjestelmän käyttöönotolla voi vaikuttaa yrityksen sisäisiin prosesseihin, suunnitteluun sekä toimintatapoihin.

Tutkimusaineisto ja -menetelmät

Tutkielma hyödyntää olemassa olevaa tutkimuskirjallisuutta kansainvälisten tilinpäätösstandardien, Born Global – yritysten, tilinpäätöskäytäntöjen yhdentämisen sekä ulkoisen ja sisäisen laskennan liittymäpinnoista. Empiriaosuus on rakennettu kvalitatiivisena, eksploratiivisena field-tutkimuksena. Empiria-aineisto koostuu kolmesta suomalaisesta Born Global yrityksestä, joista kaksi ovat jo ottaneet IFRS:n käyttöön ja joista yksi edelleen raportoi suomalaisen tilinpäätösnormiston mukaisesti. Haastattelumetodina hyödynnettiin semistruktuointua lähestymistapaa.

Tulokset

Tutkielman tulokset osoittavat, että IFRS:n käyttöönotolla on ollut positiivisia vaikutuksia suomalaisten BG –yritysten liiketoiminnan suunnitteluun. Kaiken kaikkiaan, yritykset näkevät IFRS tilinpäätökset kattavina informaatiopaketteina, joita johto voi hyödyntää päätöksentekonsa tukena.

Avainsanat

IFRS:n käyttöönotto, Born Global, liiketoiminnan suunnittelu

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1 Introduction

1.1 Background discussion

Doing business today means satisfying the needs of local and global customers. Younger generations travel around the world, use internet on a daily basis and spend their money on trying new things. Investors seek for new investment opportunities worldwide, which make the access to business financing easier for companies. The markets expand internationally and the home-market advantages of national companies disappear. Communication technology makes it possible to virtually travel anywhere in the world within minutes, meaning that the ability to find and take advantage of business opportunities globally is not only available for large multinational companies anymore.

Even the small and medium-sized companies in Finland cannot avoid being exposed to international surroundings. If foreign companies see the market profitable, they will enter in no time. Therefore, many of the small and medium-sized companies also aim to global markets from inception. These companies are also known as Born Globals (BGs). The timing of globalization is nowadays increasingly more important. As Luostarinen & Gabriellson (2004) express:

“Globalize fast or die.”

There is extensive literature that attempts to document and analyze the effects of harmonization of the international accounting standards. Over the last few years many researchers have tried to find reasons for companies' voluntary adoption of non-local Generally Accepted Accounting Principles (GAAP), e.g. US GAAP or IFRS. However, there are limited, if any, studies attempting to analyze the possible outcomes of the IFRS implementation in Born Global companies. None of the studies cover the internal effects resulting from the adoption of external reporting standards. This raises the question: Do international non-listed companies indeed need the International Financial Reporting Standards? If so, what are the benefits of the implementation? Due to the release of the exposure draft of *“International Financial Reporting Standard for Small and Medium-sized Entities”* by the International Accounting Standards Board in 2007, the question is again current (ED SME IFRS 2007).

Financial reporting systems are normally not associated with business planning, management decision-making or comprehensive information systems. In general, even management accounting and financial accounting are viewed as two separate systems independent from each other. Limited research of the convergence of financial and management accounting is to be found. Hemmer & Labro (2008), as well as Taipaleenmäki & Ikäheimo (2009), examined the issue and concluded that financial and management accounting are deeper integrated than presented in the research and text books. The process of gathering the financial information for financial statements and reporting purposes may be integrated with other business processes. The same information may be utilized among management, marketing, and even the legal unit of the organization. Financial statements reported according to the International Financial Reporting Standards may be presented to external stakeholders, e.g. investors, employees, customers, or partners. Greater understanding of the possible benefits of financial reporting systems on processes and decision-making within organization is yet to be discovered.

The Born Global concept has been widely studied during the past few years. Many of them have tried to define the phenomena and to describe the special characteristics of the BGs. The concept was first introduced in 1993 by the consultants of McKinsey & Co in a survey for *The Australian Manufacturing Council* (in Rasmussen & Madsen, 2002). Although BGs have been of great interest, there are only few studies concentrating on the managerial planning of BGs.

1.2 Definitions

Born Global (BG). Luostarinen & Gabrielsson (2004) define BGs as companies who start to globalize their operations from the very inception, simultaneously with domestic markets or soon after an exceptionally short domestic period. This study defines Born Globals as companies who are born locally but who aim toward global market coverage in a very short period of time, as suggested by Svensson (2006, 1315.)

Harmonization. A process of increasing the compatibility of accounting practices by setting bounds to their degree of variation (Alexander et al. 2005).

International Financial Reporting Standard (IFRS). A standard and interpretation adopted by the International Accounting Standards Board, IASB (IASB 2008). In this study the term IFRS includes current and future standards issued by the IASB as well as International Accounting Standards (**IAS**) issued by the former International Accounting Standards Committee (IASC).

Small and Medium-sized Entity (SME). The IASB sees SMEs as entities without public accountability. The IASB used an entity with an average of 50 employees as a guideline in the development of the Exposure Draft of SME IFRS. The European Union defines SMEs as enterprises with fewer than 250 employees, with an annual turnover not exceeding 50 million €, and/or an annual balance sheet total not exceeding 43 million € (EC 2003).

Standardization is an attempt to create a stricter and narrower set of rules. However, harmonization and standardization are often used interchangeably (Alexander et al. 2005).

Venture Capital is private equity provided by firms in young companies not listed on stock exchange. (Gabrielsson et al. 2004.)

1.3 Research gap

Within the existing business literature there is place for theoretical and empirical research in the area of adoption of the IFRS in non-listed Born Global companies. The existing research of international financial reporting has mainly focused on the voluntary adoption of non-local standards in publicly quoted companies and on the adoption of the IFRS by private companies. The findings of these studies mainly represent the influences of the IFRS implementation on external level; i.e. the effect on investor relations, and abnormal earnings. Still, the research has not yet extended to Born Globals, who are most likely in need of the IFRS because of their global orientation from the inception. Nor has the research revealed an empirical study covering the influence of adopting an external financial reporting system on the business management within organizations.

The empirical research on Born Globals has mainly focused on the internationalization of international new ventures rather than on the financial reporting or strategic planning of the

firms¹. So far most of the studies have concentrated on the infant stage of BGs and not concerned with the later stages at all (Luostarinen & Gabrielsson 2006).

A particularly interesting research gap is the linkage between financial accounting and managerial accounting relating to the IFRS. According to Drury & Tayles (1997) there is a need for more in-depth case study to explore the linkage between external financial reporting and management accounting. This study regards the IFRS' adoption as an opportunity to develop the overall planning systems of a company rather than a narrow reporting system. Financial accounting and management accounting are seen as systems complimentary to each other.

Ikäheimo et al. (2008) conclude in their expert based study of Small- and Medium-Sized Entities' (SME) IFRS in Finland that for Finnish Born Globals the benefits of adopting the SME IFRS could exceed the costs of implementation and in-use phase. For Born Globals the trust relationship with business partners and outside financiers is of greatest importance (ibid. 22). The primary reason of the BGs to adopt the IFRS might be the trust building with external partners. However, the implementation process may generate also internal benefits for the BGs.

This study focuses on the development of business operations through IFRS in Finnish Born Global companies. The interest is in Born Globals since these companies are already co-operating with international investors and stakeholders and exposed to global markets. Because of the above mentioned Exposure Draft: "IFRS for Small and Medium-sized Entities", the question whether international reporting standards would benefit international non-listed companies has become current. Since SME IFRS is still work in progress, this study will focus on the influences of IFRS on Finnish Born Globals.

¹ For extensive review of empirical studies on international new ventures see e.g. Aspelund et al. 2007, 1427-1430.

1.4 Research problem

The aim of this study is to understand whether International Financial Reporting Standards benefit Born Global companies. The objective can be presented as a question trying to answer the following research problem:

How does IFRS contribute to Born Global companies' development of business management, if at all?

The purpose of the study is not to create an exclusive list of benefits and costs of IFRS implementation in Finnish Born Global companies, but rather to present benefits and drawbacks experienced by Finnish BGs when adopting the IFRS as the financial reporting system. This study will not aim to explain individual standards of the IFRS in detail. Instead, the goal is to understand how the adoption of external reporting standards may influence internal processes, planning, and ways of action within organizations.

1.5 Methodology

The study will be performed as an exploratory qualitative field-study. The purpose of this study is rather to understand the “how” and “why” questions of a potential IFRS adoption than create regression models with low explanatory power with this type of questions. Since IFRS nor SME IFRS have not been implemented in most of the Finnish small and medium-sized BGs yet, the research method can be defined as exploratory, i.e. hardly anything is known about the object and the goal is to find out “what is going on here?”.

The empirical data consists of semi-structured interviews conducted among three Finnish BGs, of which two already are utilizing the full IFRS and one BG is still reporting according to the Finnish Accounting Standards (FAS). To best understand the potential influence of the IFRS adoption in organizations, the Chief Financial officers and other persons responsible for the development of business will be interviewed.

1.6 Structure of the study

This study consists of theoretical and empirical parts. The literature review will cover the main existing literature of Born Global concept, harmonization of the financial reporting, usefulness of financial information, and linkage of managerial planning and financial reporting. A proposed theoretical framework will be presented at the end of the literature review.

In the third chapter, the research method and research design will be explained. The chapter will also cover the utilized data, the background information, as well as the presentation of results. Furthermore, an updated framework will conclude the chapter three with the presentation of main findings. In the fourth and last chapter, conclusions and summary are drawn and presented from the results presented in chapter three.

2 Analyzing the literature

In this chapter, the Born Global concept, international harmonization of the financial reporting, users of financial reports, connection between managerial decision making and the financial reporting statements, and outcomes of the IFRS implementation will be discussed. In the end of the chapter, a theoretical framework is introduced to conclude the theoretical background for the empirical study.

2.1 Born Global concept

This section presents the concept of Born Global, special features of them, and the managerial planning within them. The section also aims to form an understanding of the connection between the BGs and the IFRS.

Many authors have aimed to define and explain Born Globals but it was not before 1993 when the concept Born Global was first introduced in an Australian report (McKinsey & Co. in Rasmussen & Madsen, 2002). Before the concept was introduced similar discussions of the phenomena² existed.

In Figure 1 you may find a short summary of the early literature³ aiming to define the phenomena nowadays so often referred as Born Global. As seen from the table, the definition of BGs is not commonly confirmed and the general understanding is yet to be achieved. Before the term Born Global was introduced for the first time, similar discussion of firms internationalizing soon after the foundation existed. The first attempt to define firms jumping over stages of traditional internationalizing models was introduced by Hedlund & Kvernerland in 1985. They called these outliers **Leapfrogging firms**. **Innate exporters** was suggested to describe firms who started exporting right from inception. **High Technology Start Ups** were firms with international founders. Firms with immediate internationalizing

² i.e. firms internationalizing rapidly after the establishment

³ e.g. before 2002

got the name **International New Ventures**. An important factor explaining **Born Globals** is the management's commitment to internationalization. (Rasmussen & Madsen 2002, 5-13.) Luostarinen & Gabrielsson (2004) define BGs as companies who start to globalize their operations from the very inception, simultaneously with domestic markets or soon after an exceptionally short domestic period.

As mentioned earlier, this study defines Born Globals as companies who are born globally but who aim toward global market coverage in a very short period of time, as suggested by Svensson (2006, 1315.)

Author	Background	Conclusion/result
Hedlund & Kverneland 1985	"Leapfrogging" Firms that jump over stages in the traditional modes	More and more homogenous export-markets. Internationalization as a part of the firms' strategy.
Young 1987	Theoretical discussion of the results from Hedlund & Kverneland 1985	Agrees in the conclusions regarding leapfrogging, but only for high-tech firms
Ganitsky 1989	Innate exporters. 18 exporters from Israel which are Born International	Firms which are Born Global adapt to a high degree their strategy to the foreign markets. Lack of resources and experience.
Jolly et al. 1992	High Technology Start-Ups. Four case studies of high-tech start-ups.	From the start these firms have their strategy pointed towards the global niche markets. Founder with an international experience.
McKinsey & Co. 1993	Born Global. Survey amongst 310 production firms with a new export	25% of the firms had an intensive export within the first two years after the foundation of the firm. Export in average 75% of their sales.
Cavusgil 1994	Born Global. Interpretation of McKinsey & Co. 1993	Small is beautiful. Gradual internationalization is dead.
McDougall et al. 1994	International New Ventures. 24 case studies	A strategy from the birth directed towards the international markets. The stage models are not usable any longer.
Oviatt & McDougall 1994	12 case studies - same as in McDougall et al. 1994. Firms with a proactive international strategy.	An INV is a business organization that, from inception, seeks to derive a significant competitive advantages from the use of resources and the sale of outputs in multiple countries.
Bell 1995	Small producers of computer software. Most of them have to be international from the start	"Psychic distance" is no longer usable. No support for the stage models.
Bloodgood et al. 1996	Firms with a "high potential" for growth	Internationalization depends on the international experience of the founder. Even small firms in the USA have the possibility of being international from birth
Knight & Cavusgil 1996	Born Global. Summary of existing research + articles from newspapers. Firms with an export of 25% or more within the first 3-6 years.	Factors that lead to the existence of Born Globals: Growing number of niche markets all over the world. Changes in production and communication technology. Growing number of international networks.
Madsen & Servais 1997	Born Global. Summary of existing research + a number of Danish case studies	The classical stage models are valid for the Born Globals if the founder's experience and the internationalization of the markets is taken into consideration.
Jones 1999	International Entrepreneurs. Firms with a large international network at the foundation. Questionnaire amongst high-tech firms in England.	Internationalization of the firms often starts with networks, which does not have anything to do with sales. Many different roads to the internationalization of these firms.

Figure 1: Born Globals and similar concepts (from Rasmussen & Madsen 2002, 13).

2.1.1 Special characteristics of BGs

There are many special characteristics of Born Global companies comparing to traditional internationalizing companies. The major difference between the traditional internationalizing company and the BGs is the time span from the foundation to globalization. Since BGs seek to enter global markets from the inception, the domestic phase is usually very short or nonexistent. The domestic stage of Finnish BGs lasts only one tenth of the traditional internationalizing companies' domestic stage; BGs domestic stage lasts for an average of only 2.1 years.

Researchers have found that large multinational companies go through stages in the development of their international business. Oviatt & McDougall (1994) believe that international firms may skip some of the stages of the international development or that the internationalization of companies may not occur in these stages at all. The traditional internationalizing stages –theories fail to explain the formation of BGs⁴ because they assume that companies become international long time after the foundation (McDougall et al. 1994). Nonetheless, this does not mean that the internationalizing stages –theories are false; they may apply to other companies (Oviatt & McDougall 1994). However, Luostarinen & Gabrielsson (2006) conclude that the discussion of the non-existence of the conventional internationalizing stages approach concerning BGs is largely exaggerated. According to them most of the BGs must either follow the natural steps or risk losing their business (ibid. 2006). The researchers still debate whether BGs follow the traditional internationalization stages or not.⁵

Moen & Servais (2002) emphasize the importance of global objective for all companies, in spite of the size of the firm. The global orientation is especially important when companies are developing their first product generation and establishing the business (ibid. 2002). The future export involvement of the company seems to be largely influenced by its (internationalizing) behavior shortly after the foundation (ibid. 2002).

⁴Mc Dougall et al. (1994) call the companies of this “new” phenomena International New Ventures. Later on this study they will be referred as BGs.

⁵ see e.g. Oviatt & McDougall 1994; McDougall et al. 1994; Luostarinen & Gabrielsson 2006

McDougall et al. (1994) suggest that the founders of BGs themselves believe they may develop international competencies only by practicing international business. The founders of BGs understand that they have to create the international competencies from the inception. Otherwise, it might be difficult to change the strategic direction when the time for globalization becomes necessary (ibid 1994). In case, you get too attached to the domestic market, it might be very hard to switch the focus on global markets when the time comes. Moen & Servais (2002) support the view and state that new firms should be aware of the difficulty to manage an export venture the longer the firm operates with only narrow export sales. Moen (2002) concludes that firms not engaging in export within a few years of the foundation may face difficulties in trying to reach the success in international markets.

BGs in Small and Open Economies (SMOPECs)⁶ globalize because of the push and pressure forces of the small and open domestic markets. Another reason for an early globalization is the fear of an expected future competition from other BGs located in bigger countries. (Luostarinen & Gabrielsson 2004.) Besides, the best defense against foreign competition in the home market might be a superior international offense (Oviatt & McDougall 1995).

The main difference between mature firms and BGs internationalizing lies in the amount and gathering of resources. BGs face greater internal demand for resources, in contrast to established firms. (McDougall et al. 1994.) Creating the internal processes while going global at the same time, the BG faces a need for a substantial amount of resources. Aforementioned processes demand financial resources especially. In addition, BGs need the knowledge and willingness of the management, as well as employees, to make the BG succeed in the global market. Luostarinen & Gabrielsson (2004) see that the BGs seek for strategic alliances to improve their limited financial and managerial resources, even as their first step. Nowadays, BGs can form these strategic alliances with international partners, as well as with domestic. Although BGs face many challenges, at the same time they may be able to achieve substantial long-term growth opportunities (Moen 2002).

Managers and owners of the BGs see that an access to capital and an ability to keep control of the firm are especially important. Many of the managers are also the owners of the BGs and face a need for external capital to enable the development of the firm. (Moen 2002). Without

⁶ e.g. Finland

the necessary capital, many of the BGs may come to the end of their existence. The finance strategies of rapidly growing firms, e.g. BGs, can be divided into three phases:

In the *establishment phase*, the BG can choose between the founders’ own investments and external financing. However, to get external capital from banks companies are required to have a continuous cash flow. Therefore, the founders usually start with a high degree of personal effort and savings. Besides, BGs can often rely on government support or business angels in financing the operations.

In the *international phase* BGs can rely on independent funds, which raise money from investors and financial institutions. These venture funds can be divided into public and private capital.

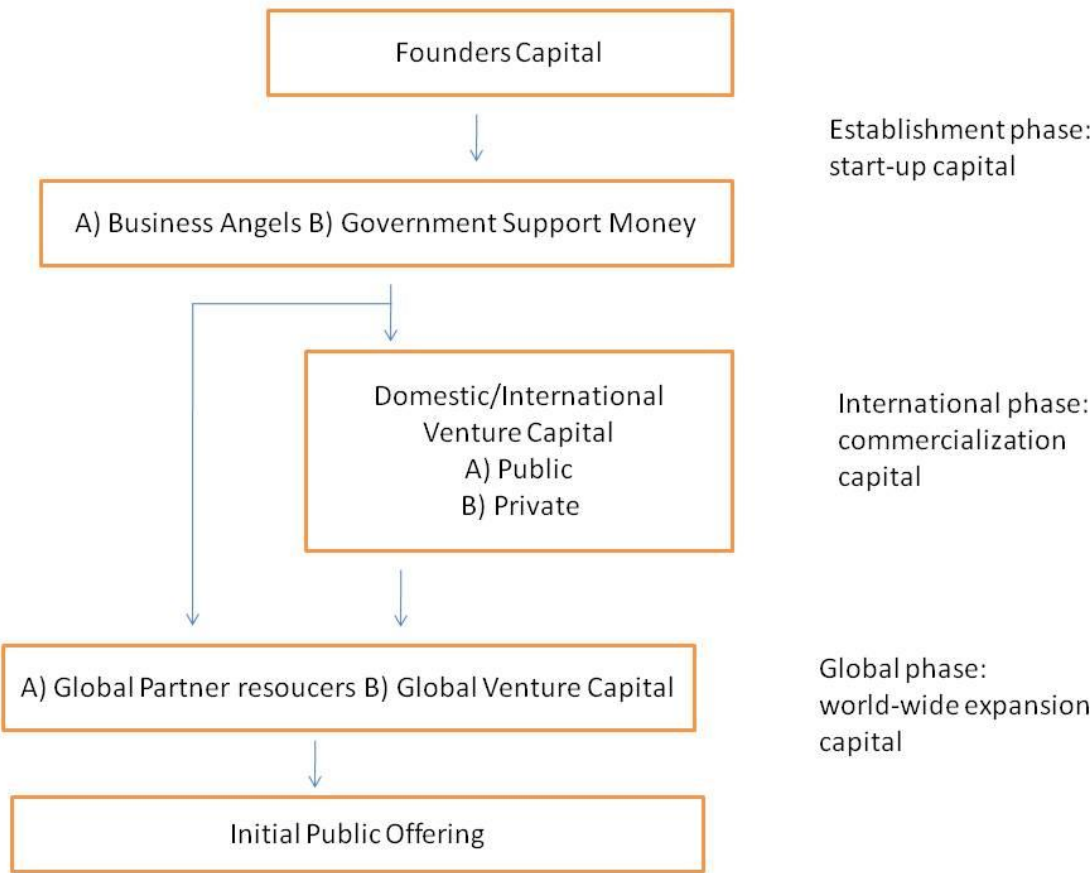


Figure 2: Finance process model enabling rapid global growth (adjusted from Gabrielsson et al. 2004, 596).

For a firm aiming to global markets, the source of venture capital and of other possible (knowledge) resources available in the *global phase* should also be considered. The major target for many BGs is to list the company on one of the stock exchanges. (Gabrielsson et al.2004.) These three phases are shown in the Figure 2 above.

Gabrielsson et al. (2004) argue that the rapid growth of Finnish SMEs is only possible through the access to international or global finance sources and financial management capabilities or through succeed in an Initial Public Offering (IPO). As mentioned before, BGs are growing rapidly and their goal is to reach global markets fast after foundation. Therefore the finance process presented above applies also to BGs. Moen & Servais (2002) agree with Gabrielsson et el. and suggest that firms with high international ambitions need external financing for their export. They conclude (ibid. 2002) that access to different sources of capital may be more important for fast internationalizing companies than for any other group of firms.

It can be argued that BGs offer mostly niche products or services. (Luostarinen & Gabrielsson, 2004.) Oviatt & McDougall (1995) support the view and state that the most successful BGs begin by selling unique products or services in the premier markets. They found out in their field study of 12 BGs, originally from the US and Europe, that in most of the cases the founders defined the companies' competitive advantage as special knowledge that their firm had but the others lacked (ibid 1995). Porter (2006, 103) also highlights that Finnish small and medium-sized companies usually utilize the focus strategy of Porter's competitive advantages' model on global markets as first step in their global business strategy.

BGs may face disadvantages in foreign countries in comparison to local companies, e.g. barriers to trade, incomplete understanding of laws, and language in foreign countries (Oviatt & McDougall 1994). Therefore, the knowledge and the resources mentioned earlier are vital for BGs. Even if BGs cannot overcome all the barriers, they should be able to understand the local laws and major cultural differences.

2.1.3 Managerial planning of BGs

The strategic vision of BGs includes global business from the inception and initially higher growth goals than in other internationalizing companies. Oviatt & McDougall (1995) even argue that the competitive advantage the large companies with long experience once enjoyed has shifted away toward companies with unique knowledge and quick response capabilities.

Because of the high growth goals, the need for finance, global market knowledge, and global management skills is large for BGs⁷. For these companies having resources across national borders is vital; only through partnerships and business associates are they able to gain the business knowledge and wisdom needed in conquering the global markets (see e.g. McDougall et al. 1994; Oviatt & McDougall 1995).

Luostarinen & Gabrielsson (2004 & 2006) divide the business areas of BGs into:

1. *“high-tech businesses,*
2. *high-design businesses,*
3. *high-service businesses,*
4. *high-know-how-businesses, and*
5. *high-system businesses. ”*

Companies in *the high-tech business* area utilize advanced innovative technologies in their products. Their research and development costs often amount to more than 5% of their total sales. *The high-service* companies provide remarkably high-quality services. The competitive advantage of companies operating in the *high-design business area* is the unique design used in their products. These companies invest substantially in creating attractive design, while *the high-know-how* companies focus on unique know-how in their products. It is protected with trademarks or patents and is usually licensable. Companies in *the high-system business* are produce sophisticated systems which solve customer-specific problems and needs. (Luostarinen & Gabrielsson 2006, 781). The companies analyzed in the empirical part can be

⁷ see e.g. McDougall et al. 1994, Luostarinen & Gabrielsson 2004

categorized as the *high-know-how* companies as their products are based on unique know-how and this uniqueness is protected by licences.

As Moen (2002) suggests that highly internationalized industries, e.g. software industry, without a natural regional cause for internationalization may explain the global focus of some firms. BGs expand to markets that offer high sales potential (Luostarinen & Gabrielsson 2004). Since these companies are only just starting the business operations, there can be a lack of managerial experience and knowledge in vital functional areas, i.e. in the global management and marketing, global sourcing, accounting and finance (ibid. 397). McDougall et al. (1994) argue that the founders of BGs have learned from their earlier activities and therefore have competencies, which make them alert to the possibilities of utilizing resources from different national markets. Regardless, the managements' commitment to the process of internationalization in BGs is very high (McKinsey & Co. in Rasmussen & Madsen, 2002).

Oviatt & McDougall (1995) found out that the successful BGs emphasize coordinating the venture's strategy more than adjusting to the varying local conditions concerning the product and marketing. Knight & Cavusgill (2004), for their part, studied the organizational capabilities of 203 BGs and found out that the most important business strategies employed by these companies were global technological competence, unique products development, quality focus, and leveraging of foreign distributor competencies, i.e. the tendency to rely on foreign independent distributors and their competences in down-stream business activities abroad. Aforementioned researches (ibid 135) also discovered that the strongly innovative nature of BGs enables them to develop special types of knowledge. This knowledge appears to be the critical resource that is particularly important in providing a stable basis for strategy development in multidimensional environments. Agile companies that are able to react to changing environments first and rapidly are most likely the new leaders in the global market with the first mover advantage (Porter 2006, 107).

Because of the often young age of the entrepreneurs or the management, the planning processes –i.e. vision planning, strategic planning and operative planning- of BGs may be weak, and the earning logics and product portfolios unclear. The potential partners, customers, and financial institutions may see these challenges as a strategic problem of trust and credibility (Luostarinen & Gabrielsson 2004).

The ownership structure, incentives of owners and debtors, corporate governance and the top management's incentive processes have the biggest effect on the vision of the firm (Porter 2006, 158). Naturally, the BGs aim to global markets. According to Porter (2006, 106) the winners of the global competition in an industry are the ones who discover the new strategy first and realize it in the global market. This view may explain why BGs aim to enter many markets, i.e. the global market, simultaneously and right from the foundation of the company.

The implementation of global strategy consists of the following (ibid. 2006, 654):

1. Sales globally, not only on the home market;
2. international business is an integral part of the strategy, not only an addition to the business activities;
3. some of the business activities are based in foreign countries; and
4. coordination and consolidation of operations globally.

Due to the high risks involved and the lack of guarantees and collaterals the BGs have limited access to bank loans. Therefore, the BGs' finance alternatives usually are limited to venture capitalists and business angels. (Luostarinen & Gabrielsson 2004.) Cooperation with external partners is another way of acquiring the lacking resources (Luostarinen & Gabrielsson 2006).

As mentioned earlier, BGs do not need only financial resources but also knowledge and effort of global partners. Investments in high-risk rapid growth firms make investors look for information that could guarantee that they know enough of the business in hand. The IFRS may help the BGs to reduce the trust and credibility problem by providing investors financial information based on globally recognized standards.

2.2 International harmonization of the financial reporting

This section has the following structure. First, the harmonization of the financial reporting on the international level is described. Second, the qualitative characteristics of the financial statements, i.e. the main factors affecting the usefulness of the financial statements, are introduced.

Financial statements prepared according to globally accepted standards are easier to analyze and understand for foreign stakeholders than those based on the FAS. Investors, of financial resources and knowledge, can compare the financial situation of the company with other equivalent companies worldwide. Therefore, the harmonization of the financial reporting and IFRS has an effect on the BGs.

Research addressing the harmonization of international accounting standards is extensive⁸. Generally, in the international accounting literature the voluntary adoption of high-quality accounting standards -IFRS included- is found to have a positive impact on accounting quality (Soderstrom & Sun 2007).

Companies operating in today's business world face rapid worldwide economic integration and increased cross border capital flows (Cuijpers & Buijink, 2005). Entrepreneurs seek for the least expensive financing for the company's operations. To be able to convince the foreign investors of the business and its ability to create cash flow and profit, the investors must understand the financial information provided by the company.

According to Ball (2004) companies may even face a competitive disadvantage from an inefficient financial reporting model. Especially, firms competing in global markets face growing pressure to apply globally accepted financial reporting standards. International reporting standards may work as a useful tool in creating valuable accounting information for financing needs. Gordon (2008) notes that the harmonization of financial reporting, which has led to comparable accounting and financial information across countries and companies, continues to support and advance the business itself.

Before, many different legal systems existed within Europe and it was a home for extremely diverse, country-specific accounting systems. Due to the foregoing, the European Union (EU) members were the first ones to move toward the harmonization of accounting standards. The EU issued many directives to harmonize financial accounting practices in the late 1970s and 1980s. The goal was to reduce diversity and facilitate cross-listings and cross-border investments. A quantum leap in the development of the accounting harmonization in Europe took place in the 1990s with the improvement of the International Accounting Standards (as IFRS were formerly named), the adoption of single currency and other harmonization events

⁸ see e.g. El-Gazzar et al. 1999; Cuijpers & Buijink 2005; Larson & Street 2004

in the EU economy, and the allowance of free movement within the Schengen area. Therefore, in the late 1990s the voluntary adoption of the IFRS accelerated, although the IFRS were not mandatory for listed companies before 2005. (Soderstrom & Sun 2007.)

The harmonization of the financial reporting enables a comparison of financial statements and financial situation of companies operating in different countries. For the first time, transparency and comparability exists for multinational companies and their stakeholders enabling the expansion of the global business (KPMG 2005). The foregoing enables international investors to read financial statements and compare investment opportunities globally. Creditors may use the information to make better lending decision (Gordon 2008). Thus, Finnish BGs may find foreign venture capitalists or other investors to invest in their business and enable the growth intended.

Earlier, the United Nations and the Organization for Economic Co-operation and Development (OECD) were also active in the harmonization process of financial reporting standards. They aimed to create guidelines for the financial reporting for global companies. Lately, the UN and the OECD have concentrated more on corporate governance issues, rather than on financial reporting questions. At the same time, the importance of the International Accounting Standards Board (IASB) as the leader in financial reporting harmonization has been emphasized. (Räty & Virkkunen 2002.) Next, the IASB and International Financial Reporting Standards will be discussed in more detail.

2.2.1 International Financial Reporting Standard (IFRS)

The driver behind the global IFRS adoption has been the goal at achieving the following (KPMG 2005):

1. *“Consistent global financial reporting.*
2. *Comparable financial information between organizations operating in multiple countries.*
3. *Facilitation of group decision making for multinational organizations through common and consistent accounting standards.”*

To receive the above mentioned universally acceptable set of accounting standards, accounting professionals from nine countries⁹ founded and formed the International Accounting Standards Committee (IASC) 29.6.1973. The International Accounting Standards Board (IASB) was founded in 2001 and its purpose is to continue the work of the IASC. According to Ball (2005) the IASB is more independent, better-funded and better-staffed than the IASC was (Ball 2005).

The IASB is an independent standard setting body of the IASC based in London, UK, and it sets the International Financial Reporting Standards (IFRS). A professionally and geographically diverse body of Trustees oversees the activities of the IASB and appoints the board. The external advisory council (SAC) as well as the interpretations committee (IFRIC) supports the IASB where divergence in practice occurs. These two bodies guide the IASB where divergence in practice occurs. The organization behind the IFRS is clarified in the Figure 3 below.

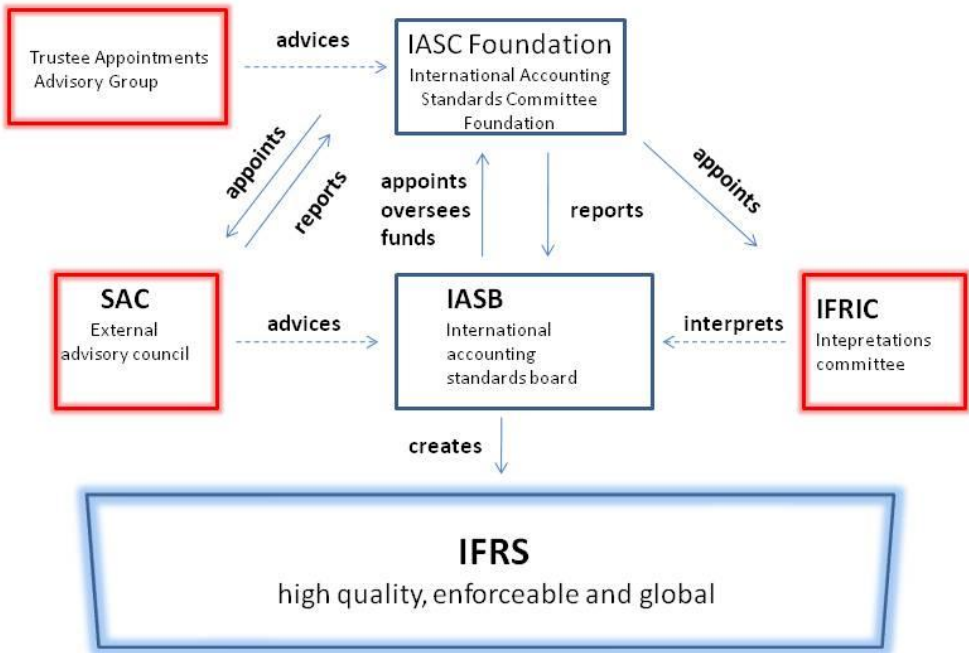


Figure 3: Organization chart of IASC and IASB (from IASB 2008).

⁹ i.e. Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, Great Britain, Ireland, and the USA

The IFRS are composed of norms, i.e. the Framework, standards and interpretations. The Framework (IASB 1989) includes the principles for preparation and representation of the financial statements. It also defines the objectives of the financial information, the qualitative characteristics which determine the usefulness of the financial information, and other main factors of the preparation of financial statements. Each standard controls certain bookkeeping entry, valuation, and the requirements for the presentation of information. Interpretations provided by the IFRIC complete the standards where divergence in practice occurs. The IFRS require more disclosure and more detailed information in financial statements than the FAS. Only financial statements that comply fully with the IFRS can be referred to as IFRS financial statements. (see e.g. Pörssisäätiö 2005; Rätty & Virkkunen 2002.)

When reading financial statements prepared according to IFRS, the reader should concentrate more on the balance sheet, rather than the income statement. Foregoing is due to the fair-valuation of some assets in the IFRS balance sheet. As companies have some alternative ways for calculations and presentation of financial information in the financial statements, the information end users should familiarize themselves with the principles¹⁰ the company has used in the preparation of their financial statements. For example, companies may decide on the principles of the following issues: property, plant & equipment, intangible assets, investment property, financial assets, and pension liabilities. (Pörssisäätiö 2005.)

The European Commission made the International Financial Reporting Standards compulsory for consolidated financial statements of publicly traded companies in the European Economic Area (i.e. EU member states, Norway, Iceland and Liechtenstein) from 2005 onwards (EC 2002). Larson & Street (2004) studied how the convergence in 17 European countries was directly affected by the EU's decision. Their study reveals that concerns about tax linkages and complicated standards lead to non-listed companies to use other than the IFRS basis of accounting for their annual financial statements.

According to the IASB (2008), over 100 countries have either required or permitted the use of the IFRS since 2001. In these countries, the benefits of globally accepted financial reporting

¹⁰The information end user should revise the valuation method the company has used when valuating its assets in financial statements. The valuation methods and other principles guiding the preparation of the financial statements should be disclosed in the financial statements.

standards seem to have topped the costs (Gordon 2008). Still, it is worth mentioning that some of these countries require companies to report their financial statements according to the IFRS because of the lacking supporting accounting standard setting in the country and the efficiencies gained by outsourcing the function. This is the case for many of the developing countries. The European Union wanted to reduce the information costs and therefore decided to move to common accounting standards. In other countries, the global dimension supported the decision. (ibid 2008.)

Numerous companies worldwide comply with the IFRS voluntarily. These global companies must benefit from the voluntary adoption of the IFRS. Gassen & Sellhorn (2006) discovered that the adoption of the IFRS had a positive impact on the earnings quality of German listed companies. El-Gazzar et al. (1999) conclude that firms adopt international standards (e.g. IAS) in order to expand their sales to foreign markets, to attain more customers and to reduce political costs when expanding activities into foreign markets. These companies see the benefits of applying the IFRS exceeding the costs of implementation and in-usage.

In some European countries the linkage between financial reporting and tax accounting has influenced the willingness of non-listed companies to converge the national GAAP based financial statements with the IFRS based financial statements (Larson & Street 2004). The researcher would assume that in Finland the general attitude of non-listed companies toward financial reporting is affected by the same way. The Finnish FAS are based on common economic interests with special interest in aspects of executing the taxation (Leppiniemi 2003). The connection between the IFRS and the taxation is rather loose. Therefore, the linkage of the taxation and the FAS may affect the BGs companies' willingness to adopt IFRS voluntarily. Hence, the linkage between taxation and the FAS may be seen as a possible constraint for the adoption of the IFRS by Finnish BGs. More benefits and disadvantages found in the previous research are discussed in brief in chapter 2.7.

Evidently, benefits of IFRS implementations have been found in the literature. Still, Larson & Street (2004) discovered that several European countries had concerns for the IFRS applicability to SMEs. In 2007 the IASB aimed to amend the situation and introduced an Exposure Draft: "IFRS for Small and Medium-sized Entities" (ED SME IFRS 2007). Already in 2004 the IASB had issued a discussion paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities" and since that the process of the SME IFRS has developed.

2.2.2 Qualitative characteristics of financial statements

The Framework of the IASB (1989) introduces qualitative characteristics of financial statements, which on their behalf ensure that the information provided in the financial statements is useful to users. The Framework (ibid 1989) mentions four principal quality characteristics: *relevance, reliability, understandability, and comparability*.

The most important characteristic to meet the decision-making needs from the users of financial reports is the relevance of the information provided in the financial statements. According to the Framework, information has the quality of *relevance* when it helps the information users to make economic decisions and when it might influence on users economic decision. In this sense, the financial statements reported according to the FAS do not create optimal information for the investors and other -than taxation purposes- external information end users. Often, the need for BGs to report their financial statements comes from investors and debtors who crave for figures of the company's financial situation. Investors' and debtors' need for historical financial information is usually smaller. The users of financial statement information will be presented more closely in the chapter 2.3.

Meek & Thomas (2004) state that the reporting environment of a company also affects the relevance of financial reporting, not the accounting standards alone, i.e. the country in which the company operates may have an impact on the relevance of the information for example through legislation (ibid. 28). It is argued, that even when applying the IFRS, the financial statement information may not be comparable among different countries due to cultural differences (Scott 2009).

Ball (2005, 11) argues that financial statements may provide useful information to variety of end-users only if it is able to meet the following requirements:

1. Accurate presentation of the real economic situation of the company.
2. Low possibility for manipulation by managers.
3. All economic value added gets recorded.
4. Conservativeness in presenting news in the financial statements (presentation of bad news in a timely manner besides good news).

These requirements presented by Ball seem to correspond to the qualitative characteristics of *relevance and reliability*. The Framework also mentions comparability and understandability as other principal quality characteristics. *Comparability* becomes possible when investors can put two financial statements next to each other and analyze the content with no further adjustments. Financial statements prepared according to globally accepted standards are also easier to understand since investors do not need to be professionals of all local GAAPs but of one set of standards. Still, the information reported in aforementioned financial statements must be presented in a way that they cannot be interpreted in multiple ways. The standards may provide the basis for *understandable* presentation of financial statements.

Whether designed for listed or small and medium-sized companies, the IFRS aim to develop a globally accepted standard for financial reporting. Nevertheless, (the Exposure Draft of) IFRS for Small and Medium-sized companies differ from the full IFRS. It is designed to a less complex set of standards for smaller (non-listed) companies. The more international nature of the business has also an effect on the SME companies, which in return may widen the interest in the SMEs' financial statements. It will be interesting to see in the future, whether or not the SME IFRS will convince the public and more importantly the SME companies to implement it.

2.3 Users of financial reports

This part of the study introduces the objective of financial statements, as well as the different stakeholders of organization interested in the financial information the organizations provide.

“The objective of the financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in economic decisions.” (IASB Framework, par. 12.)

Financial reports have a variety of users with divergent objectives. However, they utilize the same financial information to meet their information needs. Alexander et al. (2005, 4) divide users of financial reports into nine groups:

1. **Equity investors** consisting of existing and potential shareholders and holders of convertible securities, options and warrants.
2. **Loan creditors** including holders of debentures and loan stock and providers of short-term loans and finance.
3. **Employees** including current, potential and former employees.
4. **Analyst-advisers** consisting of financial analysts, economists, researchers, stockbrokers and other providers of advisory services.
5. **Suppliers and trade creditors**, existing and potential.
6. **Customers**, existing and potential.
7. **Competitors**.
8. **The government**, including parties concerned with the supervision of commerce and industry, and local authorities.
9. **The public**, including taxpayers, consumers and some special interest groups, e.g. political parties.

Users can also be divided into present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. The **management** can be added as a tenth group as it is interested in the information of the financial statements, even though it has a broader understanding of the financial position, performance and changes in the entity's financial position. The management utilizes this access to additional management and financial information when realizing its planning, decision-making and control responsibilities. (IASB 2001.)

Hemmer & Labro (2008) and Taipaleenmäki & Ikäheimo (2009) suggest that the financial accounting and managerial accounting are more integrated than evidenced in the earlier literature. That is to say that management utilizes the financial accounting information in its decision-making and controlling roles. This study aims to discover if management, in fact, does utilize this information and how the external reporting system may be linked to internal processes.

Earlier the financial statements have focused on providing financial figures for shareholders to measure the management's performance, for debtors to ensure that debt covenants are not violated, and for the taxation purposes. The focus of information in the FAS based financial statements is on creditor's protection and taxation (Leppiniemi 2003).

Nowadays the interest in financial statements is shifting from the traditional stewardship focus to a more investor focused fair valuation¹¹. The financial reporting regulations of the IASB are, in fact, influenced by the user needs of the Anglo-American corporate governance tradition which requires reporting to external providers of equity finance (EAA FRSC 2005). The information need of shareholders and investors is of the essence, which reflects the IFRS market orientation (Leppiniemi 2003).

The fair value financial statements create more relevant information of firms' future cash flows and the management's view of the firm's future to investors. The increased fair valuation and importance on creating value for the shareholders' investments enables management's and shareholders' views of the company's future to become closer to each other. The IFRS framework states that the financial information provided in the financial statements should provide information to help third parties make economic decisions, already mentioned earlier. When a firm makes a decision to implement the IFRS instead of the national GAAP, i.e. the FAS in Finland, it also silently shows that the focus is changing from a stewardship focus towards an investor focused fair valuation.

It does not matter, to whom the information is produced; customers, employees, or investors. With the increasing globalization of businesses, the need for international accounting standards¹² will continue to expand (Scott 2009). Some of the companies will continue aiming to global markets from the inception. These companies will face the challenge of convincing the investors and other external stakeholders of the cash flow generating possibilities and the financial position of the company. The IFRS may answer the need of investors for BG companies. In the future, the possible SME IFRS may turn international accounting standards into an even more tempting choice for financial accounting for non-listed companies.

Above, many external reasons for the importance of internationally accepted reporting standards were introduced. The implementation of the IFRS may also have an effect on the internal processes, the managerial decision making and the internal communication within the company. In the next chapter, the relation of financial reporting systems to managerial planning is discussed more closely.

¹¹ see e.g. Ball 2005, Scott 2009; Hemmer & Labro, 2008; Taipaleenmäki & Ikäheimo, 2009

¹² i.e. harmonization of financial reporting standards

2.4 Connection between managerial decision making and financial reporting systems

This section discusses the separation and connection between the managerial decision making and the financial reporting systems. Furthermore, the importance of the information technology as the main enabler for the convergence of the financial and management accounting is considered.

Before attempting to exhibit the connection of managerial decision making and financial reporting systems, it is worth deepening the understanding of the linkage between accounting systems and organizations as a whole. Financial reporting systems are commonly viewed as being separate from the managerial decision making and even from the management accounting. It is worth to question, whether this is in fact the whole truth.

According to Hopwood (1983) accounting plays an important role in creating a pattern of economic and financial visibility in organizations. Accounting can be seen as valuable tool, not only in the financial and the managerial accounting, but also in creating important aspects of functioning organization into economic terms (ibid. 1983). Nowadays, accounting practices may affect decision processes, the structure of organizational activities, and even the hierarchy and control of the organizations (ibid. 1983). For example, a firm implementing the IFRS must take into consideration what the standards state about the revenue recognition when negotiating contract details with customers. This is only one way in which the IFRS may affect the decision process of an organization directly.

Hemmer and Labro (2008) argue that management and financial accounting systems are not independent, but rather linked. Their study suggests that the managerial decision making role of a Management Accounting System (MAS) does not seem to be a concern in a Financial Accounting System (FAS). However, the authors state that the MAS is directly linked to properties of the FAS. They argue that the quality of the investment and operating decisions made by the managers is affected by the FAS. (ibid. 2008.) The information initially created to the FAS can also be utilized in the MAS. This raises an interesting question, whether companies indeed have separate MAS and FAS? Taipaleenmäki & Ikäheimo (2009) argue that the convergence of financial accounting and management accounting is in fact much broader phenomenon than Hemmer & Labro (2008) present. Taipelaanmäki & Ikäheimo

(2009) see that with the help of modern technology the entire accounting may integrate tightly with other business processes.

Regardless, many basic accounting books separate the financial reporting system of the managerial decision making. However, research has shown that in practice the financial accounting and the managerial accounting overlap in many areas (Drury & Tayles 1997). According to Hemmer & Labro (2008) the characteristics of an optimal MAS depend directly on the characteristics of the FAS, even though the role of managerial decision facilitating is not the central concern in the financial accounting system.

Drury & Tayles (1997) found in their survey study that many companies utilize the same financial information for internal and external accounting systems, even though the traditional opinion would suggest otherwise. Jermakowicz et al. (2006) support the view with their findings of the listed EU companies implementing the IFRS for more than just consolidation purposes, with a goal to achieve harmonization of the external and the internal reporting. Their (ibid. 2006) research indicates that the IFRS based financial statements are used for internal decision-making and performance measurement processes in the subsidiaries and the parent.

Hemmer & Labro (2008) conclude that the operating decisions made by the management and the quality of those investments are directly linked to the characteristics of the FAS. In their opinion (ibid, 2008) the new forward-looking perspective of financial accounting changes also the focus of management accounting more forward-looking. Taipaleenmäki & Ikäheimo (2009) are of the same mind and state that the operating environment and the characteristics of business operations have become more and more future-oriented. Thus, the financial accounting and the financial reporting systems of companies matter, not only for external parties, but also internally in organizations. The management's long-range planning gets greater strategic focus, i.e. management accounting creates forecasts, latest estimates, and capital investment calculations. Companies which mainly target their financial accounting for investors to help them in making decisions have a motive to connect management and financial accounting.

Taipaleenmäki & Ikäheimo (2009) present that the last-mentioned would be the case particularly in companies following the IFRS. The foregoing is due to the increased need in financial accounting to provide fair value based financial information in financial statements.

The management has superior information of the true fair values of the assets presented in a company's balance sheet. The quality of the forward-looking management accounting information¹³ affects directly the financial accounting. On the other hand, the management needs historical information to understand the financial performance of the past and to be able to reward employees. In addition, to be able to compare the forward-looking management accounting information with the actual financials, the budgets and forecasts must be synchronized with financial reporting. It is worth mentioning that some of the management accounting related analyses and reports may not be reported before the financial accounting function has closed the books for the reporting period. Even if the management could process and report the forecasts and other possible analyses before the monthly closure of the financial accounting function, it still most likely utilizes the financial information provided by the financial accounting. (Taipaleenmäki & Ikäheimo 2009.)

Drury & Tayles (1997) suggest that one reason for applying financial accounting rules in the generation of management accounting information is that companies can connect their internal profit reporting systems with external financial accounting requirements so that the internal profit generating systems would be in line with the outsiders' company performance measures.

The information technology may help the management in gathering and combining the data to be reported (Taipaleenmäki & Ikäheimo 2009). This may deepen the management focus on the same measures as those used by financial investors. Taipaleenmäki & Ikäheimo (2009) introduce the development of information technology as the main enabler of the convergence process of the financial accounting and the management accounting. They argue that only through digitalization financial and management accounting can be effectively integrated. The financial accounting information gathered from transaction based systems can be used for control and decision-making purposes of the management accounting. The rapid development of specialized software packages, e.g. ERPs¹⁴, has improved the organization of the processes within companies, and therefore enabled the integration of finance and accounting processes. (ibid 2009.) The differences that arise in the accounting treatment after the implementation will create a need for different kind of data, changed calculations, and changes in reporting

¹³ i.e. budgets, estimates, and forecasts

¹⁴ i.e. Enterprise Resource Planning

(KPMG 2005). Information systems need to be updated so that they are capable of providing the new information required. Once the new information system provides the information, the management is able to utilize the financial information provided by the system in the strategic, as well as operational, decision-making.

Especially the fast growing companies have begun to notice the demand for forward-looking financial information from the board of directors. Venture capitalists may occupy a position in the board of directors of the funded company. They pay more attention to the accounting information, the finance, and control information. (Taipaleenmäki & Ikäheimo 2009.)

However, Joseph et al. (1996) studied views of 308 qualified management accountants working in the U.K in 1993 and found a clear disagreement with the suggestion that internal accounting systems would be primarily designed to provide information for financial statements, but rather to meet the management information needs independently. This raises some doubt of the possible impacts of the external reporting on management decisions. Still, the interviewees used integrated financial accounting and management accounting systems. The contradictory may be due to managements perceiving management (accounting) information needs with reflection of the financial accounting view of the organization and the performance. That is to say, external financial information requirements have become part of the routines of information gathering and reporting in organizations. Additionally, the management has begun to see this kind of information appropriate for their decision making. (ibid. 1996.)

Leppiniemi (2003, 247) is of the opinion that the adoption of IFRS standards creates a possibility to integrate the management and the financial accounting. He sees the adoption process as the whole organization's development process, where the management must adopt new ways of mindsets and targets. It is of great importance that the management examines the accounting processes and the internal auditing systems. This examination may lead to new solutions for planning –and monitoring systems. To be able to produce and utilize the information needed according to the IFRS, all the organization levels have to participate in the process. The management must organize the generation, documentation, and collection of new information for financial statements and possible interim reports. Basically, the adoption process forces the company to reconsider the internal processes of the company. As Leppiniemi suggested, the IFRS adoption process is more than adopting a financial reporting system.

Interestingly, Drury & Tayles (1997) conclude that companies should aim to improve the quality of external financial reporting to improve the management accounting. Still, Taipaleenmäki & Ikäheimo do not think that the financial accounting and the management accounting are, nor will ever be, fully integrated.

The decision to implement IFRS may trigger the internal development of processes while aiming to provide the high quality financial accounting information for the needs of financial reporting. Under the circumstances, other internal influences on business management may be found. Next, some empirical studies of the outcomes of IFRS implementation will be discussed.

2.5 Outcomes of IFRS implementation

In this chapter, the evidenced outcomes of the IFRS implementation found in earlier literature are introduced. The aim is to reflect these outcomes in the BG context.

There must be reasons why an organization even considers implementing the IFRS voluntarily. To be able to understand the possible reasons of Finnish BGs, this study takes a closer look to those reasons and benefits found in earlier empirical studies. The chapter is divided into following sections: mandatory adoption, voluntary adoption, higher quality of earnings, investor perspective, and internal effects, and short conclusions.

Mandatory adoption

Armstrong et al. (2009) analyzed the equity market reactions to 16 events associated with the mandatory adoption of IFRS in the EU. They find an incrementally positive reaction for firms with lower information quality and higher information asymmetry before the adoption takes place; i.e. the investors are expecting the IFRS to improve the information environment for these firms. All in all, the findings suggest that the investors expected benefits of the IFRS adoption associated with improved information quality and lower information asymmetry. Hence, the (external) investors of BGs would most likely perceive the adoption of IFRS in Finnish BGs positive.

Larson & Street (2004) studied the convergence in 17 European countries directly affected by the EU's decision to require listed companies to report their financial statements according to the IFRS. Their study reveals that concerns about tax linkages and complicated standards lead to non-listed companies to use other than IFRS basis, i.e. local GAAP, of accounting for their annual financial statements. As the taxation and financial statements are considerably linked in Finland, the Finnish BGs must look to gain benefits to outweigh expenses when adopting the IFRS voluntarily.

Voluntary adoption

El-Gazzar et al. (1999) studied why 87 international firms comply with the IFRS voluntarily. The researchers discovered that firms are motivated to adopt the IFRS when they want to expand exposure to foreign markets, to improve customer recognition, to secure foreign capital, and to reduce political costs of doing business abroad. Cuipers & Buijink (2005) found some similarities among companies voluntarily reporting according to non-local GAAP (i.e. IFRS or US GAAP) in the EU. According to them the firms using non-local GAAP are more likely to be listed on exchange, have extensive foreign operations, and are larger on size (ibid 2005). Similar to El Gazzar et al. (1999), Dumontier & Rafournier (1998) conclude that, according to their findings of 133 Swiss listed companies, political costs and pressure from outside markets have a significant impact on the decision to apply the IFRS.

Ernstberger & Vogler (2008) carried out a research on 494 German listed companies who had voluntarily adopted a non-local GAAP between 1997 and 2005. Their findings were able to report a decrease in the cost of equity capital for within these companies. Thus, the study supports the expectation that higher quality accounting standards can lead to lower cost of equity capital. The foregoing is often seen as the main important objective of BGs to adopt the IFRS.

All in all, a voluntary IFRS adoption improves the capital allocation by decreasing foreign investors' home bias (Covrig et al. 2007).

Internal effects

Jermakowicz et al. (2006) found in their study of 112 EU publicly traded companies listed on major European stock exchanges that the IFRS implementation process was perceived as costly, complex and burdensome. Additionally, the lack of guidance in implementation and differences in interpretation of the IFRS were other barriers of harmonization (ibid. 2006). An additional impact of the implementation is the increased need to within the organization to gather, analyze, and report data to comply with the requirements of the IFRS (KPMG 2005).

The IFRS implementation project is often seen as finance specific rather than business initiative. However, the implementation of the IFRS affects most of the processes and functions within companies, e.g. finance, accounting, information systems, and human resources. Due to the effects on the business, the IFRS implementation process should be viewed in the context of the business strategy of the firm and the whole governance framework of the organization. (KPMG 2005.) Thus, the implementation process may lead to intended benefits.

Wu & Zhang (2009) studied companies that voluntarily adopted IFRS or U.S. GAAP between 1988 and 2004 in Continental Europe. Their final sample consists of 200 IFRS/U.S GAAP adopting firms and 766 local standards firms; 90% of the adopting sample follows the IFRS while the rest report according to U.S. GAAP. Researches argue that earnings based on the international accounting standards are better tools in firm internal performance evaluations and governance because the accounting earnings are timelier, less managed, and more conservative. The research suggests that firms who voluntarily adopt international accounting standards are more likely to experience some substantial changes in their operations, financing, and corporate governance. The findings propose that the greater transparency is an important part of internal performance evaluations and governance within organizations. Wu & Zhang conclude that performance evaluation demands¹⁵ can have a role in firm's accounting choices. Greater demand for performance evaluation is associated with a higher likelihood of adoption of non-local GAAP. However, researchers wish to point out that the voluntary adoption of international accounting standards does not necessarily cause the changes in internal performance evaluations but rather is an instrument for the profound changes. (Wu & Zhang 2009.)

¹⁵ "less closely held shares and lower labor productivity" (Wu & Zhang 2009, 3).

The Daimler-Benz management announced at the time of the adoption, in 1997, that it had adopted the international accounting standards, i.e. U.S. GAAP, for internal reporting purposes as well as external. The goal was to enhance corporate managers' monitoring of individual business-unit managers and to increase the transparency and efficiency of the internal reporting in this multinational corporation. (Ball 2004.) They introduced value-based management instruments company-wide, following the conversion of the accounting to the principles of U.S. GAAP (Daimler-Benz 1998). Daimler-Benz examined all its work processes and installed effective internal controlling and monitoring systems to guarantee the compliance with accounting principles and sufficient level of reporting (ibid. 1998). These systems include the following (ibid. 1998, 67):

“...the use of uniform guidelines group-wide, the use of reliable software, the selection and training of qualified personnel, and ongoing reviews by our internal auditing department. It ensures the accurate presentation of the group's international activities and puts the Board of Management in a position to identify risks as early as possible and introduce appropriate countermeasures.”

As seen in the Daimler-Benz –case, the adoption of international accounting standards can encourage companies to revalue their internal processes, information technology, reporting systems, and accounting systems. Thus, the adoption of international accounting standards does not cause the internal development but it does work as an efficient trigger in the process of their process development.

Higher quality of financial information

Empirical studies have shown that adoption of high quality financial reporting standards, such as the IFRS, leads to a higher earnings quality¹⁶ and increased foreign investments (Scott 2009, 502). Gassen & Sellhorn (2006) discovered that the adoption of the IFRS had a positive impact on the earnings quality of German listed companies.

Karamanou & Nishiotis (2005) studied the benefits of IFRS adoption to company valuation. They found out that relatively undervalued firms and firms with high growth opportunities

¹⁶ i.e. financial information reported is relevant to investors, reliable, and free from management bias (Scott 2009)

experience higher growth in firm value and are able to generate higher abnormal earnings compared to firms reporting according to national GAAPs.

Soderstrom & Sun (2007) introduce, based on earlier literature, how the IFRS adoption appears to lower the information asymmetry between managers and shareholders. Reduction in the information asymmetry was evidenced by lower cost of capital, lower earnings management, and lower forecast. The lower cost of capital was evidenced also by Ernstberger & Vogler (2008), as mentioned earlier. Additionally, Karamanou & Nishiotis (2005) show in their study of international firms with identifiable IFRS adoption announcement dates that increased disclosure (due to the adoption of the IFRS) is associated with a reduction in the cost of capital.

Investor perspective

Contrary to Soderstrom & Sun (2007), Cuipers & Buijink (2005) were not able to show evidence of lower cost of capital for non-local GAAP adopters in their study of 114 firms in the EU in 1999. Typically, voluntary adoption of the IFRS is associated with lower cost of capital. It seems that the reduction of information asymmetry experienced in these companies is small. Daske (2006) does not find evidence for lower cost of equity capital in his study of 735 German firms that had voluntarily adopted non-local GAAP.

However, the foreign venture capitalists of Finnish BGs may not understand the FAS as well as the IFRS. Global investors have a higher demand for a common set of accounting standards to be able to facilitate cross-country comparisons among companies (Covrig et al. 2007). The adoption of the IFRS reduces the costs of comparing companies globally (Soderstrom & Sun 2007). Also, investors experience less costs due to the possibility to evaluate the financial statements of two companies. The ease of comparison may lead to decrease in earnings management due to the pressure management faces. (ibid. 2007.) Due to increased transparency managers act more in the interest of shareholders (Ball 2005). Therefore, international investors prefer the financial information of the company to be reported according to the IFRS.

Ball (2005) introduces several potential advantages of the IFRS international adoption to equity investors:

1. Increased financial information disclosure leads to lower risk to investors.
2. Small investors can compete better with professional investors since small investors are less likely to receive financial information from other, than financial statements, sources.
3. The cost of processing financial information to investors decreases (as there is no need for international adjustments).
4. Lower costs of processing financial information increase the market efficiency.

According to Ball (2005), the IFRS increases comparability and enables reduced information costs and information risk to investors. Ball adds that the abovementioned factors should lead to a reduction in the company's cost of equity capital. Albeit, the discussion on the magnitude of cost of capital benefits still continues.

Covrig et al. (2007) studied the firm-level holdings of over 25,000 mutual funds from around the world and found out that foreign investors are differentially attracted to companies that have voluntarily adopted the IFRS. Covrig et al. (2007) show evidence that firms using IFRS have higher foreign mutual fund ownership compared to firms using local GAAP. Companies reporting according to globally known reporting standards can lower the risks of the investors by providing high-quality financial accounting information. Due to the high quality financial information these companies can get access to external financing easier. Rapidly growing companies need this external financing more than mature companies to enable the development of the business and the growth.

Conclusions

Gordon (2008) has gathered benefits and challenges of the IFRS not only within organizations but in a broader environment. Most of the benefits and challenges presented by her have already been introduced earlier in this study. Therefore, her findings are utilized to conclude the chapter:

1. *“Benefits:*
 - a. *better financial information for shareholders;*
 - b. *better financial information regulators;*
 - c. *enhanced comparability;*
 - d. *improved transparency of results;*

- e. *increased ability to secure cross-border listing;*
- f. *better management of global operations; and*
- g. *decreased cost of capital.*

2. *Challenges:*

- a. *initial adoption implementation;*
- b. *initial adoption costs;*
- c. *acceptance;*
- d. *training;*
- e. *suitability for small and private companies; and*
- f. *IT functions.”*

The benefits are longer lasting than the costs that occur during the implementation phase (ibid 2008). For smaller firms the implementation costs may become obstacle to full the IFRS implementation. Regardless, the management needs to think of the effects of the implementation in the long run.

Even though the IFRS implementation in the empirical research mostly shows the benefits of the adoption process, we shall be cautious when deciding whether to implement the IFRS and when analyzing the financial statements of two companies from totally different cultures. Therefore, the investors need to be aware of different customs and institutional structures of the financial reporting (Scott 2009, 503). Interestingly, Scott (2009) states that the management may even oppose to including current value accounting in financial reporting¹⁷ since it may limit their ability to hide poor performance through opportunistic earnings management.

After Jermakowicz et al. (2006, 193) statement: “*It is vital that company management recognize the far-reaching impact that IFRS will have on business.*”, it is interesting to utilize empirical research to study the impacts that might be found within organizations, especially the most internationalized companies, i.e. Born Globals.

¹⁷ e.g. IFRS includes more current value accounting than FAS

2.6 Theoretical framework

From the literature reviewed a theoretical framework (Figure 4 below) is created in order to guide the following empirical research. Before deeper discussion of the framework it is worth highlighting that because of the existing literature of the IFRS in BGs and management planning of those is limited, this study should be considered as exploratory. Therefore the ability of the theoretical framework to unambiguously answer the research question may be limited.

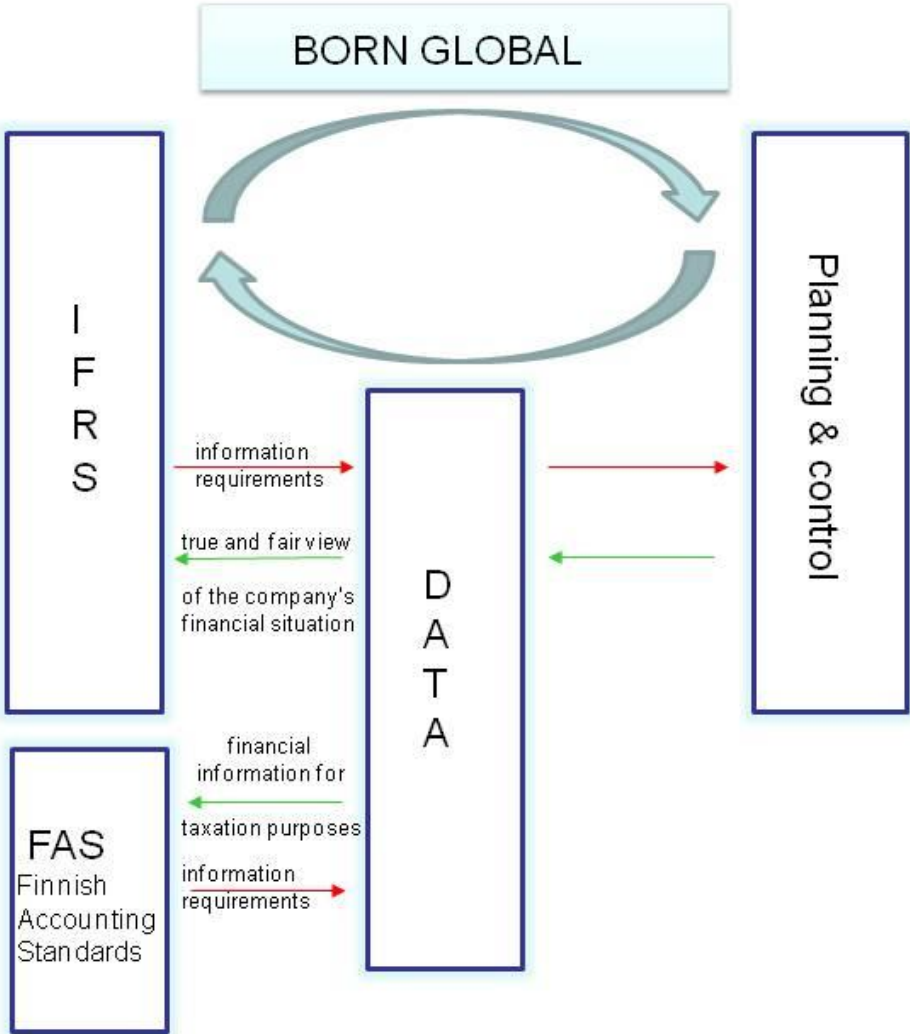


Figure 4: Proposed theoretical framework for Finnish Born Global

The main focus of this empirical study will be in the connection between the IFRS and the managerial planning and control of Born Global companies, and especially in the connection from the IFRS toward the planning and control systems of Born Global companies; i.e. the upper arrow from the IFRS toward the planning and control of companies. Next the Figure 4 is explained in more detail.

IFRS / FAS and financial data

The information requirements of the IFRS and the FAS are illustrated in the Figure as the arrows from IFRS & FAS towards the data. The IFRS' information requirements are more extensive than in the FAS. The organization's ability to meet these requirements is dependent on the data collected. The data, i.e. accounting information, consists of financial and management accounting information. Hence, the IFRS implementation increases the data amount to be utilized internally as well.

In code-law countries, e.g. Finland, the taxable income is linked to the income reported in financial statements (Ball 2004). Taxation in Finland is based on the company-level taxable income, not consolidated group income. Therefore, companies may report consolidated financials that are not based on the tax records.¹⁸ Resulting from the foregoing, the companies applying IFRS must gather a greater amount of data to satisfy the requirements of both accounting systems, i.e. FAS and IFRS. To present *the true and fair view* of the company's financial position, all the material information must be presented in the financial statements. In the financial statements prepared according to the IFRS, more information must be disclosed. On the other hand, the information provided in the FAS financial statements must meet the requirements for *taxation purposes*.

¹⁸ See Ball 2004 for similar discussion of the connection between taxation and consolidated financial statements in Germany.

Financial reporting and management planning and control

This study will aim to find the *linkage between the IFRS and managerial control and planning*, i.e. the upper arrows. Also the *connection between the financial accounting (data) and managerial planning and control* is of great interest.

Often, financial accounting is viewed as a separate function within the organization which produces information to serve the tax liability and to meet the statutory financial publishing needs. Most accounting related research has mainly focused either on financial or managerial accounting, even though, in practice the relation between managerial and financial accounting overlaps in many areas¹⁹. Hemmer & Labro (2008) introduce a theory, which links the properties of optimal managerial and financial accounting systems. Taipaleenmäki & Ikäheimo (2009) present a more in-depth discussion of the sections, in which financial and management accounting converge.

¹⁹ (see e.g. Drury & Tayles, 1997; Joseph et al. 1996; Hemmer & Labro 2008; Taipaleenmäki & Ikäheimo 2009)

3 Empirical research

The study will be performed as an exploratory, qualitative field-study. The empirical data consists of semi-structured interviews conducted among three Finnish BGs. The aim of the study will be to understand the relation between financial accounting, more importantly the SME IFRS, and managerial accounting. This study also aims to describe the possible benefits of the SME IFRS application to the operational development of Finnish Born Global companies.

3.1 Research design

Financial accounting and managerial accounting operate in complex organizational settings. Consequently, the research method should correspond to the needs of accounting studies. Case studies and field studies enable researchers to study the accounting systems in the organizational context. These empirical studies may deepen the understanding of “how” and “why” different practices have, or have not, been adopted by accounting function in certain organizations. Although, nowadays field and case research are more common among researchers, it was only 10 years ago when these research methods were viewed as less scientific and more time-consuming, and therefore less common.²⁰

Empirical research methods utilizing systematic observations can be divided into three types of research methods: case studies, field studies, and field experiments (Kaplan 1986).

Field experiments refer to studies, which involve experimental manipulation of the variables by the researcher. (Stone in Kaplan 1986, 442.) **Case study** focuses on one entity and aspires to provide a description of an actual situation inside the entity. Even though, case studies are mostly categorized as qualitative studies, we should not forget that quantitative data is utilized also in qualitative studies. The main benefit from a case study is to create understanding and to develop a full description of a problem in hand. **Field studies** may be seen as cross-sectional case studies. In field studies researchers study the phenomena in various organizations. (ibid 1986, 442.) The reader may find the term case study to be referred to

²⁰ See e.g. Kaplan 1986 & Hopwood 1983 for more detailed discussion of the empirical research in management accounting before 1986.

studies with a sample of one and the term field study to be used for studies with sample sizes larger than one (Ferreira & Merchant 1992).

Ferreira and Merchant (1992, 4) specify field studies' characteristics as:

1. *“The researcher has direct, in-depth contact with organizational participants, particularly in interviews and direct observations of activities, and these contacts provide a primary source of research data.*
2. *The study focuses on real tasks or processes, not situations artificially created by the researcher.*
3. *The research design is not totally structured. It evolves along with the field observations.*
4. *The presentation of data includes relatively rich (detailed) descriptions of company contexts and practices.*
5. *The resulting publications are written to the academic community.”*

If organizations functioned as prime models explain, there would be no need for field studies. In the real world, field studies are needed for better understanding of how (management) accounting functions in practice (Ahrens & Dent 1998). This understanding could never be reached by analyzing the (financial) information of the organization. According to Kaplan (1986, 445) the richness of the organizational context must be captured in the studies concerning management accounting. Since the messy world of organizations has an effect on the accounting functions in companies, this effect should also be introduced in the studies concerning accounting.

In addition, case – and field studies serve as potential research method for financial accounting. The executives of organizations and the data available within organizations can better answer to the questions of “how” and “why” in financial accounting than regression models with low explanatory power. Organizational and management issues adapt continually to changing and challenging circumstances and therefore the resolution to problems already existing in the literature may not answer the changing reality. Case studies and field studies respond to this problem by studying problems in the actual organizations, as mentioned earlier. (Kaplan 1986.)

In **exploratory research** the aim is to become familiar with existing practice (Kaplan 1986, 436). The researcher is studying how companies perform under certain circumstances. Since

the full IFRS has already been adopted by some Finnish BGs, a basis for observations and interviews exists.

In a **semi-structured interview** the researcher does not ask a large number of main questions but rather follows up the interviewees answers with prompt and probes. Prompts are a list of reminders for yourself to make sure that each interview covers the corresponding topic. Probes are ways of getting the interviewee to tell you more about the issues in hand. (Gillham 2005, 24).

In this study, few actual organizations will be studied to learn, not just whether or not Finnish BGs would adopt the IFRS, but what are the possible benefits (or drawbacks) of the potential implementation. Hence, the objective of this study corresponds with Kaplan's view of field studies, aiming to answer the questions of "how" and "why" the implementation of the IFRS may take place. Therefore this study will be performed as qualitative field study to capture the reasons behind the possible influences. The study is considered exploratory because hardly anything is known about the influences of IFRS on Finnish BGs. The semi-structured interviews were chosen for the primary data collection for this study because they emphasize the free flow of conversation between the interviewer and the interviewees, at the same time allowing a certain interview structure.

The study will be carried out with interviews of Chief Financial Officers and Managing Director in Finnish Born Global companies. Chief Financial Officers will be interviewed because they are mostly likely responsible for the implementation of the IFRS within organizations. Managing director may provide more insight respect to the connection between the business and the accounting processes. The interview themes were selected based on the themes presented in the chapter 2: *Analyzing the literature*. The main themes of the interviews concentrated on the internationalizing of the company, i.e. the Born Global aspect, and the linkage between the IFRS implementation and managerial planning, i.e. the internal processes.

3.2 Research data

Three Finnish Born Global companies will be interviewed. Two of them already are applying the IFRS and one has not adopted the IFRS yet. The companies interviewed operate in different fields of business; however, they share a common goal of global operations. The companies were chosen for this study mainly based on their global operations and the interest in IFRS. Surprisingly, it turned out to be challenging to find companies that would fit in with the criteria.

3.3 Individual firm and interviewee description

3.3.1 Firm A

Firm Background

Firm A is an online entertainment company and focuses on virtual worlds and social networking. The firm's long-term strategic goal is to be a leader in community based entertainment with a portfolio of properties addressing a wide range of target audiences. Firm A was founded in 2000. Its operations are run daily by over 300 employees worldwide. Headquarter of the company is located in Helsinki, Finland. The firm could be described as a high-know-how company.

International expansion

The company started as a free-time project of two students. Soon, the (business) idea turned into a community gathering users around the world. By the end of 2004 firm A had 16 online communities on four continents. Today, the firm has over 30 localized online communities on six continents. In addition, A has 14 offices globally. The foreign subsidiaries are very lean, having 10-15 employees in each. These subsidiaries have only the salaries and the office expenses to take care of.

Characteristics of the financial reporting system

The accounting functions in foreign subsidiaries are outsourced and the group's strong central accounting function is located in Finland. Firm A has no separate management accounting but the management utilizes the external figures, i.e. the financial accounting equals to the management accounting. Furthermore, Firm A utilizes the Basware Group Consolidation software for their financial reporting processes.

Implementation of the IFRS

Firm A first reported according to the IFRS for the financial statements of 2006. The order for IFRS came both from external and internal stakeholders. The internal order came from the top management who needed better information for the external stakeholders, i.e. shareholders and other financiers. Firm A's ownership structure is international and therefore the international standards were most suitable for the situation. Firm A also intends to become public in the future and hence sees the IFRS as a possible benefit to help them in reaching this goal.

The implementation project started with only six people concentrating on it, two accounting professionals and four business controllers for foreign operations. Overall, the project involved five people from the accounting department and another five from the business side, i.e. the heads of business. The project took around one year to complete and cost around 50 000€, paid to external parties and around the same amount in internal hours. Mainly only Finnish subsidiaries were involved in the project since the foreign subsidiaries are very lean. Regardless, the IFRS adjustments do not extend to the foreign subsidiaries. After the implementation of IFRS the firm established a manager of group accounting –position to get an extra person to concentrate on IFRS issues all the time.

3.3.2 Firm B

Firm Background

Firm B operates in the software industry, being leader the in the field. They provide purchase-to-pay process automation software and solutions for financial management. It was founded in 1985 but in 1990 five members of the management team acquired the company. The year

1990 will be considered as the year of foundation. Firm B has been listed on OMX Nordic Exchange Helsinki since 2000 and it employs 700+ people worldwide. Headquarter of the company is located in Espoo, Finland. B's strategy is based on differentiation. They have been able to create a portfolio of products that competitors find hard to match; i.e. the company can be classified as high-know-how company.

International expansion

By the end of 1997, the company had gained strong international position. For the moment, Firm B has 8 subsidiaries in Europe and in the US; the first ones founded in 2000 in Europe and in 2002 in the US. B's products are used by 650 000+ customers in 50+ countries located in 6 continents. In 2008, the majority of the firm's net income was generated outside Finland.

Characteristics of the financial reporting system

Firm B's subsidiaries buy the accounting and financial reporting service from centralized accounting function located in Espoo, Finland. Both management accounting and financial accounting are based on IFRS accounting principles. In fact, the management accounting is seen as subordinate to financial accounting. The management accounting yields information to financial accounting, i.e. the documents of management accounting turn into financial accounting data. IFRS has made more professional management accounting possible. Hence, the financial accounting and management accounting can be seen as complimentary to each other. Furthermore, Firm B utilizes the Basware Group Consolidation software for their financial reporting processes.

Implementation of the IFRS

Firm B transferred to the IFRS reporting as of January 1st 2005 after the European Commission made IFRS compulsory for consolidated financial statements of publicly traded companies in the European Economic Area (EC 2002). Before this the firm had been reporting according to the FAS.

3.3.3 Firm C

Firm Background

Firm C was established by two young Masters in science in Metallurgy in 1981 in Mikkeli, Finland. Today Firm C is still a family owned technology company operating in 7 fields of business, e.g. corrosion control, coating, forest, and flexible antennas. The corrosion control can be seen as the unique business area, which competitors find hard to match, i.e. the company may be considered a high-know-how company. It has over 1800 employees globally and consists of 40 subsidiaries, of which some of them forming their own subgroup located in Australia. Firm C's Australian subgroup operates in the mobile phone, infrastructure, and resources sectors. Most of the sales are generated outside of Finland.

International expansion

Nowadays, Firm C is a global company with multiple business areas. Their first foreign subsidiary of Firm C was founded in Canada in 1986. This subsidiary operated only as a sales company for Firm C. From the very beginning the founders had a global vision and desire to expand the operations abroad rather, than remain a small Finnish company located in Mikkeli. The first production subsidiary was acquired in Australia in 1995 and this subsidiary is still operating. At present, the Finnish subgroup of Firm C still has some production in Mikkeli and Rovaniemi. However, most of the production of the group has already been relocated out of Finland.

In October 2007 Firm C gathered its best performing companies from Australia, China, Japan, and New Zealand into one group and listed this Australian subgroup on the ASX, Sydney. This listed subgroup has around 10 own subsidiaries and has a leading position in the Australia's rehabilitation market. The subgroup is also an important coating service provide for telecom and electronics industry in China. Firm C still owns 63% of the Australian subgroup's shares.

Characteristics of the financial reporting system

All the subsidiaries of Firm C have their own accounting functions, even the accounting functions of the Australian subgroup have not been outsourced on group level. Over 40 subsidiaries of the group report to Firm C monthly. The reports Firm C receives on monthly

basis are drawn from local book-keeping and transferred into excel-files. Then, the Group Financial Officer enters the information into the group consolidation software. Once a year, the Group Financial Controller from the parent company, located in Finland, travels to Australia and prepares the financial statements of the Australian subgroup. Firm C utilizes the Basware Group Consolidation software for their financial reporting processes, as do firms A & B as well.

Firm C has no separate management accounting. Actually, management accounting utilizes the financial figures prepared by the financial accounting. Additionally, different internal reports are drawn on the financial accounting information complemented with project accounting. Both, financial accounting and project accounting information are gathered from the same accounting systems.

Implementation of the IFRS

Firm C has not yet implemented the IFRS on the group level. The group still reports according to the FAS. Hence, the Firm C, which is also the parent company of the group, is seriously considering whether to implement the IFRS on group level. This is partly due to the fact that Firm C has just acquired a large amount of a listed company which is already reporting according to the IFRS. The Australian subgroup reports according to the IFRS and the Australian Accounting Standards (AASB).

The implementation process of the IFRS and the AASB for Firm C is different than in the cases of Firm A and B. This is due to the formation of the subgroup in Australia and its listing on ASX, Sydney. The implementation of the AASB and the IFRS was rather seen as a natural part of the listing project rather than a separate project of adoption of new accounting standards. The accounting systems in Australia were created in a three month project. Altogether, five accounting people, CEOs from China and Australia, and consultants in Australia were involved in the project. No extra resources were provided for the project but the existing accounting people realized the project by working long hours for couple of months. According to the Group Financial Controller Firm C could also be interested in the SME IFRS if it was published by the IASB.

3.4 Results and analysis

The following sections will present the knowledge gained from the interviews. Before the discussion of the results and analysis of the benefits and expenses mentioned earlier, it is worth to take into consideration that there are two dimensions of benefits and expenses; i.e. the benefits and expenses can apply to all companies reporting according to the IFRS or they can occur only in BG companies. Therefore, the benefits and expenses of these two dimensions are represented separately. Nonetheless, it is to remember that the benefits and expenses applying in general to companies reporting according to the IFRS also apply to BGs. In the end of this chapter, the results are presented in the concept of the theoretical framework introduced earlier.

3.4.1 Benefits of IFRS implementation in general

Once implementing the IFRS, the companies must revise their processes and their ability to run the IFRS. The interviewees of Firm B adduced that in this point companies usually realize, they need better software, i.e. not excel, to be able to fully implement the IFRS. The Managing Director of the Firm B presented the need to leave the excel-world behind as follows:

“The Excel is convenient for all kinds of to and fro but when the volume (of information) increases then the pain increases and the system suffocates by itself.”

After getting the right software, the implementation of other processes becomes easier as well. All firms interviewed brought out in discussion that they were very pleased after getting rid of the excel consolidation. The overall trust of processes and the processes themselves have improved in the Firm A, as described by their Director of Finance:

“When we are doing monthly closing the quality of numbers is much better. Then it’s sort of the overall trust to the process and really that to see where we are heading to. That is really the business issue that comes from the IFRS implementation.”

The discussion with the representatives of the Firms B revealed potential benefits resulting from the software acquisitions: Companies capitalize on the advanced software they invest in

during the implementation phase. The sophisticated software enables automation processes; e.g. double-checking process, i.e. check of the audit trail and collection of required financial information. The time span of reporting has decreased from semiannual or quarterly based group reporting to a monthly basis. The organizations are able to report budgets and projections internally on a monthly basis; not only the financial information anymore. After the IFRS implementation process, the companies have also been able to make the financial reporting process up to 50-70 % more effective due to the fast close –procedure, i.e. the processes have become coherent, as . The fast-close has enabled financial accounting to gather more of the required information from one accounting system.

In a way, the reporting becomes part of the normal everyday business life. The part of a month that used to be a nightmare to accounting people has turned into an easygoing process with the knowledge of what to do and how to do it, as described by the Director of Finance from Firm A. This real time information provided by the accounting professionals helps the management to lead company towards its strategic vision. The Senior Vice President of the Firm B describes the situation as follows:

“(Real time information) makes the process assertive and everyone is thinking about these issues all the time”.

The process of gathering and utilizing real time financial information becomes an essential part of the management decision making.

Even though accounting in companies is usually seen as a separate function providing information to the management, investor relations, and taxation purposes, after the IFRS implementation the importance of the whole accounting function has increased in the companies. People have changed their way of thinking after being part of the big IFRS project. The IFRS implementation project made the other divisions see that also the accounting issues arising should be taken seriously. The aforementioned was experienced in the Firm A.

Resulting from the IFRS implementation, different functions- i.e. business units, legal unit, accounting function, and the management communicate more together. Business units may assure the acceptable payment terms from accounting function regarding the revenue recognition. Accounting professionals, on the other hand, interact more within the other

functions of the company. Basically, the information flows in the organizations have become more efficient.

“With FAS people have in their mind set that there is a lot of room space or room for adjusting the numbers. And that was the reason why people didn’t respect the numbers before.” (The Director of Finance of Firm A)

After the IFRS implementation, and the international scope that comes with it, the respect for numbers has increased in the Firm A. Not only has the respect for the numbers increased, but also the quality. The Director of Finance disclosed that the numbers (behind the earlier excel forms) were understood better after the implementation of the IFRS since not only the people creating the financial information, but also other divisions and predecessors were able to see where the final numbers come from. This improves the respect for numbers. The quality increases due to the transparency of the financial information and the numbers behind them.

The IFRS implementation increases the board’s and CEO’s involvement in financial and management accounting since more have to be written down about the business and the management’s view of the business. The management approach of IFRS 8 has made the companies integrate their operations models in a way that both accounting functions, i.e. the financial and management accounting, follow same principles and valuation models. CEOs and boards are very pleased since after the implementation they are able to provide better information of the company’s financial situation faster to the investors, internally, and to the public.

The IFRS financial statements are rather seen as a comprehensive information package, than only as a reporting of the financial situation of the company. The management gets better and easier information on how to direct the business, commented by the Director of Finance from Firm A:

“It’s an information package really. And also of course how to direct the businesses, they are getting information much easier and better information so to direct the business is easier.”

This information can improve the management decision processes. A good example of an influence on management processes was introduced by the managing director of Firm B regarding information about major customers (as required by IFRS 8 par. 34):

“Now we must tell how dependent we are on our main customers. We have to inform if proportion of one customer of our sales is more than 10% ... We did not earlier check the dependencies this often. This is of course good.”

After the implementation it is easier to set not-sale-related targets for the key personnel, as evidenced in Firm A:

“One good example is revenue recognition and how we do collections (of sales receivables) and all that. We have, sort of matrix, that all, let’s say, some of the management compensation is based on the collection times and so on. It gives possibilities to build up all sort of matrix and get people also targets that are not so only sales related. But when we have cash on the accounts it really matters.”

The impairment testing was seen as a good way of reassuring that the assets still included in the balance sheet are still capable of providing services.

“Because it’s anyway linked to the capacity what you have. I mean earning capacity, and if that’s still there.” (The Director of Finance, Firm A.)

As may have been expected, the implementation of the IFRS has simplified the reporting of foreign subsidiaries. In Firm B the preceding is due to the equivalent accounting schemes throughout a group, i.e. the parent company and its subsidiaries utilize the same scheme. The Group Financial Controller of Firm C described that the most demanding task in having two different financial reporting systems within the group is the double work of preparing the financial statements; First Firm C prepares financial statements of the Australian subgroup according to the AASB/ IFRS and after this financial statements of the group are prepared according to the FAS.

In reference to the representatives from the Firm B, the location of the subsidiary does not matter anymore; companies are able to find auditors with IFRS knowledge all over the world. The knowledge of the IFRS worldwide brings cost savings to global companies. They do not have to perfectly understand the national GAAP of the foreign subsidiary since the local auditor is able to prepare the financial statements of the subsidiary according to globally known standards, i.e. the IFRS.

An interesting point of the benefits of IFRS was brought up by the Vice President of Firm B:

“When you face young students who have already become familiar with IFRS and tell them that your company only reports according to FAS your company becomes less magnetic employer in their eyes. If the company runs the accounting processes according to IFRS the students (future employees) can learn the things they can utilize in every part of the world.”

In other words, companies do not only compete for customers and financiers but also for skillful and educated employees. The younger generation travels more than earlier ones and many of them dream of international careers after graduation. IFRS may be an answer to these dreams and help the company to be seen as a potential employer.

In conclusion, quoting the Director of Finance of firm A:

“We get more benefit than the expense we are paying... I believe that there is a positive NPV on all this”.

The above mentioned results support the suggestion that the implementation of the IFRS affects most of the processes and functions within companies, including information systems (KPMG 2005). Companies capitalize on the advanced software in integrating processes, accounting functions, and external reporting and management planning, as suggested by Taipaleenmäki & Ikäheimo (2009). This is to say, that the development of information technology has been the main enabler of the convergence process of financial and management accounting, as stated by Taipaleenmäki & Ikäheimo (2009).

In a way, the reporting becomes part of the normal everyday business life as seen in the Daimler-Benz –case (Daimler-Benz 1998). As the management increasingly gathers and utilizes real time financial information for the decision-making process, it seems that that the adoption of IFRS standards has created a possibility to integrate management and financial accounting, as Leppiniemi (2003, 247) predicted.

The reported increased respect for accounting and numbers is in line with Hopwood’s (1983) argumentation that accounting plays an important role in creating a pattern of economic and financial visibility in organizations. Accounting can be seen as valuable tool, not only in financial and managerial accounting, but also in creating important aspects of functioning organization into economic terms (ibid. 1983). As Soderstrom & Sun (2007) suggested, the ease of comparison resulting from implementation of globally known financial reporting

standards increases the pressure the management faces. The ease of comparison tends to decrease earnings management, which in turn leads to higher degree of respect and trust of numbers.

As the results of this study suggest, the IFRS financial statements is a comprehensive information package that the management can utilize in its planning and decision making. Organizations have adopted new ways of mindsets and targets. The management has examined the accounting processes which have led to new solutions for internal reporting systems. The IASB stated (2001) that the management utilizes its access to additional management and financial information when realizing its planning, decision-making and control responsibilities. Jermakowicz et al. (2006) supported the IASB's vision; they suggested that the IFRS-based financial statements are used for internal decision-making and performance measurement processes. The findings of this study support these aforementioned viewpoints.

Drury & Tayles (1997) suggested that one reason for applying financial accounting rules in the generation of the management accounting information is that companies can connect their internal profit reporting systems with external financial accounting requirements so that they would be consistent with the outsiders' company performance measures. The above mentioned results are in line with Drury & Tayles (1997) conclusions, as interviewed pointed out that it was easier to set new kind of targets for key personnel. Before, the targets had been linked to the company's sales.

The positive perception of the impairment testing as a good way to revise the capability of the assets to provide services for the operations, supports the statement that fair value financial statements create more relevant information of firms' future cash flows (see e.g. Ball 2005, Scott 2009; Hemmer & Labro, 2008; Taipaleenmäki & Ikäheimo, 2009). The management's view and belief of the company's, and its assets', ability to generate cash flows in the future are presented in the IFRS based financial statements indirectly through the value of assets in the balance sheet.

3.4.2 Benefits of IFRS implementation in BGs especially

The major reason why BGs are in need of financial reporting standards is the fact that they need, and usually also look for, international venture capitalists to invest money in the BGs' business. The financial accounting information based on the globally accepted IFRS appears more convincing for foreign investors, as presented above under discussion of the benefits of the IFRS implementation in general. Greater amount of improved financial information provided by the CEOs and boards have increased the credibility of financial statements.

There are two reasons for the better trust of investors. First of all, the investors are already familiar with the standards. Second, the BGs do not have to explain the differences between FAS and IFRS for them anymore. The IFRS provides a great deal of help for BGs to get future financing for their processes, a perspective supported by all the interviewees. Overall the venture capitalists seem to be very pleased with the decision to start preparing the financial statements according to the IFRS. The Director of finance from Firm A described the venture capital investors' view of the FAS and the IFRS based financial statements as follows:

“I think they appreciate it (FAS). That’s nothing bad in that sense. But their own internal processes are all based on the US GAAP or IFRS or so on. So it’s (IFRS) much more convincing. You need to provide quarterly or even monthly data package to the financiers and it’s much better when you can sort of say that this is based on the international or US GAAP based financial standards.”

He also explains the motivation of the firm to provide IFRS based financial information for venture capitalists:

“And because obviously they have invested money, so it’s better to serve them well. Every time you write down that is based on Finnish Accounting Principles, fine. The next question is that, how it differs from US GAAP or IFRS. And then you need to explain that. So you get rid of them easily if your figures are based on more acceptable or more commonly used principles.”

Financial statements reported according to the IFRS can be published. Publishing the information is a good way to signal the financial position of the company to the potential

workforce, investors, and other stakeholders interested in the company. The Director of Finance of Firm A describes the benefit as follows:

“You can publish the information, as well. Even though, you are not publicly listed but it’s a good way to tell people ... You get more appreciation and respect for the company”.

The FAS based financial statements were more to satisfy the basic rules in the FAS, while financial statements based on the IFRS are seen as an overall information package to investors and other stakeholders. Consequently, the main purpose is to create a high quality tool for communicating to the external stakeholders.

The preparation of IFRS financial statements can also be seen as a good way to benchmark the company in contrast to the competitors. The information resulting from the benchmarking may be used internally to help the management in the process of making strategic decisions or externally for the public to signal the strength of the business compared to the other companies in the same area of business. The board may understand better how the group or company would look like in the IFRS world and how the company fits to the surrounding business; i.e. who are the worst competitors, what could be done better, how the IFRS financial statement differs from the FAS financial statements? The interviewees from the Firm B illustrated the importance of benchmarking like this:

“If your competitor is listed on an exchange then most likely the management of the company thinks that they must obtain comparable IFRS calculations... in one board a member had started to wonder how the group would look like if it was reported according to the IFRS, as he or she had been used to the IFRS already earlier.”

As suggested by Taipaleenmäki & Ikäheimo (2009) the boards of fast growing companies have begun to demand for forward-looking financial information. It is essential for the CEOs and the boards to be able to provide greater amount of higher quality financial information to the investors of the company. The financial accounting information which is based on the IFRS includes more information considering the financial position of the company than the FAS based financial statements. Additionally, international investors are able to compare and understand the financial statements of companies from different parts of the world.

The results of the IFRS based financial reports guaranteeing the future financing for Finnish BGs are in line with Covrig et al. (2007) findings. They found out that the firms using IFRS

have higher foreign mutual fund ownership compared to firms using local GAAP due to the better understanding of the standards. Therefore, the access to global financing may become easier as BGs adopt the IFRS as the prime financial accounting system.

3.4.3 Drawbacks of IFRS implementation in general

The Director of Finance of the Firm A brought up into the discussion the challenge of connecting the IFRS based financial statements and the financial statements prepared for the taxation purposes. Even though, the group consolidated financial statements can be prepared according to the IFRS, the companies still have to prepare the parent company's financial statements according to the FAS due to the linkage between financial statements and taxation in Finland. Although, the information provided by the integrated (financial) accounting system can be used for both purposes, more adjustments have to be made for the financial statements prepared for taxation purposes.

The IFRS are continuously updated by the IASB. Companies must follow the updates and make sure their IFRS financial statements are in accordance with the real time standards. This may cause more costs to the companies; i.e. they need an extra employee to follow the changes in standards or buy the service from an external provider. The Managing Director of the Firm B commented the issue as follows:

"... when the IFRS changes then IASB publishes all kinds of updates. Then the company must update the software on their own, however. "

As mentioned already earlier in this chapter, a right kind of software may help organizations to improve their processes. The advanced software may be able answer to the above mentioned drawbacks as well.

3.4.4 Drawbacks of IFRS implementation in BGs especially

The representatives from the Firm B stated that the implementation process of the IFRS is challenging, for small and medium-sized businesses especially. Even though the standards are

strict, to be able to understand the standards correctly companies need external help from third parties, e.g. auditing communities or consultants. Foregoing is due to the room of interpretations in the standards. The Director of Finance of Firm B recommends the companies planning to adopt the IFRS to get external help. According to him:

“(With) the first IFRS package you need external help, or at least we needed external help. And (I) very much sort of advice others to do the same. Because there’s a lot to be done in the first package.”

In the implementation phase, the employees of the company must participate in the process and work on the implementation of the IFRS besides of their main tasks. The foregoing had been noticed in the Firms A & C. Of course, neither the external help nor the extra hours of the employees are free of charge. The implementation costs can become too expensive for smaller companies and therefore exceed the possible benefits of the implementation.

Even if the management and accounting function may see the long-term benefits of the possible IFRS implementation, the work load to be done may seem too insuperable. The management can face resistance from key personnel needed to carry out the project. The Group Financial Controller of Firm C commented the issue as follows:

“I have heard from the beginning that it is not worth adopting the IFRS unless you must, and personally I agree. But our owners seem to think that we should adopt the IFRS in Finland as well.”

After the implementation of the IFRS the auditors have also started to pay more attention to the accounting systems and book-keeping during the financial year, evidenced in the Firms A and C. Even though, foregoing can be viewed as a positive effect -especially if auditors can notice incorrect procedures and guide the accountants of the best-practices before the preparation of the financial statements- the increased auditing fees may seem excessive for small and medium-sized companies.

When companies implement IFRS they also have to change the way they think. Some parts of the IFRS may seem abstract and hard to understand even after the implementation phase, e.g. what is considered as the smallest cash generating unit or what does impairment testing mean in practice as wondered by the Director of Finance from the Firm A.

Even though, the ultimate goal of globally accepted financial reporting standards is to make the financial statements comparable worldwide, it seems that this goal is not fully reached yet. Nations have held onto their own national reporting formats, which has led to a situation in which the financial statements of companies are not fully comparable. The Managing Director of the Firm C addressed the concern as follows:

”The comparison of IFRS based financial statements should be possible among all the companies globally; same calculations, just putting the documents next to each other. Now the problem is that many nations held onto their own national reporting formats because there was no standards concerning the reporting format; e.g. the reporting formats of England and Finland are very different from each other. In the end, you are not able to compare them after all. This vitiating the idea.”

The findings are in line with the research of Larson & Street (2004) who concluded that the complicated standards (together with the tax linkage) lead to European non-listed companies to use other than the IFRS basis of accounting for their annual financial statements. It certainly does not clarify the issue for smaller companies that companies have some alternative ways for calculations and presentation of some financial information in the financial statements (Pörssisäätiö 2005). Some of the standards and terms may feel too abstract and hard to understand, as presented above.

The findings revealed that the issue of global comparability of the IFRS financial statements is a concern in company-level as well. The foregoing is in line with Scott (2009) who argues, that even when applying the IFRS, the financial statement information may not be comparable among different countries due to cultural differences.

As mentioned above in the chapter 3.4.1., when companies implement the IFRS, they must revise their processes and their ability to run the IFRS. The BGs ability to run the processes may be lower compared to big multinational companies. Due to the foregoing, BGs may decide to start with low investments in the project resulting in lower level of possible management operation benefits discussed earlier.

3.4.5 Differences among companies interviewed

Attitudes of the interviewed companies towards the IFRS implementation differ slightly. Firms A and B which had already implemented the IFRS in their financial accounting were positively disposed toward the IFRS and the possible benefits the company may reach after the adoption process. Firm C's Group Financial Controller was not that convinced of the positive effects that IFRS implementation may bring to the group. Regardless, it is worth to disclose that the order for the IFRS in Firm C came from the management who may have different arguments with regard to the IFRS. Naturally, Firms A and B were already able to see the benefits of the implementation process on their business management where Firm C was still in the process of decision-making whether or not to adopt IFRS on group level.

Firm A has been very pleased with the implementation. Nowadays, Firm A is able to provide reliable financial information to its international investors with no need to explain the numbers anymore. The benefits of implementation have been noticed within the organization as well: appreciation of numbers and accounting function has increased, the board and the CEO are more involved in the accounting processes, the management receives better financial information for their decision-making with the help of updated software, the monthly closings and preparation of financial statements have become faster and easier because of the effective accounting software, agreements with third parties are constructed in a way that revenue recognition is possible as accounting functions wish. More than anything, Firm A saw that the IFRS based financial information are seen as a full information package within different functions. The implementation may even make listing possible for Firm A one day.

Even though the reporting systems and software of Firm B were already fairly remarkable good before the IFRS implementation, also they have noticed positive effects of the IFRS on their business management. The management approach of the IFRS has unified the principles and valuation processes throughout the organization. The operations models have become concordant in a way that management's and accounting function's points of view are nowadays more in line. The reporting of the global subsidiaries is more straightforward; equal accounting schemes work as the connecting factor between the parent company and the subsidiaries. Firm B mentioned also that the communication between different functions within organizations has improved; e.g. the sales function confirms the payment terms negotiated with customers.

Firm C's Group Financial Officer was a little bit more conservative towards the possible benefits of the IFRS implementation. She saw that the group could benefit from adoption of the IFRS and from reporting their financial statements according to the IFRS in negotiations with external financing providers in Australia. Internally, the IFRS may help to clarify the operations between the group and their Australian subgroup. It should be taken into account that benefits may be easier to notice after the implementation has taken place²¹. Firm C would have most likely noticed and reported more benefits if it had already implemented the IFRS on group level.

All the three companies interviewed held the view that IFRS implementation incur expenses for the company, especially in the implementation phase. These expenses consist of extra working hours, consulting and auditor fees, and software acquisitions. Furthermore, the project was seen as a large workload. Nonetheless, the positive effect of the IFRS implementation seemed to outweigh the expenses and other drawbacks.

3.4.6 Conclusions

The implementation process of the IFRS in Finnish BGs may cost a lot of extra working hours, consultation fees, and software acquisition expenses. However, the benefits of improved information quality, more efficient internal processes and managerial decision-making, as well as an opportunity to provide comparable financial information for external finance providers seems to outweigh the costs. A material factor to consider is the fact that all of the companies operate in the high-know-how business area. Could this explain their willingness to adopt the IFRS over the FAS?

All in all, the Director of Finance from the Firm B described the outcome of the implementation project positively:

“A lot of work but I think that at the end a good journey. And in a way, if I would be in a new company now. I would definitely recommend. Ok, it depends on the size and (it)

²¹ Just some years ago many people could have not imagined replacing the personal paper organizer with a mobile phone calendar. However, nowadays it is easy to notice the benefits from the replacement, i.e. a personal organizer takes no place from your bag anymore and it is easy to arrange meetings when reached by phone. It is hard to see the benefits before you adapt to the new system, whether personal comfort or business surrounding.

depends on the needs but definitely if you're applying external money for example, then (you) need it. But of course if that would be like a family business or something, then it wouldn't be that necessary. But dealing with external financiers, definitely need it. And (IFRS) improves a lot internal quality. "

3.5 Updated framework

After completing the results and analysis, the findings will be combined and an updated framework created (Figure 5 below).

As shown in the Figure, the IFRS implementation motivates the Finnish Born Globals to *revise their internal processes*. The results of this study suggest that the acquisitions of advanced software enable the increase in process efficiency. As the information technology facilitates the distribution of financial information within the organization, the *respect for accounting and numbers increases*. This in turn may lead in higher accounting quality. Personnel understand that the accounting issues have to be taken seriously, which decreases the possibility of receiving inaccurate financial information from information providers.

The IFRS requires companies to report detailed information of their financial position. The data gathered must be able to meet these *information requirements*. The management may use *the financial accounting information* in the planning and control of the company. The IFRS financial statements are rather seen as a comprehensive information package, than as only financial information. While companies must present the view of the managers, in the financial statements prepared according to IFRS, the integration of management and financial accounting has increased. The advanced software has also had an important impact on the convergence of financial and management accounting.

Often, the management accounting equals to financial accounting, especially when the software enables the management and the accounting function to have access to one accounting software at all times. In case, when management accounting equals to financial accounting, then *the management reports and other management accounting documents turn into financial accounting data*. If all the material data from the management, management

accounting and/or financial accounting are presented in the financial statements, the *true and fair view* of the company's financial situation may be reached.

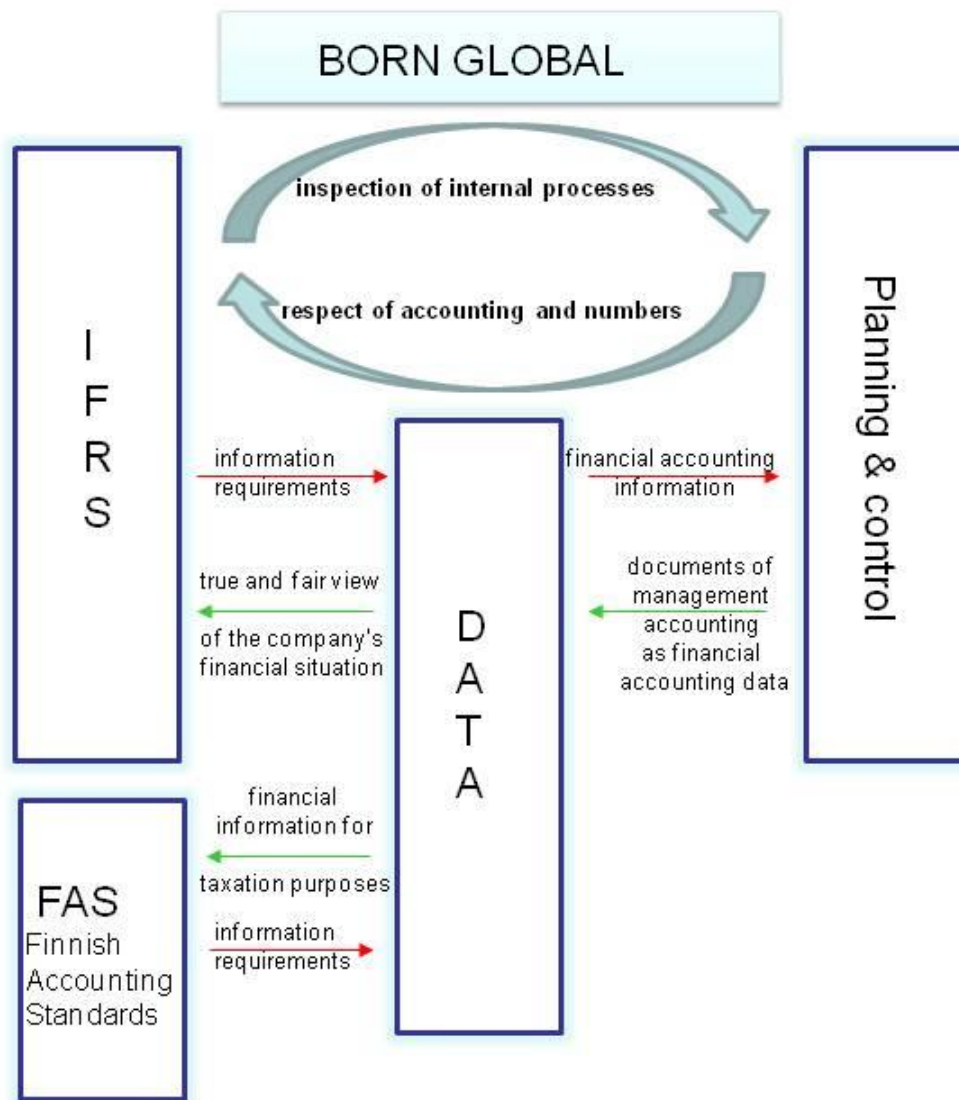


Figure 5: The updated framework for Finnish Born Globals

The *information requirements of the FAS* are not as extensive as of the IFRS. Still, the management may have to run accounting system parallel to the IFRS based system to keep up with the differences among these reporting schemes. The accounting function capitalizes on the collected data in the preparation of FAS based financial statements for the tax authorities.

Also some external benefits were documented in chapter 3.4. However, these findings will not be presented in this context since the main objective of the study was to concentrate on the internal influences. The main external influences will be discussed briefly in the chapter 4.1.

4 Summary and conclusions

This chapter will firstly summarize the results of the study in the context of the research problem. Secondly, the conclusions will be presented, followed by the limitations of the study and the possible areas of further research.

4.1 Summary

The purpose of this study was to better understand the influence of the IFRS implementation on business management in Finnish Born Globals (BGs). The issue has not been covered in the existing literature in the context of BGs before. Effects of the IFRS' voluntary adoption were found but they concentrated mainly on the external benefits gained by the companies (see e.g. Gassen & Sellhorn 2006; Covrig et al. 2007; Soderstrom & Sun 2007). One study (Ikäheimo et al. 2008) suggested that the benefits of adopting international accounting standards could exceed the costs in Finnish Born Globals. Still, no empirical research was made on the possible influences on the internal systems of the BGs.

In answer to the research gap this study focused on the question of:

How does IFRS contribute to Born Global companies' development of business management, if at all?

The aim of this study was to understand whether international financial reporting standards benefit Born Global companies. The purpose was not to create an exclusive list of benefits and drawbacks of IFRS implementation in Finnish Born Global companies, but rather to present some benefits and drawbacks experienced when adopting the IFRS as the financial reporting system. The goal was to understand how the adoption of external reporting standards may influence internal processes, planning, and ways of action within an organization.

The study was divided into two parts: analyzing the literature and the empirical research. In the first part, Born Global concept, harmonization of the Financial Reporting Standards, users of financial reports, managerial decision making and financial reporting systems, as well as the outcomes of IFRS implementation were reviewed. To conclude the chapter a theoretical

framework was created to clarify the connections between the main themes. The empirical part consisted of interviews from three Finnish Born Global companies from different fields of business. The findings were first presented and explained, followed by the updated framework.

The findings of the study show that positive effects from the adoption of IFRS by the Finnish BGs are to be found. While the IFRS implementation program may be seen as adopting an external reporting system, the impacts of this implementation should not be ignored. Several benefits, accompanied by some drawbacks were discovered.

External positive influences, besides the internal, were documented. The implementation of the IFRS was seen to assure the future financing from investors. It had simplified the reporting of foreign subsidiaries. The location of the subsidiary has become insignificant since companies are able to find auditors with IFRS knowledge all over the world. Therefore, the companies do not need to understand all the local GAAPs of their subsidiaries but it can be left for the consulting auditors of the target country. Financial statements reported according to the IFRS can be published and used as signaling of the company's financial position to the potential workforce and investors.

Most of the positive internal influences found were enabled by information technology. The adoption of the IFRS was seen as a good step to revise the processes the companies had. Once companies had invested in advanced software the integration of other processes became possible as well. Companies were very pleased after getting rid of the excel consolidation. The time span of reporting has decreased a monthly basis. Furthermore, the companies have also been able to make the financial reporting process up to 50-70 % more effective. Reporting has become part of the normal everyday business life; real time information has helped the management to lead company towards its strategic vision.

The importance of the whole accounting functions has increased. People have changed their way of thinking; nowadays the accounting issues arising are taken more seriously. The respect for and the quality of numbers had increased due to the transparency. The board and CEO were seen as being more involved in accounting since more have to be written down about the business and the management's view of the business. All in all, the IFRS financial statements are seen as a comprehensive information package; the management gets improved and easier information for their decision-making needs.

Some positive influences gained only by BGs were also presented. The improved financial information provided by the CEOs and the boards for investors have increased the credibility of financial statements. BGs may get future financing easier for their processes. The company may gain more respect when they provide high-quality financial information. BGs may benchmark the IFRS based financial information to their competitors and use this information internally to help the management in the process of making strategic decisions or externally for the public to signal the strength of the business compared to the other companies in the same area of business.

4.2 Conclusions

The IFRS diffuse globally, raising questions whether the reporting standards designed to meet the financial reporting needs of listed multinational companies are suitable for smaller non-listed companies. In Finland, the BGs would be expected to benefit the most of an implementation of the IFRS as they globalize their operations worldwide. Since BGs need notable amount of resources to be able to grow rapidly they must meet the information needs of the external capital investors. In fact, the high-quality financial information is essential for BGs in capital markets without national boundaries in guaranteeing the finance of their future processes.

Albeit, the primary reason for Finnish BGs to adopt the IFRS may be the demand of external parties, substantial benefits for internal processes may be gained as well. The information technology enables more effective exploitation of the financial information generated. The IFRS create the requirements for this financial information. As the IFRS information requirements are more extensive than those of the FAS, organizations must revise their internal processes to see whether they are able to run the full IFRS. Often, this inspection leads to software acquisitions, which in turn enables integration of many processes into one system. Resulting from the foregoing, the amount of financial information within organization increases. In an optimum situation, the management and the financial accounting functions would have an access to the same data bases in real time. This way, the management may utilize the financial information in their decision-making and control, i.e. the financial accounting and management accounting could move closer to each other.

The financial and the management accounting are under observations; the researchers are interested in the integration of these major fields of accounting. It seems that the financial accounting information is, in fact, utilized in the management decision-making and the documents of the management accounting are exploited in the financial accounting function.

4.3 Limitations of the study

McKinnon (1988, 36) defines validity and reliability in the context of field studies as broadly as:

- I. "Validity is concerned with the question whether the researcher is studying the phenomenon she or he purports to be studying, and*
- II. reliability is concerned with the question whether the researcher is obtaining data on which she or he can rely."*

Based on the definitions above, there are two certain reasons which should be kept in mind when further analyzing the results of this research.

First, this qualitative study was carried out only on three companies from the field, which means that the results as such apply to this study only. However, they do illustrate the potential influence of IFRS on business management in Finnish BGs, especially in the high-know-how business are. Additionally, the results could be used as guidelines for the future research.

Second, the semi-structured interview as a data collection method is challenging. There are three reasons for the challenges. Firstly, the semi-structured interviews produce a large number of data without well-defined instructions for the analysis. Secondly, the interviews present the views, perceptions, and beliefs of individuals from unique organizational setting. Thirdly, the findings are dependent on the interaction between the researcher and the interviewees.

Despite the limitations here, it can still be argued that the study yielded reliable results in describing the phenomenon not yet existent in the literature. Furthermore, the results of the

study answer the research question presented. Hence, the results meet the challenges of the validity and reliability.

4.4 Suggestions for further research

Since the topic of this study is fairly new in the context of Born Global companies there are other opportunities for further research. As this study was an exploratory research, there is still room for more in-depth studies:

- Case studies of the IFRS implementation may deepen the understanding of the internal processes and changes in those processes within an organization.
- There is also a need for an empirical study on the level of converge of financial and management accounting in Finnish Born Global companies.

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ED SME IFRS. 2007. *Exposure Draft: International Financial Reporting Standard for Small and Medium-sized Entities*. Issued by International Accounting Standards Board on 31.1.2007.

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Appendixes

Appendix 1

INTERVIEWS

Interviewees	Date	Duration
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FIRM A

Director of Finance	17.11.2008	1,5 h
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FIRM B

Interviewees are from a subsidiary incorporated of Firm B in 2007

Senior Vice President	20.3.2009	2h
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Managing Director	20.3.2009	2h
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FIRM C

Group Financial Controller	5.5.2009	1,5h
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