

Best Corporate Governance Practices Regarding Financial Disclosures Recommended for Russian Small and Medium Enterprises (SMEs)

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Bachelor's thesis

April 2017

School of Business

Degree Programme in Business Administration

Description

Author(s) Zvereva, Iuliia Zvereva, Mariia	Type of publication Bachelor's thesis	Date 03.04.2017
	Number of pages 59	Language of publication: English
Title of publication Best Corporate Governance Practices Regarding Financial Disclosures Recommended for Russian Small and Medium Enterprises (SMEs)		
Degree programme Degree Programme in International Business		
Supervisor(s) Hundal, Shabnamjit		
Assigned by JAMK University of Applied Sciences		
Description <p>Recently SMEs have been affecting the Gross Domestic Product (GDP) of European, American and Russian markets. However, European and American SMEs were developing in favorable conditions with financial support from the European and American Governments respectively and strict legislation on shareholders' rights and reporting in comparison with Russian SMEs. The principles of corporate governance, regulating SMEs' operations in Russia, were introduced short while ago, while their implementation was not taken yet into consideration by the Russian Government and SMEs' shareholders.</p> <p>Therefore, the objective of this research was to expand the existing knowledge on corporate governance practices, in particular, for SMEs operating in the Russian environment. At the same time, to accomplish the objective, it was essential to identify the most appropriate corporate governance practices on reporting of the commercial information and its transparency. Furthermore, the associated advantages and constrains related to implementation of these practices were investigated.</p> <p>This research was conducted using the qualitative method. Whereas the objective suggested describing the actual standards in terms of corporate governance and explaining its importance, the explanatory case study was chosen as the strategy to carry out the study. The analysis of the secondary data was executed with the help of data display and analysis method. Implementation of semi-structured interviews contributed to validity of the findings.</p> <p>The most appropriate corporate governance practices about reporting on finances and its transparency for Russian SMEs were determined as the ones, established by the OECD. Applying those regulating principles were useful for the raise in the financial liquidity of Russian SMEs, simplifying the access to investment and building the reputation. Notwithstanding the issues, related to the current legislation and investment climate, implementation of the best practices was dependent to a great extent on the Russian Government's initiatives.</p>		
Keywords (subjects) Corporate governance, financial disclosure, transparency, SMEs, Russia		

Miscellaneous

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1 Introduction

1.1 Background

In 2010, the amount of SMEs in Europe overcame 75 per cent of European GDP according to the report of the European Confederation of Directors' Associations (ECODA). Therefore, SMEs play a constructive role in employment building and economic prosperity. While the large sized companies have their own strict regulations striving at improving their performance and achieving strategic aims, SMEs are considered as lacking of common practices in corporate governance. (Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010, 6.)

This study is conducted in order to analyze the principles of financial disclosure and reporting in corporate governance for those SMEs, which try to carry out their operations in compliance with the International Financial Reporting Standards (IFRS) principles and acts. The concept of corporate governance itself is a lengthy matter, although no less important for any organization regardless of its size and environment, in which it operates (Guidance on Good Practices in Corporate Governance Disclosure 2006, 3.)

Applying convenient corporate governance practices, particularly, in finance department, is leading to the more advanced strategic planning and risk handling management within the organization as well as to the sustainable growth and development of the entire enterprise. These two aspects of financial reporting standards as risk management and sustainable growth of a business are highly essential nowadays. While financial transparency practices are widely spread in multinational companies in their management models and in the annual reports, SMEs have certain specifics in disclosing their commercial information. (Porshakov et al. 2010, 7.)

Nowadays, when speaking about corporate governance practices implied to SMEs, operating in the Russian environment, several differences from the multinational companies of Europe and US can be recognized.

Looking back at the situation with corporate governance practices and principles, followed by Russian SMEs, it is worth mentioning that the mass privatization program (MPP) was held in Russia in 1992-1994. That program has negatively affected practices of ownership and corporate governance in the country. When the MPP was announced and realized, the workers and managers' rights to dividend payments from company shares had not been taken into consideration. Moreover, manipulations with information related to internal processes, going on within a company and its financial position, were adopted. As a result, the external investment share in ownership of companies in Russia started to decrease due to the fact that the rights of minor foreign shareholders were not supported. In the end, it caused the loss of trust and goodwill of Russian big companies and SMEs in developed countries (Sprenger 2002, 3-5.)

Moreover, the implementation of good corporate governance policies and practices in Russian SMEs is supposed to follow the guidelines developed especially for Russia by the International Finance Corporation (IFC) in 2004. Foreign investors put their trust in company management, in particular whether principles of fair and transparent business are followed and complied, and if the company's actions do not lead with the litigation and endangerment of reputation. Therefore, the Russian government and CEOs of SMEs have to pay attention to the importance of the corporate governance practices and the international standards, which regulate it. (The Russia Corporate Governance Manual 2004, 4.)

1.2 Purpose of the study

Academic works on the topic of corporate governance are remaining relevant and revised by the international organizations and institutions. For instance, the Organization for Economic Cooperation and Development (OECD), which summarized the corporate governance principles in 1999 and then adapted them in 2004 and 2015, is taken as a reference point for majority of the works written at the present time. However, the concept of corporate governance practices and guidelines for SMEs are apparently lacking the explicit knowledge in implementation stage and in overcoming the potential obstacles, which SMEs might face, following the guidelines of corporate governance,

while disclosing their financial information. Therefore, there is a need for the further questioning and investigating the existing knowledge and experience about mechanisms of corporate governance tools and application for SMEs in financial aspect. Fulfilling this need, this study is discovering the approaches for conveying the international standards to SMEs day-to-day financial operations and striving at contributing to the previous researches done in this field.

1.3 Relevance

This research is regarded to be beneficial for the broaden audience, represented by entrepreneurs and CEOs of SMEs, boards of directors and managers of SMEs, including financial institutions. Secondly, it aims at expanding understanding on how to enhance the managerial effectiveness, enterprise's performance, creating the attractive conditions for the external sources of capital and investments, supporting the sustainability of the business development and growth and the rights of shareholders (major and minor) and planning the risk management system improvement.

At the same time, this study is important on the governmental purposes in discovering the potential leaks in the current legislation system in the financial reporting and the obstacles arising from the uncertainty, caused by those leaks. In a row with them, this work is seen relevant for the academics for the reason of further research in corporate governance disclosure and reporting guidelines.

The assignor of this study is JAMK School of Business, which can be indirectly interested in the results of this study. As long as JAMK is an international organization in the field of education and entrepreneurship, JAMK has an opportunity to demonstrate and include the principles of Corporate Governance in teaching practices. While they are aiming at Europe-based start-up companies, it would help undergraduate students to better reflect on the international requirements for funding their own businesses in that area. In the same time, it serves administrative purposes, because JAMK is a competitive institution, not just a company, which is in charge of reporting on its overall results and disclosure annually the commercial information to the public in a way to stay transparent. This statement is considered to be in accordance with the JAMK strategy 2020 (Halttunen n.d.)

This paper is important for the authors as an opportunity to broaden their academic knowledge about the corporate governance as a managerial tool and to be capable to run the enterprise in accordance with the internationally most reliable and representative reporting standards and information disclosure practices. Likewise, the authors hope that this work will highlight several possible approaches in developing the current state of business transparency and trust in SMEs as a future career workplace.

1.4 Research objectives and questions

The research objective of this study is to find out the most appropriate ways for SMEs to implement the international reporting standards as a part of their common governance strategy, including disclosure of the financial information.

The main research question is defined as following:

1. What are the best corporate governance practices with respect to financial disclosures for SMEs in Russia?

The supporting questions are:

1. What are the benefits available to SMEs by implementing the best corporate governance practices in regard to financial disclosures?
2. What are the challenges in designing the best corporate governance practices related to financial disclosures for Russian SMEs?

To answer the research questions, the case study of the corporate governance principles in finances reporting for SMEs is held. Importance and application of those standards are researched as well. Challenges and barriers, that prevent SMEs managers from implementing the international standards, are studied through the publications of financial organizations and associations along with conduction of interviews. The solution to overcome these barriers will be found and described after analyzing the specific characters of Russian SMEs. The concept of corporate governance practices is wide and requires certain narrative explanations and details. Meanwhile, guidelines for SMEs in their implementation of corporate governance practices are to be described through. The guidelines for corporate governance for SMEs, financing sources of SMEs, including the current legislative baseline in Russia will be

taken into consideration. The interviews with CEOs of small-sized enterprises will be presented in more detail in the Results chapter.

1.5 Structure of the thesis

This study familiarizes with the concept of corporate governance and its importance for SMEs, highlights the financial disclosure principles of corporate governance for Russian SMEs and potential advantages of implementing them as well as impediments, which may arise while applying these corporate governance practices into action.

This research is comprised of five parts. The introductory part stipulates the topic of the study and the main research questions and explains the relevance of the topic to the authors and third parties. In the second part, the review of literature is exposed to demonstrate the variety of concepts, ideas and theories related to the research topic.

The chosen method and theoretical framework are represented in the third part of the study. The qualitative approach is used in this work in order to collect and analyze the data first and answer the research questions second. Based on Saunders et al (Research methods for business students 2009, 124), for the research, in which theory is arising from the results of the data analysis, the qualitative approach is more applicable than the quantitative. In the following part of Results, the actual findings on the topic are announced, the answers to the research questions are given. The Discussion part mentions the limitations, objectivity, internal and external validity, refers to the literature used.

2 Literature review

In this chapter, the related literature and academic findings are considered. The Literature Review part is dedicated to development of understanding the key concepts of the topic and to find out the existing relevant theories for the research questions and objectives. Based on the analysis of the literature conducted in the Results, the new theory will be developed and presented under the determined theoretical framework. In relation to the research questions, the key concepts to elucidate were identified as following: Corporate Governance for SMEs, Financial Disclosure, SMEs in Europe and Russia, and the most appropriate practices for Russian SMEs.

2.1 Corporate Governance for SMEs

To start with, the concept of corporate governance is described as a number of practices to help running the company, delegating of rights and responsibilities within the company among the third parties and considering special instructions for decision-making processes (OECD Principles of Corporate Governance 2004, 9).

Based on the concept of corporate governance, the subsequent idea of corporate governance for SMEs should be expounded, regarding the specifics of SMEs. As stated in the OECD Principles of Corporate Governance (2004, 17-25), the corporate governance for SMEs represents fair relationships among all involved parties, such as the Board of Directors, external and internal investors, Management Board, employees, company's suppliers, partners and clients. In addition, it clearly defines the outline, where the strategic interests of the company are raised, and sets the ways of fulfilling them and controlling them.

This is taken as a reference point for further expansion of international standards and documents issued by the Association of Chartered Certified Accountants (ACCA) and ECODA.

Mishra, Dube I. and Dube D. (2011, 77-78) have stated that there are eight norms of corporate governance for SMEs to be followed by SMEs. These are the following:

- a) formulating and announcing of strategic objectives of a company,
- b) designing a code of conduct, which governs business development,
- c) determining remuneration policy of a company,
- d) reporting managerial performance on a yearly basis,
- e) forming management outline and proficiency demanded by the industry,
- f) setting a way of calculation and informational disclosure,
- g) supporting the rights and performing duties in relation to all involved parties, and
- h) following the legislation and corporate regulative norms.

In the same time, ECODA (Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010, 26-42), defines nine fundamental principles for implementation of corporate governance practices in SMEs. The brief description of those applicable principles is given below:

The first principle describes the guidelines for inner government of a SME. The guidelines are comprised of dividing roles and responsibilities between the members of the company. When the owner is no longer able to lead the company and the authority is over given from the owner of the company to the Board, it is supposed to be formally declared, while the procedures to elect new delegated authorities are accomplished on the systematic basis and reviewed periodically (ibid., 26-27.)

The second principle is that every SME should try to create an efficient Board of Directors and Advisory Board. This second principle of corporate governance is heavily depending on collective thinking and collaboration. Substantially, it states that any strategic decision should be taken into consideration based on a dialogue between the involved parties of the enterprise. The main argument given is a loss of objectivity, when one individual, who leads the enterprise all the time, might make mistakes in analyzing the internal issues. Responding to this matter, the corporate governance proposes the company's

actors to report about the actions undertaken (Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010, 27-31.)

The third principle is related to the Board of Directors and declares that the number and diversity of the Board should represent the current versatility of operations. This aspect of the corporate governance is based on the competent and professional planning. However, being successful separately, does not necessarily mean finding a common language among them and being successful, while working in a team. To carry out professional planning and decision-making processes, it is needed to create an inspirational atmosphere in which the records are led during the board meetings and the initiatives from the board members are supported (ibid., 31-33.)

The fourth principle notes that the Board is supposed to meet regularly to execute its responsibilities and be acquainted with up-to-date information within the SME. This side of corporate governance is related to the organizational structure. Under this term, one means that each line or layer of the organization is in charge of supervising the level that below it. For instance, a worker would be accountable to an operational manager, the manager is accountable to a director. This practice is crucial to consider for stakeholders in order to perceive their duties better (ibid., 33-34.)

The fifth principle determines the Board's main responsibility, in particular, being able to anticipate the risks for the SME and prepare internal control framework. For instance, this concept of corporate governance is managing the clash of interests, as there is unavoidably a controversy of the aims within the company. In that case, the corporate governance' main concern is achieving the objectivity between the company's members and creating the certain principles to solve the potential conflict (ibid., 35-36.)

The sixth principle is comprised of the idea that the Board is responsible for the dialogue with its SME's shareholders and mutual understanding of goals and strategy. The seventh concept of corporate governance is remuneration practices and incentives related issues. Corporate governance act declares that remuneration policies should be in accordance with the company's long-term goals and objectives while being transparent and reasonable to the company's stakeholders. This principle of remuneration system allows the whole

SME to perform accordingly to quality standards and motivates its employees and executives to run the business operations successfully (Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010, 36-38.)

The seventh principle articulates that all directors are supposed to join the Board and participate in training and development programs regularly in order to renew their skills and knowledge (ibid., 39-40.)

The eighth principle explains the compliance of family governance and corporate governance within family-run businesses. In addition, the mutual understanding and coordination are supposed to be established, i.e. the 'family governance mechanisms' (ibid., 40.)

The ninth principle of corporate governance is referring to the transparency of the business. SMEs are supposed to be reserved organizations, which do not disclose the financial information about their performance and results. However, corporate governance practices propose SMEs to become more open regarding publishing the information about their financial positions in order to become more transparent to the external investors. This practice is also serving the cases when the external manager could replace the owner of the organization in completing the operational duties. Such a step is important for the organization's reputation for public and fulfilling the expectations from the external financiers. Financial Disclosure concept is explained in depth in the following subchapter (ibid., 41-42.)

In line with nine indispensable principles, ECODA claims that the principles of corporate governance on training of human resources and family governance are not defined as obligatory in building the good corporate governance although they are still being applicable to SMEs (ibid., 26-42).

Implementing the corporate governance in SMEs is the essential process for several reasons. Based on the findings of ECODA (ibid., 13-15), there are three main groups of grounds. They are performance-related, illiquidity risk-related and goodwill-related issues in the societal context.

Starting with the performance-related matters, there are several advantages to SMEs to investigate. Corporate governance would help SMEs to increase the

level of the company's staff potential in taking strategic decisions and leadership. As well as that, to build a greater pool of external financiers, as good corporate governance practices create a guarantee for the financial institutions that their capital is being managed safely. Therefore, the financial benefits arising for a company with the finances regulated on a stable basis. (Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010, 13-14.)

Furthermore, illiquidity risk-matters, the main focus is on corporate governance influence on the external investors behavior and capitalists' confidence in the company and that their interests and rights are taken into consideration while planning the company's strategic vision. The investors of SMEs typically make the long-term commitment with a company. Due to the fact that the exit from the ownership stake of SME is challenging, they are likely to observe that a good corporate governance framework in the company builds trust between the board and the management team. At the same time, there is an opportunity to exit when it is inevitable. In that manner, the risk of illiquidity is handled and mitigated by corporate governance practices in SMEs. (ibid., 14.)

It has to be mentioned as the last group of grounds supporting the implementation of corporate governance practices in SMEs, the goodwill-related matters in the societal context. This states that good corporate governance practices implemented in SMEs create the different social attitude towards those companies, in the sense of the increased trust from the third bodies, in improved reliability of the company's financial statements and business transparency. As well as that, in some countries, such as Finland and Spain, corporate governance helps in fulfilling the expectations regarding the legal compliance of the company's activities with the national corporate governance codes (ibid., 14-15.)

The next point to clarify was the main parties benefited from implementation of corporate governance into SMEs. The ECODA (ibid., 15-17) provides an explicit view on the roles and responsibilities of the company's bodies: shareholders, CEO, management team, other interested bodies.

For shareholders involved in applying the corporate governance practices means regulation of communication between shareholders, the organizing of

the shareholders meeting, the shareholders agreements and solving potential conflicts if there are any between the family members in the family owned company (Corporate Governance Guidance and Principles for Unlisted Companies in Europe 2010, 15-16).

For senior managers, these practices are helping in constructing procedures for electing the board director, board members, organizing the board meetings and the question of creating subunits responsible for different areas such as committees (ibid., 16-17).

For executives, these practices would help in considering the appropriate level of power of execution and remuneration principles, including top managers, other stakeholders (ibid., 17).

For stakeholders of a company, such as workers, suppliers, government etc., these practices would mean developing the communication channels and collaboration between them with paying respect to their interests and needs. (ibid., 17).

With respect to all the parts of corporate governance, those associated with the financial disclosure are being the main focus of this study by virtue of its difficulty and rigor. Moreover, Porshakov, Gilbert, Ivakhnik and Chumakova (2010, 12) find that the most important aspect of corporate governance for Russian SMEs is to improve the informational disclosure and its transparency to all involved parties.

2.2 Disclosure of Information

According to IFC (The Russia Corporate Governance Manual 2004, 391-392), the concept of disclosure represents secured accession to the information by stakeholders without let or hindrance, when the aim of getting access to the information needed is regarded as inconsiderable. At this point, it has to be mentioned, that the practices of disclosure of information should comply the four requirements: regularity, availability, accuracy, and reliability. These four requirements are necessary for SMEs' governance to implement in order to be sustainable in the corporate governance domain.

The disclosure of information is regulated by several rules. The Technical Committee of the International Organization of Securities Commissions (IOSCO) prepared a list of rules for enterprises, which regulates ongoing disclosure in seven basic principles. (Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities 2002, 4-6.)

- Avoidance of irrelevant information disclosure,
- strict timelines for reporting,
- contemporaneous and alike reporting in all organizations, where SME is registered,
- distribution of information in all organizational levels,
- a clear method of assessment of information and its transparency,
- fair usage of information regarding minor and major stakeholders, and
- focus at the international standards and regulations.

However, the most referred principles in respect to SMEs' information reporting are developed by OECD in 1999 and revised later on in 2004 and inter alia in 2015. These principles are considered to be reliable and relevant among the organizations, which intend to implement corporate governance practices in their structure. Figure 1 demonstrates the principles, recommended for implementation in Russian SMEs from the perspective of financial disclosure.

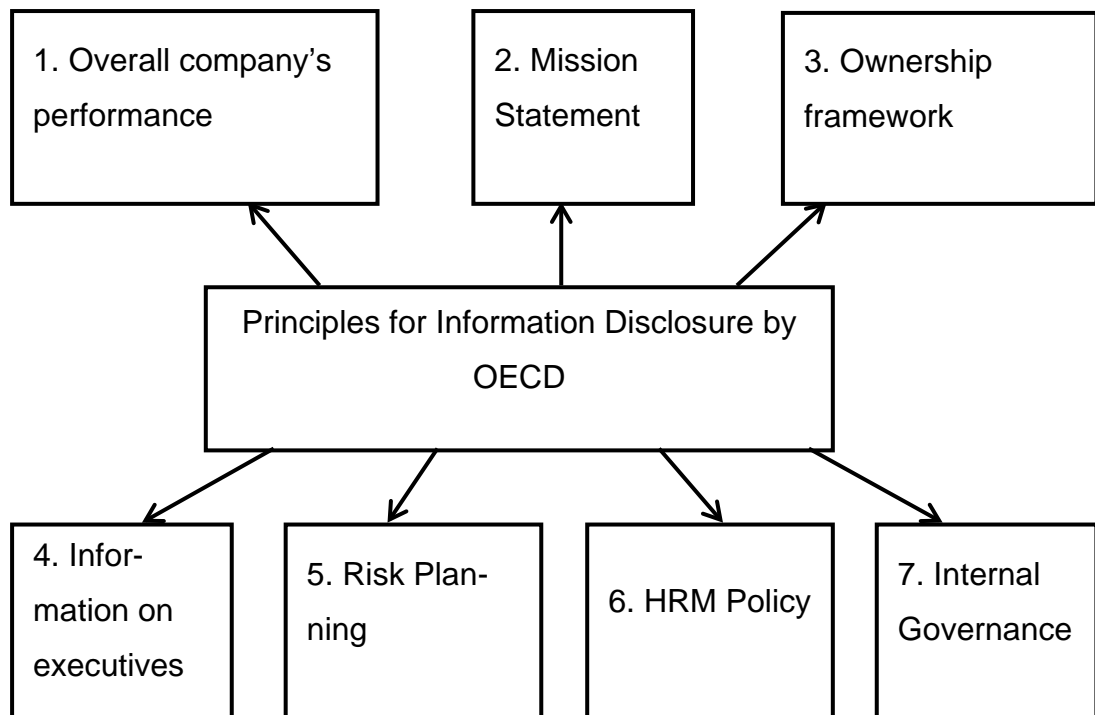


Figure 1. OECD List of Principles (adapted from The Russia Corporate Governance Manual 2004, 398)

According to the scheme, the first principle is overall company's performance, meaning key processes going on in the company: presenting, preparing, disclosing of information, including collaboration between companies. The process of presenting information is identified as a complex of various financial statements, explanatory notes to them as well as reports from external auditors. According to the global standards such as IFRS and OECD, the financial statements include the balance sheet, the income statement, changes in equity statement, cash flow statement, notes and explanations related to financial statements and the report of a non-executive independent auditor (The Russia Corporate Governance Manual 2004, 399-400.)

Taking into consideration Russian legislation, the process of preparing information consists of several accounting principles. Among others, there is a principle of recording of every company payment and receivable, based on the time of occurrence rather than the actual amount was paid or received. The principle of company being functioning at the moment of gathering the financial information. Besides it, the financial information is supposed to be prepared in the order, defined by the standards unless there is a change. Company's liabilities and assets should be divided from the shareholders' liabilities and assets. The financial information prepared is regarded as complete and

representative by investors, therefore it should be up-to-date and accurate in relation to risks, which the company might face in the future. The reliable disclosure of financial information is originally coming out of the understanding by the company that the legal form of the operations is less significant than their economic value and effect. During the process of preparing, both analytical and synthetic accounting methods are implied. The relation between costs and benefits in the financial information is reported fully, when expenses and revenues correspond respectively periodically (The Russia Corporate Governance Manual 2004, 400-403.)

The process of disclosing information is reflected in the company's reports on a quarterly and yearly basis as well as the printed documents advertising a SME to external shareholders in a comprehensive way about the enterprise performance and most significant outcomes. These documents are called prospectus of a company or enterprise, which disclose the commercial information (ibid., 404.)

According to Bureau of Economic and Business Affairs (2016), in the event of a SME entering the Moscow Exchange bourse, there are additional requirements on the information disclosure. The Moscow Exchange is the main bourse of Russia, which consists of two consolidated stock exchanges: Moscow Interbank Currency Exchange (MICEX) and Russian Trading System (RTS). The consolidation took place in 2011. (Investment Climate Statements 2016.) However, this study is focused on not listed SMEs of Russia.

There is a specific list of requirements for the SME having its subsidiaries. The most crucial principle is the transparency and consolidation in information disclosure. The Civil Code of Russian Federation regulates the relations between companies and subsidiaries. (The Russia Corporate Governance Manual 2004, 405.)

The second principle of Mission Statement contains the SMEs' formulating the main purpose for their existence. This principle should describe any strategic decision of an enterprise, so to speak, decision on consolidation or acquiring, developing new products and business lines or being motivation factor for the employees of the SME, engage their commitment towards the common goals,

i.e. Mission Statement. (The Russia Corporate Governance Manual 2004, 405-406.)

The third principle of disclosure is ownership framework. Speaking about ownership, there are three types of ownership defined by the Law on Security Markets of Russia (1996). They are major share ownership; minor share ownership and agreements among shareholders. (ibid., 406-411.)

Major share ownership implied owning from 25% to 75% of shares of a SME. The rights applied to this amount are varying from cancelling the enterprise's reorganization (25% of shares plus 1 vote) to deciding all the urgent matters (75% of shares plus 1 vote). The Table 2 given in Appendix 1, depicts the major ownership rights. Enterprise's policy is supposed to describe the rights for interested parties owning the shares of the SME in a clear and comprehensive manner (ibid., 407.)

Minor share ownership states that the shareholders owning the minority of SME's shares still influencing the decision making process through the cross shareholdings and other schemes should be disclosed publically (ibid., 411-413).

Agreements between shareholders give right in different domains of internal governance including the remuneration of CEO and the Board. Those agreements are to be reported on the quarterly basis and in other material documents (ibid., 413-414.)

The fourth principle reflects the disclosure of several aspects on the personal information of CEO, Board of directors and independent executives. It says that the background of senior management should be declared to shareholders. The probability of any interests clash within the Board is to be mentioned. This principle is also covering the incentives schemes for senior managers and requirements on which those incentives are paid and corresponding to the principle of transparency (The Russia Corporate Governance Manual 2004, 414-417.)

The fifth principle concerns the risk management of a SME. It requests that the potential and existing risks affecting the SME's performance is taken into

account and managed. The policy on risk management is stated clearly for the public (ibid., 417.)

The sixth principle is referring to human resource management of a SME. The information regarding the employees' number and composition, their occupational experience, their working conditions and certain legal acts regulating workforce rights is essential to be reported (The Russia Corporate Governance Manual 2004, 417-418.)

The seventh principle affects several considerable issues on internal governance of a SME. Firstly, it regulates the level of commitment of the SME's executives towards the information disclosure procedure. That might be necessary to know for the shareholders whether the enterprise is truly willing to implement the good corporate governance practices in its internal context. Secondly, it explains the SME's internal governance mechanisms, the level of authority of senior employees. Thirdly, it requires the reporting of the SME's corporate governance policies and the amount of information to be disclosed to the audience (ibid., 418-421.)

2.3 Transparency of Information

The concept of transparency is explained by Lepadatu and Pirnau in detail and with limitations (2009, 102-106). According to them, transparency attributes to the context, where the data on current operations is provided in an accessible manner for all stakeholders, participating in economic relationships.

This concept is close to the concept of accountability. However, financial accountability is heavily dependent on reporting and disclosing of information.

The main goals, which business transparency and reporting are supposed to achieve, are the subject to strict control practices for the government sector and awareness of the governmental decisions and actions by private ownership. It also serves risk anticipation and impedes the spreading of uncertainty in the market.

At the same time, D&V Philippines (2016), the Financial and Accounting Services Company, argues that there are three crucial reasons behind the SMEs' pursuit to implement financial transparency concept. First, the high-quality

transparent reporting on the enterprise's activities demonstrates the efficiency of its management and preparedness for drawing in investors. Secondly, clear and truthful financial information of the enterprise presented in the out builds the trust in it and reputation among the involved parties. Lastly, precise reporting on finances, done on schedule, enhances the chance of receiving a credit from financial organizations. In the long perspective, this measure facilitates further expansion of the business.

The major limitation for transparency concept is disclosing of private information, which might act in breach of rules regulating confidentiality matters. Besides, the full disclosure is granting an unfair benefit to one of parties in competition in the economic relations. (Lepadatu & Pirnau 2009, 102-107.)

According to PwC (2011, 2-3), the transparency of disclosed information within financial statements, corporate reports or social responsibility reports is obtained through following common rules. The information is structured clearly, thus it can be found by requests freely. The most important parts of the information are highlighted primarily, while all the necessary details complement the whole vision. There should be logic in the reports, i.e. the parts of the information given from several aspects are interconnected and logically stated. This will help to see the entire picture how the business operates. Besides, all the additional information, which does not have a direct connection to the data reported and which, distracts the attention from the primary comprehension of the company's Action Plan to the secondary matters, is not obligatory in the official reports, but can be alternatively published on other sources. Statistical data can be replaced to the last pages of the official reports if it is displayed in complex visuals. The information presented in the reports should be prepared carefully, thus it reflects all interrelations between the operating results and the steps taken, which led to those results.

International Financial Reporting Standards (IFRS) regulates the transparency principles in financial disclosure. This organization has declared the rules for accounting and reporting for listed SMEs in Europe. Simultaneously, for Russian SMEs there are RAS (Russian Accounting Standards) principles. Companies operating in the Russian environment have to comply with the national standards, however, they are expected to switch to IFRS standards to enable

the stakeholders perceive the commercial information using the common regulations. (The Russia Corporate Governance Manual 2004, 403.)

2.4 RAS contra IFRS

It was mentioned in the previous subchapter that Russian SMEs operate accordingly to Russian Accounting Standards (RAS). The Russian consulting company EFSOL (2015) explains differences between RAS and IFRS in some basic principles.

- RAS uses the current exchange rate in currency operations while IFRS uses the average exchange rate.
- RAS specifies the procedure for accounting of the resulting exchange differences in the share capital, while IFRS allows reporting the book value of fixed assets.
- RAS illustrates first legislative explanation of operations, secondly accounting operations. IFRS on contrary demonstrates first the economic operations, while gives explanations afterwards.
- RAS bases the records in accounting journal on the primary document, while IFRS relies on the accountant's opinion.
- RAS uses the nominal value of payments, while IFRS uses the present value of payments.
- RAS does not have instruction for calculating the fair value, while IFRS such instructions.
- RAS does not have strict rules on regulating the depreciation of assets, while IFRS consists of them..
- RAS does not emphasize the high coherence of income to expenditures, while IFRS does.

According to Khazimuratova, the Senior Accountant from Alinga Consulting Group (2006), the level of awareness about IFRS among accountants of SMEs remains insufficient. Among two thousand surveyed accountants of

Russian companies, one thousand four hundred eighty respondents underlined that the Ministry of Finance would be in charge of IFRS implementation in Russian companies, while one thousand three hundred twenty respondents found that the Ministry of Finance would execute and adjust IFRS in Russia. More than a half of the respondents would want to acquire necessary skills to work with IFRS, while absolute majority of the respondents (1700) claimed that implementation of IFRS in Russian companies would make financial statements be more valid.

2.5 SMEs in Europe and Russia

The following concept represents micro, small and medium sized enterprises (SME), which correspond to the certain requirements. Based on the European Investment Bank (EIB) study “Small and Medium Entrepreneurship in Russia”, the following table is given. This table is describing SMEs’ main characteristics in more detail.

Table 1. SME Segmentation (adapted from Small and Medium Entrepreneurship in Russia 2013, 6)

	SME Segmentation			
	Russia		EU	
	Revenue (eur mln)	Number of employees	Revenue (eur mln)	Number of employees
Medium	10-25	101-250	10-50	50-250
Small	1.5-10	15-100	2-10	10-50
Micro	<1.5	<15	<2	<10

According to the above table, there are two groups of requirement for SMEs. These are staff headcount and turnover. European Investment Bank states

that a SME must report the staff headcount and one of financial ceiling, turnover or balance sheet total. (ibid., 6-7.)

Following these groups' requirements, micro enterprise is an enterprise with a total number of workforce less than 10 people and with annual turnover no more than two million euro. A small enterprise is an enterprise with a total number of workforce less than 50 people and with an annual turnover less or equal to ten million euro. SME is an enterprise with a maximum number of staff of 249 people and either with financial turnover of less or equal to 50 million euro (Small and Medium Entrepreneurship in Russia 2013, 6.)

In the same time, the specific features of Russian SMEs are explained in the same study, conducted by the European Investment Bank (2013, 6). Russian SMEs are divided into three groups as well as SMEs in Europe. The first group represents Micro SMEs, which have less than 15 employees and the annual turnover no more than one and a half a million euro. The second group of SMEs is Small enterprises with the amount of 15-100 workers and the operating result less than ten million euro. The last group of SMEs is Medium enterprises, which have less than 250 of workforce, while the annual result leveled at 25 million euro. The revenue levels are considered by the Russian Government every five years. The latest revision was set in 2013, thus the next one is supposed to be in 2018.

Based on the statistics of EIB (2013, 9), the amount of all SMEs, including legal entities and individual entrepreneurs, reached 4,403,000 in 2012, of which 2,013,000 were legal entities and 2,390,000 were individual entrepreneurship. Out of legal entities, eighty-five per cent were micro-sized enterprises, fourteen per cent were small-sized enterprises and one per cent was medium-sized enterprises.

It is important to note that in 2012 the number of people, working in the legal entities and as individual entrepreneurs, decreased by 3 per cent in comparison with the previous year (16.6 million workers in 2011) and was 16.1 million workers. This amount (16.1 million) represented 23 per cent of all employees in Russia, thus around one fifth of all workforce of the country. Besides, 2.9 million of those were individual entrepreneurs and 13.2 million were legal entities. The number of legal entities was comprised of 53 per cent of Small en-

terprises, the majority of LE. The Micro and Medium-sized enterprises accounted for 28 per cent and 19 per cent respectively. (ibid., 13.)

2.6 Financing of Russian SMEs

According to the “Small and Medium Entrepreneurship in Russia roundtable discussion” of March 2014 (Safonov 2014, 9), SMEs in Russia are struggling with the four main barriers in order to develop successfully. These are the following: the lack of skilled employees, increasing taxes, little accessibility towards funding and the fall in consumers’ interest.

In comparison with European SMEs, which prefer credit line as the source of financing, Russian SMEs rely heavily on loans from banks. However, an option of the bank loan for SME suggests meeting a bank’s requirements, for instance, bank demands transparency of operations, stable financial position, presence of collateral, the increase in number of credit, which creates the shortage of the bank’s reserve, low awareness of rules and regulations in legislation, need for qualified workforce and inadequate risk planning. (Small and Medium Entrepreneurship in Russia 2013, 28.)

Russian SMEs acquire tangible noncurrent assets with the help of the bank loans, such as transport and equipment. Moreover, funding from banks supports the SMEs’ to maintain their financial operations. Then, it contributes to improvement of intellectual property items, such as a new patent for a product or service. Human resource expenses are among the least favorable among Russian SMEs as well as purchasing of other enterprises. (ibid., 18.)

Besides the local funding, Russian SMEs have an opportunity to obtain funding in the shape of Foreign Direct Investment (FDI). Borislav (2016) declares that the foreign investment to the Russia is increasing and reaching sixty-five million dollar a week in summer of 2016. This inflow financing is allocated to different regions within the country. Russian Federal Service of State Statistics (Rosstat) estimates the amount of investment to each of Russian regions. The statistics provided by Rosstat is used for analysis of investment climate, for instance, in the research of PwC ‘The Russian evolution: How can foreign businesses prepare to prosper?’ Twelve regions with highest investment (over USD 4 billion) are mentioned in that study: Moscow, St. Petersburg, Moscow

region, Sakhalin region, Krasnoyarsk region, Tatarstan republic, Chelyabinsk region, Samara region, Sverdlovsk region, Vologda region, Kaluga region and Rostov region. (Marketmap 2013, 14.)

2.7 Obstacles

According to Moiseev (2014, 45), entrepreneurs of Russian SMEs determine two main factors, which affect negatively the development of small and medium-sized business in Russia as well as prevent them from designing good corporate governance practices. These are actions of authorities and weak legislative base, in particular property and investment protection. The first factor implies not only growing bureaucracy of authorities and corruption, but also to the regular revisions by the supervisory bodies. Moiseev states that SMEs are checked over twenty million times a year, which impedes daily operations of enterprises. The second factor of insufficient legislation for SMEs was for instance, the position of ombudsman, representing entrepreneurs' interests at the Federal level, was not approved until 2011. (ibid., 222-224.)

According to OECD (The Value and Challenges of Good Corporate Governance 2004, 6), the barriers for designing corporate governance practices in emerging economies, in particular Russia, arise from neglecting various aspects of ownership, execution, involvement of political forces, national specifics, owners' attitude towards development of a company. In order to change the situation, the significant changes to legislation should be evolved. Firstly, the legislative base for protection of investors' rights is supposed to be expanded. Secondly, the accounting standards are reformed. Thirdly, the principles of disclosure of commercial information are practically implemented. Fourthly, the government and enterprises should strive at making these changes from their perspectives simultaneously, i.e. the laws are developed according to the need for good corporate governance within SMEs, while the importance of following these laws is understood and applied.

Based on the 'Corporate Governance Practices in Emerging Markets', issued by the IOSCO (2007, 11), the set of investors' rights is identified as following:

- the safe way of recognizing the ownership,
- selling their share,

- being able to acquire the necessary data in terms of a company's operations,
- involvement in General Meetings and obtaining of voting rights,
- polling other members to run after the senior position,
- guaranteed dividends,
- influencing the decisions on internal structural changes.

However, Russian Government took several steps to improve the situation in terms of protection of investing whether domestic or foreign. Associations of entrepreneurs, such as "Delovaya Rossiya" and "OPORA Rossii", were granted the right to monitor and report the cases of violation of entrepreneurs' rights as well as investors. (Moiseev 2014, 46.) Besides, Bureau of Economic and Business Affairs reports in 2016 that the Russian tax system was clarified according to the requirements of OECD in 2014, which allowed to avoid second payment of taxes from in-house prices of businesses (2016 Investment Climate Statements).

2.8 Theoretical framework

This part of the study is dedicated to the most referred and applicable theories and concepts of corporate governance, which have been reviewed as the secondary data. The main purpose of doing so is to narrow down the research focus and demonstrate the support for the topic.

The concept of corporate governance for SMEs was developed by the OECD in the end of the twentieth century. Based on the assumptions, governed from the statistics, the number of SMEs in Europe remains high, while the number of SMEs, implementing corporate governance practices in accordance with the IFRS is growing. In the same time, the situation with SMEs in Russia has changed in a manner that amount of SMEs is increasing gradually since the end of nineties. This explains the need for further improving corporate governance principles and practices in the aspect of financing.

However, the rules of corporate governance cover the internal structure of any-sized enterprise and regulate various processes from the mission state-

ment and division of responsibilities to the remuneration procedures and the quality of reporting. Based on the findings, the most complicated principle for reporting is financial disclosure due to the difference in the financial standards of Russia and Europe and to the diversity in the accounting methods and approaches.

The financial disclosure principle is implemented in enterprises in accordance with the IFRS and RAS. At the moment, Russian SMEs are more likely to follow RAS principles (local governmental principles for accounting and disclosing), while European SMEs are striving at complying their operating with IFRS principles. This distinction causes misunderstanding and underestimation of the Russian market and prevents Russian SMEs to become open joint stock companies. This in its turn means that the foreign investment in Russian SMEs is limited.

This research is mainly aiming at building understanding of the importance of the international standards in aspect of financing for Russian SMEs.

3 Methodology

The main focus of this chapter is on the research approach and its applicability within theoretical framework. The research approach is intended to structure the process of collecting the data, analyzing it, performing the results and verification of those.

3.1 Research approach

Before choosing the appropriate research approach, it is crucial to understand whether the theory is developed based on the research questions and findings from the collected data or the theory is given prior to the data collection, while the hypothesis is made out of this theory and tested. The former of these is the inductive analysis, while the latter is the deductive one. Both of them have specific procedures, which are carried out to approve or overturn the theory. (Thomas 2006, 237-238.) Deborah (2013) complements the differences between the deductive and inductive analyses. While the deductive analysis underlines the causal relationship, i. e. the fact that every action or happening has the cause and the effect, the inductive analysis is built around the exploration of a new phenomenon or rethinking about the existing one from the new angle. Besides, the deductive analysis is to be followed by the quantitative approach, whereas the inductive analysis is frequently conducted with the usage of the qualitative approach. However, it is important to mention, that neither Thomas (2006, 237-246) nor Deborah (2013) stress about the rigidity in choosing the approach for the analyses as long as this choice highly depends on the purpose of the research.

In this study of the corporate governance principles, which Russian SMEs are supposed to pay careful attention to, the theory is developed through the collection and analyzing of primary and secondary data. Thus, the inductive analysis is more suitable to investigate further the phenomenon of corporate governance implementation than the deductive one. Furthermore, the research questions related to the most challenging aspects of corporate governance implementation and the ways to overcome them are to be answered with the help of findings derived from the analysis of the qualitative data. There-

fore, understanding of the qualitative and quantitative approaches should be given as well as distinctions between them.

According to Ben-Eliyahu (2014), there are two key approaches for conducting a research. They are qualitative and quantitative. In the same time, Keith F Punch (2014, 115) states that the research approach is referred as the research design. However, in this work, the term of research approach is prioritized. Based on findings of Punch (*ibid.*, 115), the research approach includes four parts. The first is the action plan for conducting a research. The action plan for qualitative and quantitative approaches is different. The qualitative approach is represented by case study, studying of the whole culture, iterative studying the phenomenon based on observation, action research or the mixture of these. The quantitative approach is concerned with experimental, quasi-experimental or non-experimental action plan.

The second part relates to the analytical tool used in the research in order to arrange concepts and show differences between them. The third part describes the phenomenon, which is going to be studied whether it is people, process, policy, happenings, interactions etc. The last part characterizes the methods and instruments for assembling and perceiving the research data. (*ibid.*, 121.)

In general, quantitative and qualitative approaches have associated features. Ben-Eliyahu (2014) highlights that the quantitative approach investigates the relations within a large sample so as to find common tendencies between happening events with help of statistical tools. Meanwhile, Wyse (2011) states that the qualitative approach is focused on the explicit perception of the phenomenon under investigation to find out basic motives and factors influencing this phenomenon.

Nouria Bricki and Judith Green (2007, 2) argue that the qualitative approach serves a researcher's goal of deeper understanding the phenomenon, or social case, answering research questions of why and how. Moreover, the qualitative approach consists of methods, which create the information in the form of words, including opinions, feelings and attitudes, rather than the numeric information.

In contrary to quantitative approach, qualitative studies meet criticism from followers of quantitative research for the number of reasons:

- inability to apply results of qualitative studies to for broader audience due to its relatively small samples;
- the results given in qualitative studies do not demonstrate rigidity to the same extent as statistical methods of quantitative studies;
- objectivity of qualitative studies is under question in terms of the researcher's personal values and opinion. (Bricki & Green 2007, 2.)

Apart from the above findings, a significant number of researchers (Tesch 1990; Wolcott 1992; Miles and Huberman 1994, 6-7; Punch 2014, 119) emphasizes the key elements of qualitative research.

- 1) The researcher is involved directly into the context of the phenomenon under investigation. The phenomenon and the context are representative of social actors and entities;
- 2) The researcher strives at taking into account the entire picture of the context, its internal structure and observable and non-observable regulations;
- 3) The researcher is fully immersed into the process of collecting the information from the position of inner participant of the context. This in its turn impedes unintentional bias;
- 4) Even though the researcher has the right to choose any part of the study for the analysis, however the essence of all parts should be saved and given in accordance with its primary source;
- 5) The main task of the study is to clarify the interactions between people;
- 6) Qualitative theories can be reviewed in various ways, while the qualitative study is considered to be logical and appealing for appropriate of those;

- 7) The findings of the qualitative study are less categorized than of the quantitative, because the only way of aligning is the researcher's perception;
- 8) The center of the qualitative research is words, which can be handled in a manner that the researcher is able to extract the common tendencies depending on the original purpose of the study.

Qualitative approach is considered to be the most appropriate for this study as long as the phenomenon under investigation corresponds to the features of a qualitative study with the elements of description and explanation. Furthermore, the research questions require qualitative understanding of the phenomenon. Besides, the type and the action plan of the case study will be determined further in more detail.

The Encyclopedia of Case Study Research (Mills, Durepos & Wiebe 2010) defines a case study as one of the methods of the qualitative approach, where the most crucial point is that its focus on the single case. However, defining the case is a challenging process, as it requires accuracy with strict boundaries of the case in order to avoid irrelative results. According to Yin (1992, 123-124, 128), the case study is supposed to have some numerical information, where it is appropriate and can be used for the verifying of the developed theory. The context, in which the phenomenon is studied, is regarded as one with that phenomenon. At the same time, Yin (1992, 121-137), Baxter and Jack (2008, 544-559) state that the case study, which focuses on the search for explanation of the phenomenon under investigation and helps develop a theory, is known as an explanatory.

Based on the statements above, answering the research questions of this study requires implementing the explanatory case study as the action plan of the qualitative approach.

3.2 Research context

Tan and Wilkinson (2005) explain the term of research context as the set of events and actors considered from multiple aspects and existing in the certain time and place. Following this statement, the theory, which is developed in this study, should be reviewed solely in the research context. For understanding

the importance of implementation corporate governance principles in Russian SMEs, it is vital to recognize the context, in which they operate.

The research context of this study is considered to be the Russian business environment, in which Russian SMEs operate, within its specifics. According to Porshakov and others (2010, 7) the business environment in Russia is highly affected by investment, due to the low level of liquidity of bank loans for SMEs or the entire absence of the access to these loans. However, it is not fully determined how the investors' rights are protected in the Russian legislation. The rights cover several processes, which are essential for the smooth performance of any SME. The most significant ones among them are the right to communicate with the Senior Management at General Meetings at least two times in the operating year and the right to have an access to the reported information about the SME's operations and results. Moreover, any amendments to the current Russian legislation in the terms of financing and taxation are to be reported on time and on the regular basis to the investors (*ibid.*, 16-17.)

The principles, according to which the foreign investors' rights shall be protected, are given in the survey of Porshakov and his colleagues (2010, 17). This survey discovers seven crucial principles. Although only three of those are appropriate to the context of this study. These are disclosing of the latest commercial and noncommercial data on the SME's activities, obligatory participation of the outside experts and regulations on the current legislation basis, which protect the investors' capital and assets invested into the Russian SME. (*ibid.*, 17.)

The European Investment Bank (Small and Medium Entrepreneurship in Russia 2013, 4) terms the financing of Russian SMEs is expected to grow in the future with the help of the State support. The most preferable channels are SME Bank, regional funds and regional governmental grants. Taking into account these expectations for SMEs, the relevance of corporate governance good practices is of greater importance.

3.3 Data collection

In this subchapter, the process of collection data for this research consisted of two stages. Besides, primary and secondary data types are described as well as the appropriateness of secondary data is proven.

The first stage was critically reviewing of the related secondary data sources of the information. The second stage was conducting the semi-structured one-to-one interview in order to help answering the research questions check the internal credibility of the research findings.

Saunders, Lewis and Thornhill (2006, 256) define the primary data to be the new information gathered by the researcher on his own in order to answer the research questions. Therefore, the primary data is originally collected through surveys, observations and interviews. To answer the research questions of the explanatory case study, it is crucial to conduct structured or semi-structured interviews. (ibid., 323.)

The University Minnesota in its 'Data Collection Techniques' (2017) supports the idea that the case study can include interviews as the source of the information. The types of interviews are structured, semi-structured or informal. Saunders and others (2006, 320-321) explain that the structured interviews use the same questions for every participant, the semi-structured interviews allow to use additional questions, which have not been included beforehand into the questionnaire, whereas the informal interviews do not have the planned list of questions, but the topic is been discussed.

The interview demands from the interviewer to be competent in communication skills. To be precise, the interviewer should be capable of introducing the topic and explaining clearly the aim of the interview. Besides, the language should be suitable for an interviewee. The researcher, who is conducting the interview, shall demonstrate sufficient listening skills and understanding of the topic. In some cases, the interviewer is supposed to use additional communication techniques to get answers for interview and record them afterwards. (Saunders et al. 2006, 336-340.)

Before conducting the interview, the researcher needs to develop the set of questions, which will help to explain the phenomenon precisely. The order of

the questions is as important as the content. In addition, the researcher has to elaborate on the way of recording answers. After that, it is recommended to choose the sample or the participants. The participants should be representative for the research topic. (McCammon N.d.)

The University of Glasgow (N.d.) reminds about the ethics policy while conducting the interview. The most common issue is to get the permission for any type of recording or notes in compliance with the participant. Secondly, the participant's right for anonymity should be respected and followed while reporting the results of the interview. Before the actual interview, the participant should be informed about the structure of the interview as well as agree on the place of conducting it. Lastly, the safety matters have to be taken into account, so the interviewer's and the participant's location can be disclosed for colleagues.

The primary data for this study was collected through the semi-structured interviews with five entrepreneurs (CEOs) of Russian small-sized enterprises on the topic of practices of corporate governance for SMEs in Russia. All SMEs are small-sized enterprises with a number of workers, less than 10. The nature of interviews was formal, the results are presented in the following sub-chapter. As long as the structure of the interviews was semi-structured, the additional questions focused on the different angles of corporate governance practices, while the main questions remained the same for each participant. The interviews were conducted in March of 2017 with the Skype as a communication channel. The language of the interviews was Russian in order not to miss the important details while translating first and to be acquainted with the actual position of corporate governance practices for Russian SMEs. The right for anonymity was requested from all the participants, thus the participants received codes. The encoding process will be described further. The aim of the interviews was to familiarize with external opinions from the inside of SME operating in the Russian environment.

The interviewee 1 is a CEO of a SME, operating in the Russian environment for twenty years. The field of business is luxury goods retailing.

The interviewee 2 is an entrepreneur, whose business is built around establishing commercial network and collaboration between small-sized enterprises within one region.

The interviewee 3 is a CEO of a small-sized company specialized in service sector of improving the management quality of any type of organization as well as owner of some small chain stores in Russia.

The interviewee 4 is a co-CEO of a SME, operating in business coaching field for over than 10 years. The SME is currently planning to expand the operations to five new cities. Therefore, the interviewee is excited to share the opinion on corporate governance practices for SMEs.

The interviewee 5 is a CEO of a company, which provides 3D modeling for architecture businesses and related consultancy in the field of decoration materials and design. The company has been serving for fifteen years in Russia.

The permission for recording the interviews in the textual form was received from the participants. The set of open-ended and probed questions for the interviews was designed based on the literature review as to get an insight on the Russian SMEs position and attitude towards the implementation of corporate governance principles, in particular, the importance of IFRS and RAS. Right after the conducting the interviews, they were transcribed and encoded.

In contrary to the primary data, the secondary data is the information, which has been gathered and analyzed by other researchers. However, this data might be helpful for other purposes. The secondary data sources are numerous and they are presented in the Figure 2.

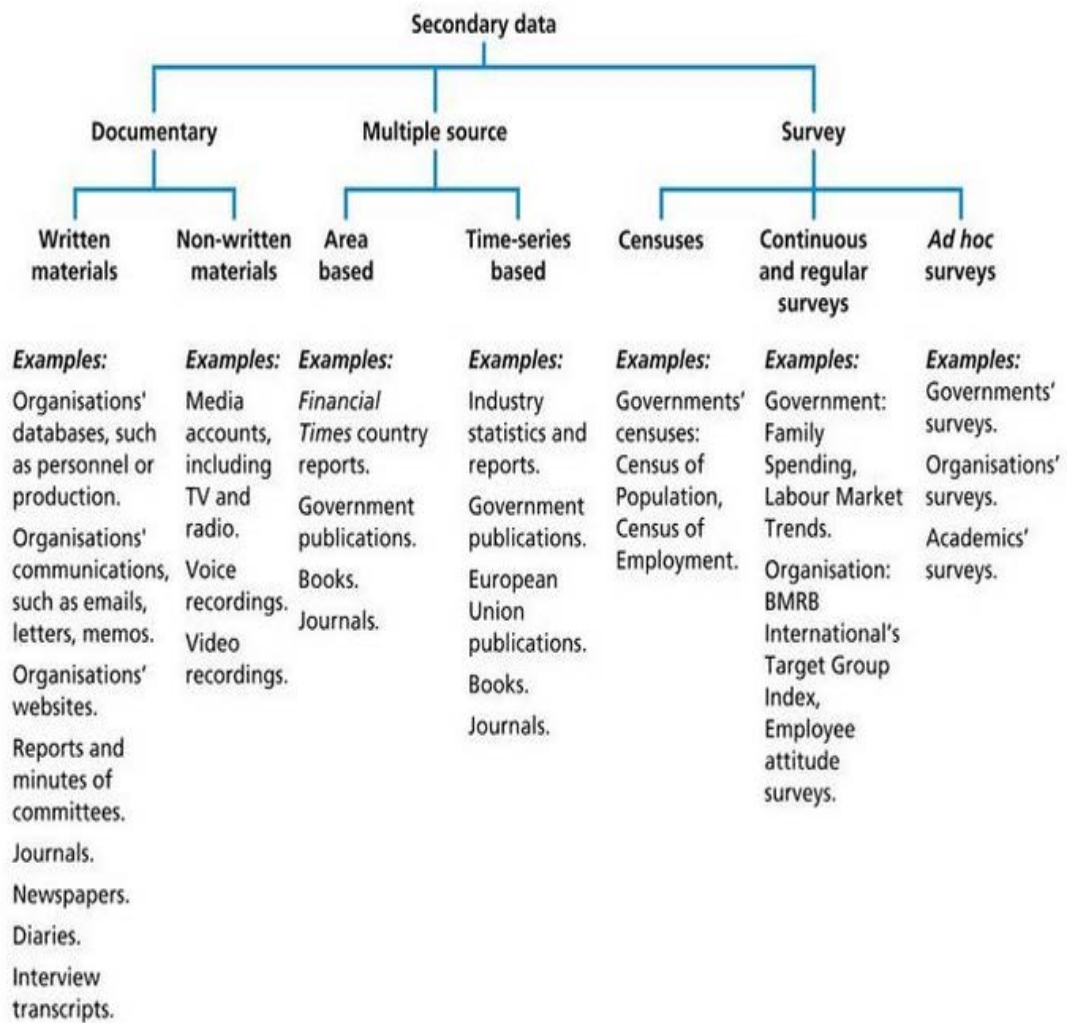


Figure 2. Types of secondary data (adapted from Sanders et al. 2006, 259)

In this study, the secondary data sources are documentary and multiple sources. Among the documentary sources of information, the organization's websites were referred to. Within the multiple sources of the secondary data, both the area based and the time-series based publications were reviewed. To be precise, the area base sources for the information were government publications, such as the White Paper on corporate governance in Russia issued by OECD in 2002. Out of the time-series based sources, the required data was collected from the industry statistics and reports, from the European Union and European Investment Bank publications as well as from the books and journals related to the research objectives.

As long as this study implements the qualitative approach, it is imperative to sum up findings from the multiple sources of information to explain better the

phenomenon under investigation. However, the primary data cannot serve this purpose entirely, because it is not categorized and demands for bigger effort to collect and interpret it. The secondary data is beneficial for the explanatory case study as it reflects the context related information, whereas the phenomenon of this study is to be regarded within the context, in which it occurs. Moreover, the secondary sources present the information on the constant basis and publicly disclosed (Saunders et al 2006, 269.)

3.4 Data analysis

For the qualitative data analysis there are numerous methods and techniques existing. Nigatu (2009, 39) identifies five methods: content analysis, narrative analysis, discourse analysis, framework analysis and grounded theory. In the same time, Shannon and Hsieh (2005, 1277-1288) argue that the content analysis can be divided into three focused analyses: the conventional content analysis, the directed content analysis and the summative content analysis. The difference between them arises from the coding techniques, limitations and application purposes. Saunders and colleagues in their turn (2006, 502) define six main data analysis methods related to the qualitative data. Besides mentioned above the grounded theory, the discourse analysis and the narrative analysis, there are three more methods: the data display analysis, the template analysis, and the analytical induction.

The qualitative data for this study was gathered from the semi-structured in-depth interviews and the secondary data sources. The primary data is to be analyzed according to the procedures, described by Driscoll and Brizee (2010) in respect to interpreting of interviews. Whereas the interviews for this research were conducted, based on the research objective, the primary data to be perceived in the light of its appropriateness. The participants' names were coded as following: Participant 1, Participant 2, Participant 3, Participant 4 and Participant 5. The responses were classified into groups, in which the common tendencies were found. Interconnections between the tendencies were identified. The answers, related directly to the research questions, were put into the table and presented in the following chapter.

The secondary qualitative data is to be interpreted with the help of the data display and analysis method. The method was developed by Miles and Hu-

berman (1994, 10-12) and referred to in works of other researchers, for instance Saunders and others (2006, 503-505). The data display and analysis method includes three main stages: data reduction, data display and drawing and verifying conclusions.

During the implementation of the first stage, namely data reduction, the qualitative data volume is summed up, focusing on the essential part for the research. This involves cutting up the data, which does not contribute to the analysis. The next step is to encode the summarized data in order to distinguish between the themes, which have appeared constantly in the transcribed data. The identified themes are then clustered into groups. In this process, the researcher marks the relationships and patterns between the variables. The second stage is the data display. According to Miles and Huberman (1994, 3), the researcher has the right to choose what model is the most appropriate and informative to report the patterns. The last stage is to analyze the final conclusions and to describe them. Moreover, the conclusions must be verified to be valid for the research. The process of interpreting the data is accompanying each stage in this data analysis method.

This method is suitable for the explanatory case study due to its strengths in comparison with other data analysis methods. First, this method is beneficial for developing the theory based on the analysis of the primary and secondary qualitative data by extracting the essential information out of the huge amount of materials. Secondly, the data display and analysis method is representative in terms of showing the relationships between themes, highlighting patterns and tendencies. (Saunders et al. 2006, 505.)

3.5 Verification of the results

Each constituent of the methodology chapter, including collection of primary and secondary data as well as method chosen for the data analyses, should pertain entirely to the concept of validity and credibility in terms of a qualitative research. In other words, the results of this study are supposed to be in compliance with the reality, in which the phenomenon is investigated.

In order to choose suitable criteria for assessing validity of the qualitative research, it is necessary to present the idea of two main streams in evaluating

the validity. The first one, known as 'traditional', is represented by three assessment criteria. Northcote (2012, 99) named validity (internal and external), reliability and objectivity. The second stream was developed by Guba and Lincoln in 1989 and represented four criteria for assessing the qualitative study. The criteria are credibility, transferability, dependability, and confirmability. However, these four criteria were adapted from the quantitative assessment criteria, thus both quantitative and qualitative researchers in terms of its validity and applicability towards qualitative studies often criticize them. (Trochim 2006.) It was examined that the assessment criteria described by Northcote (2012, 99) was more accurate in terms of qualitative data collection methods and data analysis methods. Besides, the traditional system of assessment criteria of qualitative validity, provides the researcher with the tool to approve deeper understanding of phenomenon of interest. (ibid., 99.)

The internal validity of this study is supported by the fact that the researchers' perspective, the data, the data collection and analysis methods were credible. Credibility of those is confirmed by the evidence that the secondary data, which was exposed in the reports, manuals, and journals, was provided directly from the organizations, such as OECD, ACCA, etc., which were administering the creation and updates of the international standards in matters of corporate governance. Furthermore, the data collection methods described in the methodology part of this study are referred to in numerous scientific papers. While collecting the secondary data, the researchers have tried to avoid bias by presenting the data in the original form. The primary data collection method is credible, as the interviews were conducted according to the standards of qualitative interviews for the case study, taking into account ethics and recording. Besides, the process of conducting and analyzing interviews was theoretically supported. The interviewees chosen for the case study match the criteria for the purpose of the study: they all operate in Russian SMEs, have experience in financial aspect of corporate governance and strive at improving the overall performance of their SMEs. The data analysis method of the study is data display and analysis. This method is valid for the case study as it allows to summarize and to transform the huge amount of unordered data into clear visuals without losing the substantial patterns, which might affect the results.

Moreover, this method allows the researcher to escape the bias due to its' rigor structure and procedures.

The external validity criteria are adjusted in this study within the research context. The research context for the case study is SMEs operating in the Russian environment and regulations affecting them, RAS and IFRS in particular. External validity illustrates how easily the change of context can be done. In other words, external validity demonstrates the extent, to which the results are generalized to the new context of further studies. (Trochim 2006.) The probable change of context for this case study might have been SMEs of one region of Russia. The results of the analyses of the secondary and the primary data will remain transferable and applicable to this context. This statement in its turn supports the conclusion that the transferability principle is respected within this study.

The reliability criteria are followed with consistency of results in the same research context. Meanwhile, whether there are any deviants from the original context in the approach and the change happens to the results, it is supposed to be described. (ibid.) Regarding this case study, such change in context as the growth of enterprise in a way when it exceeds the size of a SME, the results will be dependent on the new context. Therefore, it is impossible to affirm that the results drawn from the data collection and analysis of the new context would not differ significantly. In the same time, it cannot be declared that the results would not be valid not in the slightest degree. Following this logic, the results rely heavily on the context, thus they are dependable variable for the study, but they cannot change the context. Whereas the context is undependable variable as the change in context affects the results.

The criteria of objectivity are pursued in this study as well. The principle of confirmability represents the extent, to which the researcher has been objective, while collecting, analyzing and presenting the data and results (ibid). The results of this study are objective due to steady revision of the secondary data sources, careful data collection and interpreting, following the guidelines for conducting interviews and presenting the results equitably. Besides, the objectivity of the results of this study can be approved by the fact that other re-

searchers can confirm the results by applying the same methods of data collection and analysis.

4 Results

In this chapter, an analysis of findings is presented. Based on the literature review, the theory of importance of the corporate governance practices for SMEs, established by OECD, was drawn and tested with the help of semi-structured interviews. Whether these practices in terms of financial disclosure are first-preference practices for SMEs in Russia, whether implementation of these principles is beneficial and if there are constraints, which should be taken into consideration. The results of the interviews have revealed thought-provoking insights on the subject.

The best corporate governance practices for SMEs in respect to financial disclosure in Russia are the ones recommended by the OECD, in particular the principles described in the financial aspect, which is regulated by norms of the IFRS. This means that Russian SMEs are supposed to pay close attention to clear reporting of financial statements and its consistency. Furthermore, the financial information should not be the subject to manipulation before disclosure, thus the truthful operating results to be reported. By doing so, Russian SMEs will obtain the internationally recognized corporate governance practices and improve their goodwill.

The advantages of implementing OECD financial practices are considered to be significant. The transparency of the financial information disclosed supports the financial liquidity of Russian SMEs, in a way that the SMEs get the access to investing, whether it is a bank loan or direct investment. Moreover, the SMEs, demonstrating the implemented corporate governance practices, are striving at becoming more efficient in terms of internal management and finances, thus it becomes possible for them to be listed enterprises. Besides, the strong commitment to OECD practices raises the reputation of the SMEs in the domestic and foreign markets.

However, there are several obstacles for Russian SMEs affecting the implementation of the best financial practices of corporate governance.

First, there is a lack of control over the financial flows within a SME, thus the investor's rights are not protected and the payoffs are not guaranteed accordingly. This was caused partly by underestimation of investment value for de-

velopment of the SME due to tremendous changes in the economy of Russia in the 90's. Nevertheless, a change in mind of people takes place consistently and expectantly in some time, there will be deeper understanding of importance of investors' rights as well as the juridical norms to protect them.

Second, there is insufficient legislation, regulating performance of the SMEs. New amendments come in force regularly, which creates the additional pressure on CEOs and entrepreneurs of SMEs in Russia. They have to be aware of these changes in order not to receive fines, be checked constantly by the authorities, or run illegal business. It is important to mention that frequent checks from the Tax service and police affect negatively work of SMEs and their trust towards the authorities.

According to OECD corporate governance practices for SMEs, the legislation should be supportive for SMEs and protecting the owners' rights. However, the OECD practices are easier to implement when the economic situation is stable and changes to it are predictable. In Russia there is uncertainty, which is based on unstable economic conditions, thus the Government is regarded as the main initiator of financial compensation for SMEs.

Thirdly, Russian Accounting Standards are major and mandatory to comply with in the country. RAS are currently not in the entire harmony with IFRS, recommended OECD. The difference between them was described in more detail in the second chapter. As long as Russian SMEs are reporting in compliance with RAS so as to be legal and not to violate the national legislation, it is hardly possible that IFRS will be applied at the same time. Even though, in Europe more and more SMEs are implementing IFR standards to be financially clear and get more investing, Russian SMEs are still in a position of implementing the national accounting standards rather than IFRS, as IFRS are not approved at the governmental level as a way for financial reporting.

However, IFRS do not match entirely to the Russian environment, thus the Government should develop these standards, taking into account the differences between European environment with the Russian one. Therefore, even the implementation of the best corporate governance practices depends heavily on external factors, such as legislation and economic conditions.

In the following Figure 3 the crucial insights are highlighted according to its relativeness to the research questions. The assumptions are given below.

Participant No	Main points
Participant 1 (the first interview)	<p>Imperfect legislative base disturbs SMEs from development</p> <p>SMEs cannot adapt to changes</p> <p>OECD corporate governance practices are not beneficial</p>
Participant 2 (the second interview)	<p>SMEs have to operate in regards to corporate responsibility</p> <p>RAS should be simplified</p> <p>Supportive legislation in terms of corporate governance for SMEs</p>
Participant 3 (the third interview)	<p>Tax burden for SMEs is heavy</p> <p>Access to financing is restricted for SMEs</p> <p>Legislation should be simplified</p>
Participant 4 (the fourth interview)	<p>Easier procedures for running business for SMEs at the legislative level</p> <p>Competition in the market drives the need for good corporate governance</p> <p>Collaboration of SMEs is important for mutual growth</p>
Participant 5 (the fifth interview)	<p>Attractive investment climate should be created</p> <p>SMEs should be subsidized by the Government</p> <p>In order to win the competition, SMEs need corporate governance practices</p>

Figure 3. The results of the interviews

The first interview described that the economic conditions are hard for running a business in Russia. Besides, the legislative changes come up consistently, which affects negatively SMEs' operations. According to the participant's opinion, the Russian Government does not seem to care how SMEs are going to fit to new laws and regulations. Bureaucracy is one of the key obstacles when trying to expand the SME's operations. The financial practices of corporate governance are known, but the implementation of them depends on the position of a SME and its budget. The OECD principles for SMEs are more likely to be implemented in the medium-sized businesses, rather than in micro- and small-sized ones, because the benefits, which can be offered, are not substantial for micro businesses in regards to goodwill or being a listed company.

It can be seen that the Participant 1 is aware of the importance of OECD corporate governance practices for Russian SMEs. However, the participant is not sure of the positive outcomes of the implementation for micro businesses. Challenges mentioned by the participant were in the row with those identified in the Literature Review.

In the second interview, the importance of SMEs for the Russian economy was mentioned, as it is easier for them to adapt to changing conditions and react accordingly. Besides, at the moment, there is a program of import substitution in Russia, which gives Russian SMEs a great opportunity to grow and increase their share in the market. Besides, the mechanism of corporate responsibility for SMEs should be implemented at both the company's and the Governmental levels. In case of violation of consumers' rights, there should be a law, regulating compensation procedures for the consumer as well as punishing procedures for SMEs. Furthermore, the quality of a good or service provided by the SME should be maintained by partnerships of this SME with various trade unions. The costs for implementing this mechanism are additional expenses for the SME. The checks of the authorities should be regulated by non-governmental organizations to protect the rights of SMEs. RAS should be simplified and shortened, in case SMEs do not have tax issues or intellectual property violations. SMEs are expected to be the driving force for innovative businesses in Russia, rather than working in service sector.

To sum up, the Participant 2 emphasizes the value of SMEs and their successful operations for Russia. In order to enable them to develop, legislative barriers should be overcome. The principle of corporate responsibility of SMEs to be improved with additional expenses. RAS are more complicated than IFRS, thus they should be facilitated.

In the third interview, it was said that the Tax system got complicated and this became the additional financial burden on Russian SMEs. Taxes for the SMEs are unreasonably high. If the Government wants the SMEs to flourish and lead the innovativeness of the economy, there should be reduced taxes for micro-sized businesses, in particular, they do not have to pay them. The current situation with corporate governance in the SMEs in regions of Russia is frustrating. Even though the Government does not support the idea of the tax-free conditions for micro-sized businesses, for the reason that the medium-sized businesses will start to fall apart in order to avoid taxes. The Participant 3 believes that this measure would help to develop the SMEs in Russia, because falling apart is an expensive procedure, which requires extra payments for managerial activities and juridical norms, therefore medium-sized businesses would not commit it. Besides, the access to bank loans is limited for Russian SMEs, thus entrepreneurs have to agree on personal loans, not the loans for entities. There are deposits on bank loans, which are high for SMEs, therefore illiquidity arises. Legislation disturbs from increasing the supply. Retailing in Russia remains weak.

To summarize the results of the third interview, it is important to say about the special conditions for SMEs in paying taxes as well as taking loans. Besides, there is a need of SMEs for IFRS, rather than for RAS. The current legislation is regarded as the obstacle for SMEs.

In the fourth interview, it was considered there were too many difficulties with documentation for SMEs as well as with reporting about the performance in Russia. Besides, with the growth of a SME, there is a need for better governance practices. Due to competition in the market, a SME should spend more money on building the reputation among its customers. Corporate governance becomes more important when there is a new employee in the company, who is supposed to get training and skills to work successfully within the internal

structure of it. The collaboration between SMEs of the same field can be beneficial for both sides.

To recap the fourth interview, corporate governance role for Russian SMEs increases with the increase in competition. Good corporate governance practices contribute to the success of a SME's operations. Such practices are beneficial to the SME, when it expands the operations and employ more workers. The RAS are seen as the main challenge for the SMEs, thus it should be improved or combined with the IFRS.

In the fifth interview, it was stressed that SMEs are facing huge obstacles while doing business in Russia. First, there is no economic stability, thus the company's strategy is bent to the short-term planning. Secondly, there are high risks for investors, which affect the financial liquidity of SMEs. In order to overcome it, the attractive investment climate should be created within the country, so that investing into Russian SMEs will be a profitable process. Currently, the Government does not pay enough attention to financial help for SMEs. In contrary, the Government creates harsh conditions for SMEs, toughens the legislation, while credit rates remain high. Unfortunately, the import substitution program does not substitute entirely the import materials in terms of quality and service. SMEs should be socially responsible: share experience and ideas on the projects they are working on, i.e. the more they give to the society, the more they get from it. While the competition got harder, the corporate governance started to play the important role for SMEs. Planning the strategy, governing the team and optimizing the resources help to realize the tasks. Furthermore, successful business requires being acquainted with new technologies and implementing them.

In the last interview, the participant evaluated critically the results of the import substitution program in Russia as well as the legislative base for the SMEs. The corporate governance practices are considered to be more important at the fierce competition as it allows to enhance the resources of the SME. The participant named economic instability and unfavorable investment climate as the crucial challenges for Russian SMEs.

Finally, the results presented above have demonstrated clear evidence regarding the challenges and benefits of the best corporate governance practic-

es in terms of financial disclosure for Russian SMEs. The challenges are weak legislation for regulating SMEs financial reporting and operating, taxation and subsidizing as well as investors' rights. Besides, economic situation is not considered as stable for the long-term planning. The benefits are a win in the competition due to the raise in goodwill, better management of the SME's internal structure and allocation of the resources, smoother shift from a small to medium-sized enterprise, an opportunity to develop the corporate responsibility and to become listed company. Although the importance of the good corporate governance practices in terms of reporting and financing remains obvious for the owners of Russian SMEs, but the implementation process depends on how well the Government support the activity of the SMEs.

5 Discussion

In the last chapter of this study, the validity and credibility of the research will be discussed, the limitations and recommendations for the future research will be given.

5.1 Recap of prerequisites for the research

In current economies of Europe and Russia SMEs are playing an important role. This is reflected in the statistics of the European GDP, in which the major part has been contributed to by SMEs. Every SME has had its own internal structure, operating model and reporting practices, thus their effectiveness was measured in terms of SMEs operating in one field. Therefore, there was a need for common standards, regulating the SMEs' performance and internal management. These standards would have been incontestable for all SMEs despite their sizes and the areas, in which they operated. The first global standards regarding corporate governance were developed by the OECD in 1999 for all companies. The difference between SMEs and huge companies appeared later on and required especial recommendations than those, which have been created before. In 2004, the standards were revised and modified in terms of SMEs.

The global standards are implemented ubiquitously in European and American SMEs, while in Russia these standards are only being discussed at the Governmental level. Out of the entire corporate governance principles recommended for SMEs, the financial disclosure represent the most complicated aspect for Russian SMEs to implement. Based on this prerequisite, the research questions of this study were developed. The primary aim was to find out about the best existing practices of corporate governance concerning financial disclosure and transparency of information for Russian SMEs. Along with it, the potential advantages of implementation were investigated and described in more detail in the second and the fourth chapters of this study. However, every process has two sides, therefore the obstacles were taken into account. The results would not be valid without mentioning the impediments, which affected the process of implementation.

All of these questions were dedicated to the single objective of this study. The objective was to complement the actual evidence on corporate governance principles for SMEs, while handling with current barriers from the financial perspective. In search for the answers to the research questions, the review of relevant literature was carried out and semi-structured interviews were conducted.

5.2 Summary of the main findings

The analysis of the literature and the interviews led to the final results, presented in the fourth chapter. To sum up, the best practices of corporate governance for SMEs about disclosure of commercial information and its trustworthiness in Russia were the ones, which OECD published in 2004 and which were internationally recognized afterwards. The principle of informational disclosure consists of seven parts, namely, Overall Company's Performance, Mission Statement, Ownership Framework, Information on Executives, Risk Planning, HRM Policy and Internal Governance. The principle of transparency is due to following several aspects: clearly structured information, avoidance of unnecessary details and emphasis on essential information, internal logic of the reports, separation of additional information to secondary sources and the accurate choice of visuals.

The main benefits for implementation of financial disclosure principles in Russian SMEs discovered in this study were the financial liquidity, which grants the access to investment and bank loans, raise in efficiency of internal management and SME's operations, building the reputation of SMEs for their stakeholders.

The most obvious barriers, which prevent Russian SMEs from implementing the best corporate governance practices, are unfavorable investment climate of the Russian market and Russian SMEs in particular due to weak protection of owners' rights and the ineffective legislation. Even though the Government is attempting at improving the legislative base in accordance with needs of small and medium-sized businesses as well as supporting SMEs, the actual implementation of the OECD practices stays at low level among Russian SMEs.

5.3 Limitations

While conducting this research, there have been several constraints concerning the access to primary data. Firstly, the semi-structured interviews required careful negotiations with the entrepreneurs and CEOs, whose answers were essential for testing the findings of the secondary data and making the research valid in terms of the qualitative approach. Secondly, the amount of five interviews may be considered as insufficient if observing the entire situation with Russian SMEs nowadays. However, the level of awareness about the corporate governance practices developed for SMEs remains unknown due to the lack of surveys and polls carried out within the country on this topic. There are single interviews with CEOs and entrepreneurs of big companies, taken at different points of time for different purposes, but there is no summary of the SMEs' representatives' opinions about the corporate governance principles concerning financial disclosure. The Government is aware about these principles, but not striving at legislating them for SMEs. This creates the additional barriers for Russian SMEs to be recognizable by the international investors as well as to be assessed as efficient, because of inability to compare how they operate. In addition, the interviews were conducted in Russian language; therefore, the terms used in this research and in the interviews about corporate governance might have been translated in a slightly different manner by other researchers.

The following complex of concerns relates to the secondary data analyzed in this research. The secondary data sources were easily accessible, but their relevance was questionable in some instances, because the publication date was over than ten years ago. Such sources would be considered as the sources, having the old information. However, there were not yet related studies referred to corporate governance in Russian SMEs, completed in this year, among the publications of the global organizations.

Internal validity of this research is seen as the appropriateness of the methods used to collect and interpret the data in order to answer the questions posed in the first chapter (Shuttleworth 2013a). The case study allowed obtaining insights on the phenomenon and its context, in which the phenomenon took place, as a whole. Along with it, the explanative nature of this case study

helped seeing the causal relationships between the external factors influenced implementation of corporate governance practices into Russian SMEs and the consequences of this process. The case study demanded evidence from the participants, directly affected by the implementation process of corporate governance principles. Thus, the semi-structured interviews were managed in the rigorous manner.

External validity describes the variety of contexts, to which the results can be applied and generalized (Steckler & McLeroy 2008). The findings of this research represented the best practices of corporate governance for Russian SMEs in the financial aspect. However, they can be applied to SMEs of other countries, in particular the countries of CIS due to the common issues in their economies, and to emerging economies, such as members of BRICS. Moreover, the findings related to the obstacles arising from the weak legislation, will have an impact on other parts of corporate governance, such as HR department or supply chain of a SME. Therefore, the results are applicable to the broader context of the internal and external environments.

Reliability is the concept, which covers the quality of the data as well as the quality of the results. The latter means that any other researcher, who would be interested in investigating the same topic, while applying the same methods, would get the similar results. (Shuttleworth 2013b.) Reliability of this research is proven by the usage of the sources, monitored by the internationally respected and cited organizations and researchers. The principles created by the OECD are frequently taken as the basis for manuals, assessment criteria of companies' performance and internal regulations within companies. IOSCO, ACCA and ECODA have referred in their reports to those principles of the OECD, therefore these references were reliable for the purpose of this research. At the same time, the interviewees were carefully chosen for participation in this research, and they have given well-reasoned opinions from the inside of the phenomenon, which was studied, thus the primary data collected was reliable to include in the research.

Objectivity stands for the unbiased implementation of the research objectives, philosophical approaches into the research, obtaining and presenting results, which have not been affected by the researcher's personal opinion (Reiss &

Sprenger 2017). This research is objective in all of these three components of the principle of objectivity. The research questions were posed in the first chapter based on particular interest in the field of corporate governance and possibility to develop the current knowledge on the situation with Russian SMEs. The questions were followed throughout the whole research and were not changed after collecting the results of the literature review and the interviews. The philosophical approaches were conscientiously analyzed from the perspective of the research questions, before the choice of the qualitative approach was made. The case study was seen as the most suitable method to attain the reliable results for the research. The methodology was applied rigorously as a whole; therefore, the second component of the reliability principle is consistent. The results, gained in the process of exploring deeper the research phenomenon, are reliable for the reason that they were displayed completely in their primary form without adding viewpoints of the authors or obscuring the details.

5.4 Recommendations for future research

Although this research has uncovered several issues, regarding the implementation procedures of corporate governance practices in Russian SMEs and provided the answers on how to overcome them, there is enough space for future research in some domains of Russian economy, Russian SMEs' structure, changes, affecting the Russian market and its vulnerability in comparison with the stable economies of European countries.

The most demanding aspect for future exploration is the Russian legislation, which affects all the businesses in the country, whether they are domestically or internationally invested to. At the moment, the legislative base does not correspond to the needs of entrepreneurs, therefore development of Russian SMEs will be a protracted process. This in its turn has a significant impact on the amount of SMEs, implementing corporate governance practices. Moreover, the Russian market is unpredictable in terms of people's attitude towards the new corporate governance practices.

Besides, effectiveness of implemented corporate governance practices within Russian SMEs and European SMEs is to be measured on specific examples

of the SMEs on scales and criteria. This kind of a research could serve the need for demonstrating the obvious results or highlighting the alternatives.

Lastly, the practices of corporate governance offered by the OECD, will be revised and supplemented after a while, therefore further investigation of the best existing practices for SMEs with the up-to-date information will be necessary.

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Appendices

Appendix 1

The Influence in Decision-Making Relative to the Ownership (Adapted from The Russia Corporate Governance Manual 2004, 407)

Ownership	Influence on decision-making
25% plus 1 vote	The shareholder can block major decisions that require 3/4-majority, e.g. to amend the charter or reorganize the company.
50% plus 1 vote	The shareholder can unilaterally take decisions that require a simple majority, e.g. to declare dividends and approve the External Auditor.
75% plus 1 vote	The shareholder can unilaterally decide all issues.