

Accounting Policy and Institutional Pressures: the Case of Estonia

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Abstract – The purpose of current paper is to analyze influence of institutional pressures in development of Estonian accounting policy. The system has been analyzed from the viewpoint of three theories: coercive, normative and mimetic institutional pressures.

Keywords: accounting policy, Estonia, financial reporting, institutional pressures

I. INTRODUCTION

The purpose of the current paper is to analyze influence of institutional pressures establishing and development of national accounting system in Estonia. Cross-organizational surveys aim to explore similarities and differences between practices adopted in certain regions and countries. Financial accounting framework is like a constitution: It is “a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and financial statements” [5].

It is presumed that at the beginning of the 1990’s Estonian accountancy mirrored social and economic institutions of the country. This is therefore primarily a divergence or localization perspective. However, it could be argued that the Estonian accountancy during its Soviet Union history had converged towards a Soviet accountancy model [3].

This paper attempts to address how globalization, international financial reporting standards and EU accounting directives have affected the development of generally accepted accounting principles (GAAP) of Estonia. This is interpreted through institutional theory. Although using institutional theory to interpret factors affecting the development of financial reporting framework is not new, its application is underexplored in the context of post-soviet countries such as Estonia. The paper potentially contributes to the accounting reforms evidence in emerging economies, its progresses and obstacles. The analysis is important to understand pressures affecting the development of financial reporting system in emerging countries such as Estonia and take the possible influences into account when developing new accounting

legislation in the future. Therefore, the possible future directions regarding accounting in Estonia are discussed also using institutional theory. Finally, the paper outlines opportunities for further institutionally informed studies at a global and societal level. The structure of the paper is organized in the following way. Section II discusses the methodology and theoretical framework of the study. Section III outlines the literature review and results and section IV deals with conclusions.

II. METHODOLOGY AND THEORETICAL FRAMEWORK

The authors have analyzed the coercive institutional pressures based on the Estonian accounting legislation from 1990 till 2012. Following, the authors have focused on the analysis of normative institutional pressure taking into account the impact that Big 4 auditing companies have had in the Estonian context. Finally, the authors give an overview of mimetic institutional pressures affecting accounting and reporting system in Estonia. As a methodological technique integrated approach is used instead of traditional literature overview. The authors of current paper have understanding that such deep analysis will give better comprehensive overview of the development of accounting in Estonia. For collecting examples and reactions to the changes in Estonia in light of the three institutional pressures, among other things the theses and papers written by the Estonian researchers have been used.

III. LITERATURE REVIEW AND RESULTS

Because this paper uses integrated approach to give an overview of accounting development and the role of the state in designing the financial reporting model in Estonia, the literature review is presented in three sub-sections. At first the coercive institutional pressures are discussed, then normative institutional pressures and finally the mimetic institutional pressures are outlined.

An institutional approach to explain and interpret accounting activities on an international level has been acknowledged by several authors [1; 4; 14; 17; 22]. For example, American neo-institutional theorist Richard Scott defined institutionalization as “the process by which actions

are repeated and given similar meaning by self and others". Sometimes actions are repeated because explicit rules or laws exist to ensure their repetition (*legal and political influences*). Sometimes activity patterns are supported by norms, values and expectations (*cultural influences*), sometimes by desire and to be or look like another institution (*social influences*) [12]. American sociologists Powell and Dimaggio [6] distinguish between these three different institutional pressures and give them distinctive labels.

When the pressure to conform comes from governmental regulations or laws, then *coercive institutional pressures* are at work. Coercive institutional pressures in this concept involve the capacity to establish rules, inspect others to conformity to them, and, as necessary, manipulate sanctions – rewards or punishments – in attempt to influence future behavior [21]. Irvine [14] and Barbu and Baker [4] observe the IASB as one of the coercive pressures encouraging the countries around the world to adopt the IFRSs.

When the pressure comes from cultural expectations, for instance via the professional training of organizational members, then according to Powell and Dimaggio [6] *normative institutional pressures* are at work. Normative systems are typically viewed as imposing constraints [12]. Mezas and Scarselletta [22] and Barbu and Baker [4] think that in the USA, professional accountants constitute examples of normative isomorphism "with a common culture, in the sense of shared definitions of problems and common repertoires for managing those problems". Therefore, participants in accounting policymaking might exhibit high levels of shared knowledge and beliefs, and this professionalization may contribute to a more orderly, consensual process when making decisions. To conclude, theorists embracing a normative conception of institutions emphasize the stabilizing influence of social beliefs and norms, which are internalized as imposed by others [27].

Powell and Dimaggio [6] call desires to look like other organizations *mimetic institutional pressure* and explain them as responses to uncertainty that involve copying others organizational structures, practices and outputs. More generally, the wider the population of personnel employed by, or customers served by, an organization, the stronger the pressure felt by the organization to provide the programs and services offered by other organizations. Thus, either a skilled labor force or a broad customer base may encourage mimetic isomorphism [6]. Mimetic institutional pressure is viewed differently by many authors. Powell and Dimaggio [6] see not-for-profit organizations as an example of mimetic institutional pressure. These organizations may change their organizational structure to be more similar to the for-profit firms and carry a powerful message to potential partners in joint ventures that "the sleepy non-profit organization is becoming more business minded". Barbu and Baker [4] consider different local accounting standards-setting bodies in various countries to be an evidence of mimetic isomorphism as they have adopted structures and procedures similar to those of the IASB and FASB. In the opinion of Al-Omari [1] mimetic institutional pressures refers to the copying and duplicating of successful organizational behavior by other organizations. Irvine [14] argues that the UAE openness to its globalized environment

and its increasing reliance on international trade having been established, it is inevitable that these relationships bring a pressure on the UAE to adopt westernized forms of accountability and financial reporting, particularly those of its "influential trading partner(s)".

As coercive, normative and mimetic institutional pressures are viewed differently by many authors, it is vital to determine which pressures have influenced and are influencing the development of accounting system in Estonia.

A. *Coercive institutional pressure*

There is some previous accounting literature to support the impact of coercive institutions on the adoption of international standards. For example, it is argued that coercive isomorphism was predictive of adoption of the US GAAP by French firms in the 1970s due to domination of the global economy by the USA at the time. Furthermore, Hassan (2008) found that external coercive pressures from foreign aid provided by the IMF were influential in Egypt's moving toward the adoption of the IFRSs [15].

In Estonia, during half of century accounting was a part of the Soviet accounting system. The Soviet accounting system applied in Estonia was an integral part of the centralized administrative institutional structures for the direction and control of the command economic system. The collapse of centrally planned economies in the late 1980s and early 1990s changed the accounting environment in the former socialist countries, including Estonia, dramatically.

After declaring the restoration of the independence of the Republic of Estonia in 1990, it became possible to begin reform of accounting and join the system of accounting of developed market orientated countries. The first step on the way to change the situation was made in 1990, while Estonia remained, albeit reluctantly, a constituent republic of the USSR. On July 6, 1990, the Regulation of Accounting was adopted by the National Government and came into force on January 1, 1991. It is of special interest because it was the first measure adopted in any of the constituent republics of the USSR to mark a departure from the path of the Soviet accounting evolution. As pointed out by Bailey [3], this event marked the beginning of the spread of accounting disharmony within the territories comprising the USSR. Paradoxically, in some sense, as pointed out by Bailey [3], the Estonian Regulation on Accounting, adopted prior to the recovery of independence in 1991, was more considered measure and wider in scope than the legislation introduced subsequently in Latvia and Lithuania. In 1991 the Estonian Accounting Board (later named the Estonian Accounting Standards Board – the EASB) took on the responsibility for the development of accounting in Estonia. The main tasks of the Board were declared to issue mandatory accounting guidelines and to make recommendations concerning the methods which were to come into force. All the developments of accounting were expected to be initiated and prepared for legislation and implementation by the Board. At that time the EASB was an independent governmental unit, established by the government of Estonia and operating within the administrative jurisdiction of the Ministry of Finance as defined in the paragraph 32 (1)

of the Estonian Accounting Act (the EAA). The Board had to arrange accounting guidelines related to the EAA.

More substantial and complex step of the accounting reform in Estonia was related to the first Estonian Accounting Act which came into effect on January 1, 1995. Chapter 1 of the EAA specified the objective of the EAA, which was to create the legal bases and establish general requirements for organizing accounting and reporting in the Republic of Estonia based on internationally accepted accounting principles. In paragraph 3 of the EAA internationally accepted accounting and reporting principles were defined as the accounting directives of the European Community and the principles, standards and recommendations developed and approved by IASC [7].

The Estonian *good accounting practice* was declared to be based on internationally recognized principles, which were established with the Accounting Act and the Estonian accounting guidelines. In some sense, this concept was a unique combination of Anglo-American approach and Continental (European) approach. In the Estonian accounting regulation the Accounting Act represents the European approach and the Estonian GAAP – Anglo-American approach. Estonia was the first country in Europe to align national GAAP with international accounting standards by law.

The first Accounting Act was in force from 1995 to 2002 and was changed several times. Unfortunately, these changes were mostly cosmetic [2]. The first Accounting Act of Estonia had considered the valid international accounting requirements, as well as the majority of the requirements of the 4th Directive of EU. In November 1995 the Government of Estonia submitted an official application to join the European Union. As the Government of Estonia had expressed Estonia's desire to enter the European Union, the EASB merged the requirements of the European directives with IASC's conceptual framework and treatments by carefully choosing the alternatives in the directives that result in convergence.

The accounting reform continued by the implementation of the new version of the EAA and a new set of guidelines. Both of them came into effect on January 1, 2003. The goal of the EAA was declared to create the legal basis and establish general requirements for organizing accounting and financial reporting pursuant to internationally recognized principles. The new Accounting Act brought the Estonian accounting legislation closer to the International standards and also contributed to a better organization of the economic environment. The financial reports by business entities became more informative and enabled different interest groups to have a better overview about the reporting company's financial position, assets and liabilities [29].

The main characteristic of the new EAA and guidelines is clear orientation to the IFRSs and the possibility to base the accounting methods and presentation of the information in financial statements according to the Estonian GAAP or the IFRSs. The Estonian GAAP is basically a simplified summary of IFRSs, primarily meant for small and medium-size entities. The recognition and measurement rules are based on IFRSs, but the disclosure requirements are less demanding.

To further understand the coercive pressures, including organizations and events that affected the development of Estonian accounting system, the authors have concentrated to the system improving stage starting from 2003.

In May 2004 the Republic of Estonia joined the European Union (the EU). From this day forward, Estonia has the obligation to follow in its activities the legislation of the EU.

In 2004 the financial reporting in the EU was regulated by the Fourth Council Directive 78/660/EEC (in force since July 25, 1978), which treated the preparation of annual accounts of certain types of companies, and the Seventh Directive 83/349/EEC (in force since June 13, 1983), which defined the preparation of consolidated statements. The above-mentioned directives were incorporated to the EAA when joining the EU. Because the Fourth and Seventh Directive were not based on IFRSs, differences between the Estonian guidelines and the EU legislation existed in 2004.

However, there was no need to improve the Estonian GAAP, because according to the regulation accepted by the European Parliament and European Council in 2002 (1606/2002), all EU listed companies were required to prepare their consolidated statements in accordance with the IFRSs. This requirement entered into effect from 2005 and represented a preliminary peak in the internationalization process of financial accounting in Europe. For other companies the implementation of the IFRSs is recommended. Although the Estonian GAAP was already oriented to the IFRSs, all guidelines were amended again [29], because differences between the international accounting standards adopted by the EU and accepted by the IASB existed. The main reason behind the differences is that the IFRSs adopted by the IASB do not take effect in the EU automatically.

On December 1, 2005 several changes were introduced in the EAA. With the updated Accounting Act the necessity of providing the users of financial statements with adequate information was emphasized.

In 2007 the EAA was amended again. The reason of the amendments was necessity to follow the disclosure principle in all economic transactions or events, where a business entity issuing securities is one of the parties. The change was intended to harmonize the European Parliament and Council Directive 2004/39/EC (the Markets in Financial Instruments Directive) and its implementing Directive 2006/73/EC and 2004/109/EC (the Transparency Directive) [19]. Thus, the demand for change in the EAA was determined by the EU legislation.

The amendments in the EAA which came into force in 2008 required that the annual report should disclose the entity's main field of activity according to the Classification of Economic Activities used in Estonia. The EASB and the Estonian Board of Auditors (the EBA) saw the change in the context of the annual report inappropriate and suggested that such information should be collected outside the annual report. As a result, such information shall be published after the notes and annexes of the annual report [20]. Thus, the change in the law was rather administrative in nature, which was designed to

help users (registration departments of courts) to better process the data.

In 2009, several changes were introduced to the EAA. The main change worth noting was the development of uniform financial reporting taxonomy, which was directly related to the action plan for e-filing of the annual reports. Firstly, the taxonomy of the annual report that meets the Estonian GAAP was developed (except the taxonomy on consolidation or liquidation and final report). This taxonomy was introduced in 2010 [21]. As the electronic submission of annual reports is not widespread throughout the world, the authors think that it can be seen as an independent project of Estonia, which can be qualified as exceptional in the world. Therefore, in this case, compelling institutional pressure is the Republic of Estonia, who has been able to set rules and has the ability to see that others follow these rules.

In 2010 the EAA was amended again influenced by the changes in the APAA (the APAA was updated because of the requirements of International Standards on Auditing). To draw a parallel here, to merge with the demands of international legislation other Estonian laws besides the EAA has been influenced by international standards and organizations.

In 2011 the changes in the EAA were the result of Estonia's accession to the euro area and the substitution of national currency from Estonian kroon to euro. The functional currency changed to euro instead of kroon as well.

In conclusion, it may be noted that due to the membership in the EU, the coercive institutional pressure affecting the development of the Estonian accounting environment is the previously mentioned EU. The legislation of the EU (regulations and directives) directly influences the EAA. As the EU has based its accounting regulations mainly on the IFRSs, then in the international perspective one can rather see the IASB as the main coercive institutional pressure affecting the development of the EAA and the Estonian GAAP.

At societal level there have been many discussions, how the Estonian GAAP should look like in the future. The chairman of the EASB Ago Vilu sees the Estonian guidelines remaining closely tied with the IFRSs. This view is supported by the adoption of IFRS for SMEs by the IASB in 2009 [23]. In the EU the use of IFRS for SMEs has not been approved, because according to the European Commission, IFRS for SMEs is not suitable to use for micro-enterprises [13] and it is not in line with the Fourth and Seventh Directive of the European Union [13]. After rejecting the IFRS for SMEs, European Commission proposed a new Directive to replace and modernize the existing Accounting Directives 78/660/EEC and 83/349/EEC. The proposal was aimed to simplify the accounting requirements for small companies and improve the clarity and comparability of companies' financial statements within the Union. These policy choices would also reduce the amount of information available to users of small and medium-sized company financial statements, including information which is publicly available [8]. The proposal for a new accounting Directive did not contain any new policy proposal regarding micro companies as these were assessed separately with a proposal of the Commission in February 2009. This project was finalized on March 14, 2012 when the

European Parliament and the Council adopted a directive. The new provisions have the potential to reduce significantly the administrative burden for those companies not exceeding the limits of two of the following criteria: 1) a balance sheet total of EUR 350 000, 2) a net turnover of EUR 700 000 and 3) an average of ten employees during the financial year. The directive will allow Member States to permit companies to draw up only an abridged balance sheet and profit and loss account [9].

On June 26, 2013 the European Parliament and the Council also adopted the new accounting Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC [10]. The adopted Directive also included provisions adopted in respect of micro-entities on March 14, 2012. The adoption of new Directive has created many reactions in the society among accountants, auditors and members of the Estonian Government. Most of the parties find the new Directive that regulates the activities of micro-enterprises unsuitable for Estonian accounting, because they believe that adopting the Directive will negatively affect our business environment. The lack of transparency has an impact on the ability to gain capital, on the quality of the loan portfolio and thereby cost of credit. This will result in problems of raising capital from the perspective the availability of capital and on the other hand from the cost of capital. Therefore, the Ministry of Finance rejected the proposal to adopt the Directive on Government meeting. This resulted with turning to the Court of Justice of the European Union to annul the Directive [18]. So, currently Estonia is the only member state, who does not wish to adopt the new accounting Directive [24].

It should be mentioned that in the recent years there have been big changes in the Estonian accounting guidelines. It is unclear, whether Estonia is ready for another change in the upcoming years, if the new Directive should be adopted. It is necessary to emphasize that until the end of 2012 the majority of Estonian enterprises prepared their annual reports according to the Estonian GAAP, which copied the accounting principles of the "big" IFRS. In 2011, several changes were introduced into the guidelines which are effective from January 1, 2013. The new guidelines follow mainly the IFRS for SMEs, although some differences exist between the two sets of accounting rules (i.e. the new Estonian GAAP and IFRS for SMEs). With that step Estonia was one of the first countries in Europe aligning its local accounting standards with IFRS for SMEs.

In the light of the recent events (from one side Estonia aligning its accounting guidelines with the IFRS for SMEs and from the other side – the EU banning the IFRS for SMEs and adopting simplified rules for micro-enterprises, which were rejected by the Estonian Ministry of Finance) it is hard to predict, what will happen in the Estonian accounting future and whether Estonia will follow the guidelines set by the EU or the IASB or both. Still, the recent and the upcoming developments support the fact that the EU and the IASB are

the main two coercive institutional pressures affecting the development of financial accounting framework in Estonia.

B. Normative institutional pressure

Al-Omari [1] views the Big 4 accounting firms under normative institutional pressure as these companies play a profound role in the globalization of accounting and represents the normative pressures that effect organizations and the choices they make in accordance to their reporting and practices implemented. Other authors have also researched the influences of the Big 4 accounting firms on the preparation of the financial statements. Although this analysis has not been made in the context of institutional theory, they can still be used to assess the influences of Big 4 accounting companies to the development of accounting practices.

Simunic [28] argues that the accounting services provided by different accounting firms are perceived by investors to be different in quality, with brand name auditors (currently Big 4 auditors) perceived as being more credible than others. This is supported by a study issued by the General Accounting Office (GAO) of the United States that corroborates the essential aspects in terms of Big 4 audit outcome. The Big 4 audit opinion serves as an effective quality label, whereas most of the second-tier firms are not able to bid successfully for large because of a lack of industry knowledge, geographic pressure and reputation. The GAO argues that a Big 4 audit report is characterized by a distinctive quality label, and therefore contains credible and high quality information [11].

Gray and Ratzinger [11] further researched whether there are differences between the Big 4 firms in particularly, how their national offices might interpret some specific accounting (GAAP) or auditing (GAAS) question. In a later focus group, an auditor pointed out that there are frequent conversations between representatives of the different Big 4 firms that results in a convergence of their interpretations. For example, when some new accounting or auditing issue arises, that will prompt discussions between the firms. She went on to say that the firms are fairly open in discussing their audit methodologies, so that the methodologies used by the firms are constantly evolving over time. However, the auditors agreed that the differences in interpretations become wider when Big 4 and non-Big 4 firms are compared [11]. The authors are in the opinion of that the cooperation of Big 4 companies indicates that the financial statements audited by them may therefore be drafted even more according to their regulations.

British Financial Reporting Council has actively reacted against the dominance of Big 4 auditing firms and has orientated itself in the international level towards increasing the likelihood of major “public interest entities” selecting non-Big 4 auditors [26].

Following, the authors have concentrated to the analysis of normative institutional pressure by Big 4 companies in the Estonian context. The authors also rely on the studies performed by other Estonian authors.

If we look at the substance of the annual reports then the research conducted in Estonia show that there are considerable

differences between the audit quality of Big 4 and non-Big 4 companies. Kannistu [16] studied the annual reports of 15 Estonian companies from which 8 annual reports were audited by Big 4 companies and 7 from non-Big 4 companies. Important substantive errors, which include recognition of business transactions, appeared according to Kannistu [16] only in those annual reports, which were audited by non-Big 4 companies.

Errors in disclosure, which means that the information required by the law to be disclosed was not disclosed or was disclosed partially, appeared in the annual reports audited both by Big 4 and non-Big 4 companies. Furthermore, there were more errors in the annual reports audited by non-Big 4 companies [16]. The most common mistake was the insufficient description of the accounting principles in the notes of the financial statements and the non-disclosure of the information for individually significant financial objects and transactions [16].

Raigla [25] studied the information disclosed in the notes of the financial statements. Her sample consisted of 20 non-audited financial statements. With her research Raigla [25, 49] wanted to show that the non-audited financial statements contain more errors and deficiencies than audited financial statements. The investigation revealed that the sampled annual reports did not use cross-references, the numerical values of notes and financial statements differed, the terminology used was insufficient, disclosed information was often inadequate or even wrong [25]. Detected errors on non-audited annual reports were therefore even more extensive than those identified by Kannistu on audited annual reports.

The work performed by Raigla [25] is supported by a study conducted by the authorized public accountant Villems [30], who also investigated the most common errors on the annual reports. According to Villems [30] the annual financial statements commonly do not include detailed notes for income statement and statement of cash flows. The review of accounting principles used is superficial and there are problems in how to reflect capital and operating leases.

According to the investigation conducted by Estonian researchers, one can expect higher quality of annual reports audited by international auditing firms. This suggests that in Estonia the impact of Big 4 companies to the financial statements presentation is significant, as they audit the most of the Estonian public interest entities and therefore directly influence the preparation and presentation of the financial statements and the development of the Estonian financial accounting and reporting framework.

C. Mimetic institutional pressure

Mimetic institutional pressures refer to the copying and duplicating of successful organizational behavior by other organizations [6]. This is mostly used in situations and conditions of uncertainty, when “institutional rules” are replaced by “technical rules”, in this case the organization will decide to mimic similar, larger, or more successful organizations. Organizations, as humans, want to be seen as socially acceptable, and not as outsiders. So, the more organizations behave in a certain manner and practice certain

procedures, the more pressure there will be on other organizations to copy these behaviors and follow in the same path [1].

The mimetic view therefore stresses conformity with orthodox structures and identity, particularly in times of uncertainty. As successful multinational corporations have expanded their “global reach”, they have instituted sophisticated systems of “financial coordination” of their subsidiaries and have modeled to other organizations the desirability of the global harmonization of financial reporting. Intimately connected with the regulatory regimes of the dominant nation states, they have reinforced the desirability, for developing and emerging economies, of conformity with the practices both of multinational corporations and of nations’ trading partners [14].

Nowadays, the trend to copy the structures, customs and outputs of the international companies, has not disappeared in Estonia. This is supported by the tax policy. To increase the amount of direct investments made to Estonia, the Estonian parliament passed the new Income Tax Act which came into force on January 1, 2000. With the amended law, the entities operating in Estonia must pay the income tax on profit only when it is distributed, not earned.

The changed tax environment promoted the growth of foreign investments in Estonia. The “immigration” of organizations increased even more after Estonia joined with the EU. This gave more confidence about the business environment in Estonia to the international corporations, which was from that moment forward subject to the common practices and regulations of the EU. Nowadays, when the key to the financial success and a way out of the economic recession seems to be export, it is inevitable and essential to conform to the requirements of international trading partners.

Barbu and Baker [4] consider different local accounting standards-setting bodies in various countries to be an evidence of mimetic isomorphism as they have adopted structures and procedures similar to those of the IASB and/or the FASB. A good example is Estonia. Similarly to the FASB the EASB has seven members who represent different professional bodies. So the aim of creation of the EASB shows the appearance of mimetic pressure.

The function of the EASB is to issue accounting guidelines explaining and specifying the EAA and to direct activities in the field of accounting. The IASB operates on a similar basis.

To conclude, the development of the Estonian GAAP is from one side influenced by the coercive institutional pressure – the EASB follows the IFRSs when drafting the guidelines. On the other hand, this kind of behavior is directly influenced by mimetic institutional pressure because the EASB copies the practices of the IASB.

IV. CONCLUSIONS

As coercive and mimetic institutional pressures are viewed differently by many authors it is vital to determine which pressures are influencing the development of the Estonian accounting system taking into consideration the accounting

history of Estonia, the openness to the global processes and participation in the international capital markets.

The results of the authors’ research showed that in the context of coercive institutional pressure the development of the accounting legislation in Estonia has been mostly influenced by the IFRSs. These standards have been incorporated to the legislation of the EU, although some differences between the IFRSs issued by the IASB and the IFRSs adopted by the EU exist. As Estonia is the member country of the EU, the effect of the EU legislation to the Estonian standard setting process and the Estonian Accounting Act seems to be quite clear. However, in the light of the recent events, it seems that Estonia has the opportunity to follow its own way when deciding which accounting principles should be applied to micro-enterprises and small- and medium-size entities. Therefore, it will be interesting to follow, whether the coercive pressures from the IASB and/or the EU will determine the future accounting legislation for most of the Estonian entities.

Normative institutional pressures have not been analyzed in this paper but the authors agree with Al-Omari [1] that the “Big 4” firms play a profound role in the globalization of accounting and represent the normative pressures that effect organizations and the choices they make in accordance to their reporting and practices implemented. In Estonia the “Big Four” firms audit most of the public interest entities and can therefore influence the preparation and presentation of their financial statements. So it could be supposed that normative institutional pressures, affecting the development of the Estonian accounting system, are the “Big 4” audit firms. Further research in this area is needed to confirm or exclude the normative institutional pressure. This can be done by comparing the annual reports audited by “Big 4” and “Non-Big 4” firms. The analysis should be conducted in a way that does not only point out the variations from the existing law, but also points out the aspects that are disclosed “voluntarily” and that are common to all “Big 4” firms.

International corporations, which structures and practices were copied by the Estonian entities after the collapse of the centrally planned economy in 1990s, can be viewed in the context of mimetic institutional pressure. Also the trading partners of the Estonian companies, whose requirements have to be met in order to increase the export, can be viewed as a mimetic institutional pressure. Mimetic institutional pressure does not appear in the context of business only, where entities copy the practices of successful multinational corporations. This copying of the structures and practices happens also, when the EASB follows the same working principles and processes as the IASB.

The example of Estonia shows that the harmonization with the IFRSs is unstoppable (and inevitable) and countries, who want to be successful in the international capital markets, have to be compatible with different institutional pressures.

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