

# DISCLOSURE OF INFORMATION ABOUT RESEARCH AND DEVELOPMENT BY RUSSIAN PHARMACEUTICAL COMPANIES

*Naidenova Iuliia,*

*Junior Research Fellow, International Laboratory of Intangible-driven Economy  
National research university "Higher School of Economics"*

## Abstract

In pharmaceutical industry there are long period of research and development (R&D) and large amount of investments. Significant period between the start of investments and returns on investments made result in difficulty in raising funds. Issuing shares on stock market can be a solution of the problem. This study is aimed to examine how pharmaceutical companies in Russia disclose information related to their research and experimental development, and how investors on the stock market react to the disclosure of this information.

Firstly, we analyse the characteristics of the pharmaceutical companies whose ordinary shares are traded on the Russian stock market. In particular, we consider companies' practices of R&D disclosure in the financial statements and in the announcements on the web-sites. Secondly, we investigate how Russian stock market investors react to the release of the new information related to R&D using event study methodology.

The results show that Russian pharmaceutical companies adequately disclose the late stages of research and development. However, the early stages of the research are poorly disclosed to investors. Analysis based on the event study methodology showed that the Russian stock market investors do not tend to react to R&D announcements. Thus, our results are in contrary with the results of previous studies that are conducted on US and European stock markets data and found out a positive reaction.

Thus, the Russian pharmaceutical companies to a lesser extent disclose R&D in announcements than European ones. This peculiarity should be taken into account if Russian companies decide to raise funds on foreign stock markets. Russian stock market investors do not take into account information about the company's achievements in R&D; whereas the results of R&D made by pharmaceutical companies are necessary to create unique products that enable Russian pharmaceutical companies to compete with each other and with foreign rivals.

**Key word:** disclosure, R&D, pharmaceutical companies, event study, financial reporting

**JEL:** G30, G14

## References

1. Kulagina, S.V. «Mesto rossijskoj farmacevticheskoj promyshlennosti na mirovom farmacevticheskom rynke» (Russian pharmaceutical industry in world pharmaceutical market) // *Jekonomicheskie nauki (Economic sciences)*. 2010. № 12, Vol. 73. P. 97–100.
2. *Mezhdunarodnyy standart finansovoy otchetnosti (International Accounting Standards) (IAS) 38 «Intangible Assets» (rev. 17.12.2004) // Dokument opublikovan ne byl. SPS «Konsul'tantPlyus».*
3. Osadchij, N.M. «Rossiyskiy fondovyy rynek: stoimost, struktura, dinamika», (Russian stock market: value, structure, and dynamics) // *Mirovaya ekonomika i mezhdunarodnyye otnosheniya (World economy and international relations)*. 2007. № 12. P. 35–44.
4. Pogozheva, A. A. «Ispol'zovanie sobytijnogo analiza dlja ocenki informacionnoj znachimosti rekomendacij analitikov po rossijskim jemitentam» (Application of event study methodology to assess the influence of analysts' recommendations on Russian issuers) // *Zhurnal Korporativnye finansy (Corporate finance journal)*. 2013. № 2 (26). P. 35–49.
5. *Prikaz Ministerstva finansov Rossiyskoy Federatsii ot 19 noyabrya 2002 N 115n «Ob utverzhdenii Polozhenija po buhgalterskomu uchetu «uchet rashodov na nauchno-*

- issledovatel'skie, opytно-konstruktorskie i tehnologicheskie raboty» (The order of the Ministry of Finance of Russian Federation 19.11.2002 N 115n «On Approval of Accounting Regulations» Accounting for research and development») PBU 17/02 (rev. 18.09.2006). // Dokument opublikovan ne byl. SPS «Konsul'tantPlyus».
6. Prikaz Ministerstva finansov Rossiyskoy Federatsii ot 27 dekabrya 2007 goda N 153n «ob utverzhdenii polozheniya po bukhgalterskomu uchetu «uchet nematerial'nykh aktivov» (The order of the Ministry of Finance of Russian Federation 19.11.2002 N 115n «On Approval of Accounting Regulations» Accounting for intangible assets») PBU 14/2007 (red. ot 24.12.2010) // Dokument opublikovan ne byl. SPS «Konsul'tantPlyus».
  7. Taker, R. (2006), *Innovacii kak formula rosta: Novoe budushhee vedushhih kompanij* (Innovation as a growth formula: New Future of the leading companies). Translation from English. M.: Olimp-biznes, 2006. – 224 p.
  8. Teplova, T.V. «Vlijanie dividendnyh vyplat na rynochnuju ocenku rossijskih kompanij: jempiricheskoe issledovanie metodom sobytijnogo analiza na rossijskih i zarubezhnyh togovykh ploshhadkah» (The impact of dividend payments on the market valuation of Russian companies: an empirical study of Russian and foreign trading floors using event study methodology) // *Audit i finansovyy analiz* (Audit and Financial Analysis). 2008. №2. P. 1–15.
  9. Teplova T.V. and Grigorjeva T.I. *Situacionnyi finansovyi analiz: skhemy, zadachi, kejsi* (Situational financial analysis: schemes, tasks, cases). M. GU VSHE (SU HSE), 2006. – 605 p.
  10. Javorskaja, A.V. «Ocenka vlijaniya kross-listinga na rynochnuju stoimost' rossijskih kompanij» (Estimation the impact of cross-listing on the market value of Russian companies) // *Zhurnal Korporativnye Finansy* (Corporate Finance Journal). 2013. № 3 (27). P. 45–54.
  11. Chan, S.H., Martin, J.D. and Kensinger, J.W. (1990), *Corporate Research and Development Expenditures and Share Value*, *Journal of Financial Economics*, Vol. 26 (Aug. 1990), pp. 255–276.
  12. Dedman, E., Lin, S., Prakash, A., and Chang, C. (2008), *Voluntary disclosure and its impact on share prices: Evidence from the UK biotechnology sector*, *Journal of Accounting and Public Policy*, 3, pp. 195–216.
  13. Diamond, D.W., and Verrecchia, R.E. (1991), *Disclosure, Liquidity, and the Cost of Capital*, *Journal of Finance*, Vol. 46, No. 4, pp. 1325–1359.
  14. Fagerberg, J., Mowery, D. and Nelson, R.R. (Eds.), (2004), *The Oxford Handbook of Innovation*, Oxford University Press, Oxford, p. 680.
  15. Fishman, M.J., and Hagerty, K.M. (2003), *Mandatory versus voluntary disclosure in markets with informed and uninformed customers*, *The Journal of Law, Economics and Organization*, Vol. 1, pp. 45–63.
  16. Healy, P.M. and Palepu, K.G. (2001), *Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature*, *Journal of accounting and economics*, Vol. 31, No. 1, pp. 405–440.
  17. Koller, T., Goedhart, M. and Wessels, D. (2010), *Valuation: Measuring and Managing the Value of Companies*, 5th Edition, McKinsey & Company Inc., p. 840.
  18. La Rosa, F., and Liberatore, G. (2014), *Biopharmaceutical and chemical firms' R&D disclosure, and cost of equity: The impact of the regulatory regime*, *European Management Journal*, Vol. 32, pp. 806–820.
  19. Leuz, C., and Verrecchia, R.E. (2000), *The Economic Consequences of Increased Disclosure*, *Journal of Accounting Research*, No. 38 (supplement), pp. 91–124.
  20. Lev, B. (2003), *Remarks on the Measurement, Valuation, and Reporting of Intangible Assets*, *FRBNY Economic Policy Review*, September 2003, pp. 17–22.

21. Macagnan, C.B. (2009), Voluntary disclosure of intangible resources and stock profitability, *Intangible Capital*, Vol. 1, pp. 1–32.
22. MacKinlay A.G. (1997), «Event Studies in Economics and Finance», *Journal of Economic Literature*, Vol. XXXV, pp. 13–39.
23. Magazzini, L., Pammolli, F., Riccaboni, M., and Rossi, M.A. (2009), Patent disclosure and R&D competition in pharmaceuticals, *Economics of Innovation and New Technology*, Vol. 18, No. 5, July 2009, pp. 467–486.
24. Mangena, M., Pike, R., and Li, J. (2010), *Intellectual Capital Disclosure Practices and Effects on the Cost of Equity Capital: UK Evidence*, Edinburgh: The Institute of Chartered Accountants of Scotland.
25. Mc Namara, P., and Baden-Fuller, C. (2007), Shareholder returns and the exploration–exploitation dilemma: R&D announcements by biotechnology firms, *Research Policy*, Vol. 36, pp. 548–565.
26. Molodchik, M.A., Shakina, E.A., and Barajas, A. (2014), Metrics for the elements of Intellectual Capital in an Economy driven by Knowledge, *Journal of Intellectual Capital*, Vol. 15, No. 2, pp. 206–226.
27. Pérez-Rodríguez, J.V., and González López-Valcárcel, B. (2012), Does innovation in obesity drugs affect stock markets? An event study analysis, *Gaceta Sanitaria*, Vol. 26, No. 4, pp. 352–359.
28. Saad, M., and Zantout, Z. (2009), Stock price and systematic risk effects of discontinuation of corporate R&D programs, *Journal of Empirical Finance*, Vol. 16, pp. 568–581.
29. Schnackenberg, A., and Tomlinson, E. (2014), Organizational Transparency: A New Perspective on Managing Trust in Organization-Stakeholder Relationships, *Journal of Management*, March 10.
30. Takeda Pharmaceutical Company Limited «Drug Discovery Processes», available at: <https://www.takeda.com/research/process>.
31. Teece, D.J. (1986), Firm boundaries, technological innovation, and strategic management, *The Economics of Strategic Planning: Essays in Honor of Joel Dean*, pp. 187–199.
32. Zambon, S., and Guenther, T.W. (2011), Special issue: Measuring and managing intangibles for accounting use, *J Manag Control*, No. 22, pp. 237–239.