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# NAVIGATING EXTERNAL SHOCKS: THE ROLE OF IFRS COMPLIANCE IN UKRAINIAN COMPANIES DURING WAR

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**Abstract.** The *objective* of this study is to examine the profitability and resilience of Ukrainian firms that adopt International Financial Reporting Standards (IFRS) in a context of war-induced uncertainty. The present study focuses on the role of governance mechanisms, particularly the quality of audits and operational continuity, in determining financial outcomes at the firm level. *Methodology.* A difference-in-differences (DiD) approach is employed, utilising firm-level data and two regression models: a baseline model capturing treatment and time effects, and a triple interaction model incorporating audit quality and operational resilience. The financial data are sourced from ORBIS, and the exposure to regional conflict is determined using humanitarian reports. *Results.* The baseline regression analysis demonstrates that external shocks, such as exposure to war, do not affect profitability uniformly. However, the triple interaction model posits that firms with high audit quality, which are often audited by Big-4 firms, encounter heightened financial strain during periods of conflict due to more stringent compliance requirements. Concurrently, the investigation revealed that operational continuity significantly enhanced profitability, thereby demonstrating that resilience capacity is a pivotal differentiator during crises. *Practical implications.* The *findings* emphasise the necessity for Ukrainian firms and regulators to achieve a balance between transparency and flexibility in their governance practices. In order to ensure the maintenance of economic functionality in high-risk settings, it is imperative that support for operational resilience is prioritised. These insights can be used by international donors and policymakers to tailor financial support mechanisms and reporting requirements in war-affected economies. *Value/Originality.* This paper is among the first to quantify the combined effects of governance quality and resilience on firm profitability during wartime using International Financial Reporting Standards (IFRS)-compliant data. This study makes a significant contribution to the expanding corpus of literature addressing financial reporting, audit assurance and corporate survival in contexts of fragile geopolitics. It is recommended that future research explore additional dimensions, such as innovation capacity and the regulatory environment, with a view to deepening the understanding of firms' adaptation strategies during crises.

**Keywords:** IFRS compliance, governance practices, audit quality, operational resilience, Russo-Ukrainian war, external uncertainties, firm profitability, conflict-affected regions.

**JEL Classification:** G32, M41, D22

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## 1. Introduction

The war between Russia and Ukraine has disrupted global economic systems, causing instability in energy markets, trade routes and geopolitical stability. Following the impact of the global pandemic, the conflict has exacerbated pre-existing economic vulnerabilities and increased uncertainty in international markets. The consequences are far-reaching, including rising energy prices, disrupted food supplies and sanctions that reverberate through financial markets and international trade (Liu & Pan, 2024; Shahid, 2024). In addition to these economic consequences, the war is exacerbating geopolitical tensions, threatening global peace and stability, and making businesses vulnerable to unprecedented external shocks (Yahaya, 2023).

In this volatile environment, compliance with International Financial Reporting Standards (IFRS) is of particular importance. Adherence to these standards increases financial transparency, providing investors and stakeholders with reliable and comparable financial information. This transparency is particularly important in conflict-affected regions such as Ukraine, where economic stability is fragile. By reducing information asymmetry, compliance with IFRS improves the comparability of financial statements, providing decision-makers with the tools needed to assess risks and opportunities in highly uncertain environments (Chouaibi & Mutar, 2024; Mohammed et al., 2024). Despite these benefits, implementing IFRS in conflict zones presents challenges, such as incomplete disclosures and underdeveloped non-financial reporting mechanisms (Iefymenko et al., 2022).

The existing literature demonstrates the potential of IFRS to enhance corporate transparency and value relevance, particularly during times of crisis. For instance, research on Iraqi banks indicates that complying with IFRS significantly improves the usefulness of financial statements for investors (Chouaibi & Mutar, 2024). Similarly, evidence from North African countries indicates that firm-level transparency reinforces the comparability of financial statements (Mohammed et al., 2024). However, the practical application of these standards in conflict zones is inconsistent, with gaps in sector-wide disclosure and operational challenges that undermine their effectiveness (Iefymenko et al., 2022). Building on this foundation, this study examines how the adoption of IFRS and governance practices shapes firms' resilience and adaptability during the Russo-Ukrainian war.

This research addresses critical gaps in current understanding of the impact of governance practices on firm performance in conflict settings. While previous studies have highlighted the general benefits of International Financial Reporting Standards (IFRS) compliance, few have examined its interaction with

external shocks, such as war. Furthermore, the role of audit quality in mediating these effects has received limited attention. To address these issues, this study examines the factors that influence the profitability and stability of Ukrainian companies that use IFRS, as well as their adaptation strategies during the war. The central objective of this study is to ascertain whether governance practices, such as the quality of audits, serve to either augment or mitigate the impact of external uncertainty. The remainder of the paper is structured as follows. Section II of this study reviews the extant literature on the subject and develops the study's hypothesis. Section III delineates the variables and data sets utilised in this study. Section IV of this study discusses the models employed and reports the empirical results. Further analyses and discussion are presented in Section V. The text concludes with a summary of the main findings and suggestions for further research in Section VI.

## 2. Literature Review and Hypotheses Development

**Theoretical background.** Research on the application of International Financial Reporting Standards (IFRS) in wartime draws on theories of governance and resilience.

In the context of agency theory, effective governance mechanisms reduce information asymmetries and agency costs, while supporting compliance with International Financial Reporting Standards (IFRS) (Leung & Ilsever, 2013; Clacher et al., 2010). War exacerbates these challenges, making sound governance essential for ensuring transparency and accurate reporting (Leung & Ilsever, 2013).

The stakeholder theory of governance expands to include the interests of employees, creditors, and the community. This approach fosters trust and transparency, both of which are critical for ensuring compliance with International Financial Reporting Standards (IFRS) in volatile environments (Bellavitis et al., 2023). During wartime, responding to stakeholder needs helps companies maintain trust and cope with disruption, thereby improving their IFRS compliance.

Institutional theory examines how external factors, such as rules and cultural norms, influence governance. Coercive, imitative and normative pressures particularly drive the adoption of International Financial Reporting Standards (IFRS) in conflict-affected regions. For instance, international pressure influenced the adoption of IFRS in Iraq following regime change (Hassan et al., 2014). Similarly, in Ukraine, despite the weakening of compliance mechanisms during the war, similar forces shape compliance (Hassan et al., 2014).

According to Nalukenge et al. (2018), an ethical culture and robust internal controls are critical to

reducing the risk of non-compliance and ensuring consistency in financial reporting, even in conflict zones. Robust governance systems enable companies to maintain accountability and stakeholder trust when faced with external shocks.

Resilience theory explains how systems adapt to maintain functionality during extreme events. In the context of International Financial Reporting Standards (IFRS) compliance, operational resilience, systemic stability and adaptability are emphasised to ensure that companies can continue to report despite disruptions (Teichmann et al., 2023; Nikishina et al., 2022).

Therefore, governance and resilience theories provide a framework for understanding how firms can maintain transparency, accountability and adaptability in volatile environments. These theories emphasise the interplay between governance mechanisms, external pressures, and operational resilience when it comes to maintaining financial reporting standards in conflict-affected regions.

**Impact of the war on the Ukrainian economy.** The war in Ukraine has severely disrupted the economy, resulting in the loss of significant human resources due to migration, displacement, and military recruitment. The relocation of businesses and underutilisation of production facilities have exacerbated these challenges. According to the Rapid Damage and Needs Assessment (RDNA3, 2023), the cost of reconstruction and recovery over the next decade is estimated at 486 billion USD, which will require substantial public and private funding. Despite these challenges, Ukraine has maintained macro-financial stability with the support of international assistance, which is crucial for post-war recovery. The economic impact includes a 29.2% contraction in GDP in 2022, loss of income, reduced purchasing power and labour shortages, all of which affect recovery (Lb.ua, 2023; World Bank, 2024). The National Bank of Ukraine forecasts modest growth of 3.7% in 2024, accelerating to 4–5% by 2026. This growth is driven by international aid, export expansion, and budget support. However, challenges remain, including power shortages, poor harvests and supply chain disruptions. Nevertheless, export data reflects resilience, with grain and oilseed exports up 29% year-on-year (Center for Economic Strategy, 2024).

However, Ukrainian businesses have demonstrated their ability to adapt in the face of conflict. Studies show that they prioritise economic resilience, with many adjusting their operations, relocating or diversifying in order to remain operational (Kazak & Sulyma, 2023). Manufacturing operations have adapted to conditions under martial law, emphasising the importance of maintaining continuity in reporting under IFRS to preserve stakeholder confidence (Smachylo, 2024).

Crucially, the absence of a defined endpoint for the conflict presents a unique challenge in terms of

risk assessment and the application of IFRS. Studies in crisis management emphasise the need for flexible, dynamic frameworks to support decision-making in situations of prolonged uncertainty (Opatska et al., 2024). These findings highlight the importance of the continuity principle in financial reporting and its implications for compliance with the International Financial Reporting Standards (IFRS).

**IFRS reporting in conflict contexts.** In Ukraine, International Financial Reporting Standards (IFRS) are mandatory for public interest entities and certain industries. All other companies may apply them voluntarily. However, the adoption of IFRS on a voluntary basis remains limited, with only 1.27% of companies opting for IFRS in 2015 (Zasadny, 2018). The war has complicated IFRS compliance, with reporting deadlines postponed due to martial law while the need for accurate accounting remains. Key sectors such as energy, metallurgy and agriculture are facing particular challenges. Regular attacks on the power grid are disrupting industrial operations, particularly for high-energy consumers. For instance, steel production in 2024 reached its lowest point in eight months, highlighting the pressure on vital industries. Such disruptions raise questions about the feasibility and reliability of IFRS compliance in such volatile contexts (Center for Economic Strategy, 2024).

The war has global implications for companies reporting under IFRS. The withdrawal of international companies from the Russian market demonstrates the intersection of corporate social responsibility (CSR) and geopolitical dynamics, which has a positive influence on brand perception (Ayoub & Qadan, 2023; Lim et al., 2022). Companies such as EY and KPMG have issued guidance on the application of IFRS in wartime conditions, emphasising considerations such as going concern, impairment, and fair value measurement (KPMG, 2022). The uncertainty of war has an impact on IFRS reporting due to an increased risk of measurement uncertainty, impairment, exchange rate volatility and tax changes (Umut, 2023). These challenges emphasise the need for robust disclosures to enable assessment of the financial impact on companies' positions and performance. Furthermore, geopolitical conflicts, such as the war in Ukraine, create regulatory divergences that impact global accounting standards and the reporting of equity market participants under IFRS (Noy & Dabamona, 2024).

Although the existing literature explores the broader implications of International Financial Reporting Standards (IFRS) compliance during geopolitical conflicts, the specific impact of IFRS on the performance and resilience of Ukrainian companies has not been widely researched. This study aims to address this gap by examining the influence of governance practices and IFRS compliance on firm stability and profitability in the context of the Russo-Ukrainian war.

**Hypotheses development.** Various studies have examined the relationship between governance practices and firm profitability in conflict situations, shedding light on how governance structures can enhance performance in times of uncertainty. For instance, Mardnly et al. (2018) analysed firms in Syria and demonstrated that ownership structure, particularly foreign ownership, has a significant impact on profitability during periods of conflict. The study used multiple linear regression to show that governance arrangements improve performance measures such as earnings per share (EPS) and return on assets (ROA). Similarly, Heenetigala and Armstrong (2012) examined firms in Sri Lanka during the civil war and discovered that there was a positive correlation between governance practices, such as board composition, and profitability. These findings suggest that effective board oversight and other strong governance practices contribute to a firm's ability to maintain profitability under unfavourable conditions.

In terms of governance practices, such as audit quality, these have been identified as key factors in ensuring financial reliability in wartime. They influence corporate profitability by increasing transparency. High-quality audits reduce earnings management and promote the credibility of financial statements – a critical asset in unstable environments (Yasin, 2023). As shown by Chen et al. (2023), the association between Big 4 audit firms and higher profitability underscores the importance of audit quality in enhancing stakeholder confidence. Moreover, Megeid (2022) highlights that independent audit committees can indirectly boost profitability by ensuring reliable financial reporting, particularly in highly competitive markets.

Research has also focused on operational resilience, demonstrating its ability to enable firms to withstand disruptions and maintain profitability during crises. According to Sroka and Wiczorek-Kosmala (2024), quantitative studies have demonstrated that firms exposed to higher operational risks experience lower profitability. The researchers examined manufacturing firms in V4 countries. However, the integration of dynamic capabilities and scenario testing, for example, has been associated with higher profit growth rates and provides a competitive advantage during crises (Bughin, 2023; Englund, 2022).

Although significant progress has been made in understanding the impact of governance practices, operational resilience and external uncertainties on firm profitability, research on the combined impact of these factors on firms operating in conflict-affected environments, particularly in the context of IFRS compliance, is lacking.

This study uses a quantitative approach to address these gaps and investigate how governance practices

and operational resilience influence the profitability of Ukrainian companies using IFRS during the ongoing conflict.

This study addresses a critical question: **Which factors determine the profitability and stability of Ukrainian companies that use IFRS, and how do these companies adapt to external uncertainties, such as the Russo-Ukrainian war?** The war poses a unique challenge for firms operating in a volatile and uncertain environment. This requires an investigation into how governance practices, especially those mandated by IFRS, affect firms' ability to adapt and maintain stability during crises.

The study suggests that governance mechanisms, such as the quality of audits, play a key role in determining how resilient firms are to external shocks. **Hypothesis 1 (H1) suggests that governance practices significantly affect the adaptability of Ukrainian companies using IFRS to uncertainties like the war.** Although enhanced audit quality is expected to increase firms' transparency and stakeholder confidence, it may also amplify their exposure to risk due to the increased visibility of vulnerabilities in volatile markets.

Two sub-hypotheses (H1A and H1B) explore this relationship in more detail:

H1A: Companies in Ukraine that use IFRS and have a high-quality audit are more likely to be affected by external uncertainties, such as the Russo-Ukrainian war.

H1B: Companies in Ukraine that use IFRS and have lower audit quality are less likely to be exposed to external uncertainties.

By exploring these hypotheses, the research sheds light on the dual role of governance, which can act as a stabilising mechanism or a potential amplifier of risks during crises. The study also aims to identify the key factors that enable Ukrainian firms to effectively navigate economic instability and external shocks.

### 3. Research Design

The methodology includes two complementary regression models. The first, baseline regression, examines the general effects of external uncertainties on profitability. The second, regression with the triple interaction, incorporates governance characteristics to explore conditional effects. The analysis uses a **difference-in-differences (DiD)** framework to evaluate how treatment (war-affected regions), time (pre- and post-war periods) and audit quality interact with each other.

We used the profitability of the companies, in particular the **return on assets (ROA)**, as a dependent variable. ROA is a measure of a company's financial performance and stability, providing an indication of its ability to adapt to external uncertainties.

The independent variable in this study is **audit quality**. This is a proxy for governance quality and reflects the degree of transparency, accountability and compliance with International Financial Reporting Standards (IFRS). The present study aims to assess the role of governance in determining profitability and stability.

In this study, audit quality is operationalised by distinguishing between audits performed by Big 4 audit firms (e.g., EY, KPMG and PwC) and those performed by Ukrainian audit firms. The Big 4 firms are associated with higher audit quality due to their rigorous standards, global expertise and established reputation. Conversely, Ukrainian audit firms have been found to be associated with lower audit quality. This is due to the fact that they are often constrained by limited resources, less global integration and less rigorous audit standards.

The measurement of **operational resilience** was facilitated by the implementation of a binary variable (Binary Continuity Variable), denoting the capacity of firms to ensure operational continuity during periods of external shocks. This analysis underscores the significance of resilience in maintaining organisational performance.

In order to reflect regional impact, a variable has been included (Firms in war affected regions) to capture whether a **firm is located in a conflict-affected region**, such as those affected by the Russo-Ukrainian war, in order to control for geographical exposure to geopolitical risks.

In this study, **firm age** was employed as a control variable. This is a measure of the number of years a firm has been in operation and is included to account for lifecycle effects and potential differences in structural efficiency. In addition, **firm size** (total assets) and **macroeconomic variables** (GDP growth, inflation) were considered. These represent broader economic conditions that may influence firm profitability and provide context for the external environment during the study period.

Potential heteroskedasticity was accounted for using robust standard errors. The model's overall significance was tested using the F-statistic, and the statistical significance of the individual coefficients was also tested.

#### Data Collection and Sources

The study focuses on a dataset of Ukrainian companies that report in accordance with International Financial Reporting Standards (IFRS), with an emphasis on those operating in industries that are directly or indirectly affected by the Russo-Ukrainian war. Firms were selected based on the availability of consistent financial data from before and during the war, to ensure that the analysis captures changes in financial performance in the face of external uncertainty.

**Data sources.** The present study employs a multifaceted dataset to analyse the relationship between governance practices, operational resilience, and the profitability of Ukrainian companies in the context of external uncertainties, such as the Russo-Ukrainian War.

Firm-level financial data were obtained from ORBIS, a comprehensive database that provides standardised financial statements in accordance with International Financial Reporting Standards (IFRS). This includes key information on profitability, business continuity, governance practices and firm-specific attributes, such as industry classification, geographical location and business history.

Macroeconomic indicators such as GDP growth and inflation rates have been obtained from reliable international sources including the World Bank database and the International Monetary Fund (IMF). These indicators provide a nuanced understanding of external economic shocks during the period under review by contextualising firm-level performance within broader economic trends.

To capture the regional impact of the Russo-Ukrainian conflict, data on conflict exposure was compiled from reports by the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) and local government authorities. This information was then used to categorise companies as being in either war-affected or non-war-affected regions, offering valuable insights into the varying impacts of war.

Additional contextual data on corporate governance practices, particularly audit quality, was collected from company disclosures, regulatory filings, and publicly available reports. These data sources ensured consistency with the operational definitions of governance quality employed in the analysis.

**Timeframe and scope.** The study spans four years, covering periods of relative stability (pre-war, 2020–2021) and geopolitical uncertainty (during the war, 2022–2023). This temporal scope enables a longitudinal analysis of how companies have adapted to external shocks and facilitates comparisons of financial performance and governance practices in different economic conditions.

#### 4. Empirical Results

Table 1 presents a summary of the statistics used to compare two regression models that analyse the impact of governance practices, operational resilience, and external uncertainty on firm profitability. The Baseline Model shows limited explanatory power, with an R-squared value of 0.0087, and lacks statistical significance (Prob > F = 0.1844). This suggests that the effects of treatment and time alone are insufficient to explain variations in firm performance during periods of external uncertainty.

By contrast, the model incorporating the triple interaction term exhibits a notable enhancement in explanatory power, evidenced by an R-squared value of 0.1283 and substantial statistical significance (Prob > F = 0.0000). This model emphasises the crucial role of audit quality and operational continuity in offsetting the negative impact of external uncertainty. The results emphasise the importance of governance structures and resilience mechanisms in influencing firm outcomes, particularly in volatile and conflict-affected environments.

**Model Specification**

The models examine how governance practices, operational resilience and regional factors influence the financial performance of companies using IFRS, particularly in the context of external uncertainties, such as the Russo-Ukrainian war. Control variables are included to account for influences specific to individual firms and the wider economy, ensuring a robust analysis.

**Model 1: Baseline regression (Overall impact of external uncertainty)**

The first regression examines the overall effect of external uncertainties on profitability, measured as return on assets (ROA), without considering governance practices. The model is specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 treatment_{it} + \beta_2 post_{it} + \beta_3 (treatment_{it} \times post_{it}) + \epsilon_{itROA_{it}}$$

Where:

**ROA** = (earnings before interest and tax)/total assets;

**Treatment** = being in a war-affected region (1 if a firm is in a war-affected region, 0 otherwise);

**Post** = Coefficient for **post** (1 for post-war period, 0 for pre-war period);

**Treatment × post** = the combined effect of being in a war-affected region during the post-war period;

The results of the baseline model suggest that external uncertainties, such as the Russo-Ukrainian war, do not impact firm profitability uniformly across the sample. None of the independent variables – including treatment, post or interaction – show a statistically significant relationship with ROA (p > 0.05). This indicates that the war's effects on profitability are, on average, negligible when firm-specific characteristics or governance practices are not considered.

**Model 2: Regression with the triple interaction (Conditional effect on high audit quality firms)**

The second regression model incorporates governance characteristics and focuses on firms in high-risk zones, i.e., regions close to the Russian border. This model builds on the original specification by including audit quality and interaction terms:

$$ROA_{it} = \beta_0 + \beta_1 treatment_{it} + \beta_2 post_{it} + \beta_3 (treatment_{it} \times post_{it}) + \beta_4 Auditquality_{it} + \beta_5 (treatment \times Auditquality)_{it} + \beta_6 (post \times Auditquality)_{it} + \beta_7 (treatment \times post \times Auditquality)_{it} + \sum \beta_i Year + \sum \beta_j Industr + \sum \beta_k BinaryContinuityVariable + \beta_l \log(Age) + \beta_m \log(TotalAssets) + \epsilon_{itROA_{it}}$$

Where:

**ROA** = (earnings before interest and tax)/total assets;

**Treatment** = being in a war-affected region (1 if a firm is in a war-affected region, 0 otherwise);

**Post** = Coefficient for **post** (1 for post-war period, 0 for pre-war period);

**Treatment × post** = the combined effect of being in a war-affected region during the post-war period;

**Auditquality** = Firms with higher audit quality (audits performed by Big-4 audit firms);

**Treatment×Auditquality** = War-affected firms with higher audit quality;

**post×Auditquality** = Higher audit quality in the post-war period;

**treatment×post×Auditquality** = War-affected firms with higher audit quality in the post-war period;

**BinaryContinuityVariable** = Firms maintaining operational continuity during the war;

**Firm Age** = natural logarithm of the firm's age;

**Firm Size** = natural logarithm of total assets.

Table 2 reveals that, unlike Model 1, Model 2 provides nuanced insights into the role of governance. Audit quality alone has a positive influence on profitability (β=7.06, p=0.069), suggesting that firms with higher governance standards are more resilient in general. However, the interaction term treatment×post×Auditquality is statistically significant (β=-17.10,

Table 1

**Descriptive statistics of regression models analysing governance, resilience, and external uncertainties on firm profitability**

Metric	Model 1 (Baseline regression)	Model 2 (Regression with the triple interaction)
Model significance	Not statistically significant (Prob > F = 0.1844)	Statistically significant (Prob > F = 0.0000)
Explained variance	R-squared = 0.0087 (low explanatory power)	R-squared = 0.1283 (higher explanatory power)
Key factors	Treatment and time effects not significant	Audit quality and operational continuity significant
Interpretation	External uncertainties do not uniformly affect firms	Governance and resilience conditionally affect outcomes

$p=0.046\beta=-17.10, p=0.046$ ), **indicating that high audit quality firms experience amplified negative impacts during the post-war period in war-affected regions.** This result highlights the dual nature of governance: while it improves resilience, it also makes firms more vulnerable to external shocks by reflecting their effects transparently in financial reporting.

**Results.** The results of the two regression models presented in Table 2 offer detailed insights into the factors that influence the profitability of Ukrainian IFRS companies during the Russo-Ukrainian war. Examining the general impact of external uncertainty and the conditional effects of governance quality highlights the complex interplay between geopolitical shocks, governance practices, and firm-specific characteristics.

**The baseline regression** model examines the general relationship between external uncertainty, such as operating in war-torn regions, and firm profitability, measured as return on assets (ROA). This model does not include governance characteristics such as audit quality.

One of the main findings is that operating in war-affected regions does not appear to be associated with higher profitability. Firms operating in conflict zones do not perform differently to those outside such regions.

The post-war period does not have a significant effect on profitability across the sample. Furthermore, the interaction term capturing the differential impact of war exposure in the post-war period is also insignificant.

The findings indicate that external uncertainties, such as the Russo-Ukrainian war, do not invariably impact

the profitability of Ukrainian companies. These findings underscore the necessity to consider firm-specific factors, such as governance and operational resilience, in order to comprehensively grasp the determinants of financial performance under geopolitical shocks.

**The regression with the triple interaction** incorporates governance characteristics and focuses on the role of audit quality and its interaction with war exposure and the post-treatment period. This model examines how firms with high audit quality respond to external uncertainties in regions affected by war activities (e.g., close to the Russian border).

The model is found to be statistically significant, and it is demonstrated that audit quality exerts a positive influence on profitability. The result of the study highlights the pivotal role of corporate governance in enhancing financial performance.

Furthermore, the three-way interaction term is statistically significant and negative (-17.10), indicating that firms with high audit quality experience amplified negative effects on profitability in war-affected regions during the post-war period. This finding suggests that transparent reporting under IFRS highlights the full financial impact of external shocks, potentially exposing firms to greater financial scrutiny.

Conversely, operational continuity has been demonstrated to engender enhanced profitability, thereby underscoring the significance of resilience strategies in mitigating the deleterious effects of geopolitical uncertainty.

Moreover, older firms encounter a substantial detrimental effect on profitability, presumably

Table 2  
**Comparative regression analysis of baseline and interaction models on governance and external uncertainties affecting firm profitability**

VARIABLES	Model 1: Baseline regression		Model 2: Regression with the triple interaction	
	ROA		ROA	
	Coeff.	T-stat.	Coeff.	T-stat.
The combined effect of being in a war-affected region during the post-war period	-0.663	(-0.162)	3.684	(0.791)
War-affected firms with higher audit quality in the post-war period			-17.10**	(-2.004)
Being in a war-affected region	-2.260	(-0.752)	-1.968	(-0.550)
War period	-3.121	(-1.111)	-2.011	(-0.561)
Firms with higher audit quality			7.058*	(1.823)
War-affected firms with higher audit quality			4.946	(0.799)
Higher audit quality in the post-war period			6.267	(1.151)
Firms maintaining operational continuity during the war			7.161**	(2.433)
Firm's age			-15.31***	(-3.225)
Firm's size			0.473	(1.015)
Industry fixed effect	No	No	Yes	Yes
Year fixed effects	No	No	Yes	Yes
Constant	3.432*	(1.738)	38.35**	(2.447)
N (Observations)	490		490	
Adjusted R-squared	0.009		0.128	
P- value model	0.1844		0.0000	

attributable to structural inefficiencies or diminished adaptability.

In addition, the impact of industry must be considered. It has been demonstrated that firms operating within specific industries exhibit considerable variance in terms of profitability. This finding indicates that sectoral disparities in responses to geopolitical shocks may exist.

This model underscores the pivotal function of governance and resilience in determining firm performance amidst geopolitical uncertainty. The enhancement of transparency and integrity in financial reporting is a key benefit of high audit quality. Additionally, it has been demonstrated that this quality can also increase the visibility of financial losses during crises. Operational continuity has been identified as a significant factor in achieving profitability, underscoring the necessity for resilience strategies in firms operating within conflict-affected regions.

## 5. Analysis

The findings of the second regression analysis present a paradoxical outcome: enterprises demonstrating higher audit quality are considerably impacted by the Russo-Ukrainian war, particularly in war-affected regions during the post-treatment phase.

The purpose of this study is to explore the potential reasons for this amplified impact on firms with higher audit quality.

Firms with higher audit quality **adhere to stricter governance and financial reporting standards, as required by IFRS**. While these practices enhance credibility and stakeholder confidence, they also require firms to fully disclose the financial impact of geopolitical shocks. This increased transparency has the potential to amplify the visibility of financial distress, resulting in a situation where firms appear to be more adversely affected than those with lower governance standards. This, in turn, may obscure or delay the reporting of losses. For instance, a company with robust audit practices is more likely to report impairments, write-downs and increased costs related to disrupted operations or supply chains, while a company with lower audit quality may underreport these impacts.

Firms with higher audit quality often **have stronger links to international markets and investors** due to their adherence to global standards such as IFRS. In the context of the Russo-Ukrainian war, these firms may encounter heightened scrutiny from international stakeholders, increased risk aversion from foreign investors, and disruptions in global trade or financing.

Higher audit quality signals **reliability and international compliance, attracting foreign investment prior to the crisis**. However, during a geopolitical conflict, these companies may experience

capital outflows or higher financing costs, as international investors reassess the level of risk.

High audit quality is often **associated with larger, more complex companies** that require detailed governance mechanisms. Such companies, which may operate across multiple geographies, supply chains or industries, are more vulnerable to the systemic effects of war. Consequently, supply chains crossing conflict zones or relying on logistics hubs affected by war are subject to disruption.

Companies with high audit standards are more likely to **reflect war-related losses** in their financial statements. This includes write-downs of inventory or investments that have been rendered obsolete or inaccessible due to geopolitical disruptions, as well as increased costs associated with relocating operations or securing alternative supply chains.

While these practices ensure accurate financial reporting, they may also exaggerate the apparent financial impact of the war compared to companies with lower audit quality.

Companies with higher audit quality are often **more dependent on equity or debt markets for financing**. During geopolitical crises, these markets usually become more volatile, which can lead to higher costs of capital or reduced access to funding. This dependency can exacerbate the negative financial impact of war on companies with high audit quality. For instance, during the Russo-Ukrainian war, companies in conflict-affected regions may be penalised by international and domestic capital markets, even those with robust governance, due to heightened geopolitical risks.

Higher audit quality often reflects **stronger governance**, including greater accountability to stakeholders such as investors, regulators, and creditors. During a crisis, these stakeholders may put additional pressure on companies to adopt costly resilience strategies, such as maintaining operations despite disruptions (e.g., paying higher logistics costs) or committing to employee retention or community support initiatives in conflict zones.

Although these measures improve long-term sustainability, they create short-term financial challenges that could have a significant impact on profitability during a crisis.

It can be concluded that, whilst ensuring transparency and comparability, IFRS compliance has the potential to exacerbate the financial impact of crises due to the strict nature of its valuation and reporting rules. As previously stated, the International Financial Reporting Standards (IFRS) mandate for companies necessitates the periodic reassessment of asset fair values. In periods of conflict, there is often a decline in asset values, and firms with superior audit quality are more likely to report these falls. Furthermore, the International Financial Reporting Standards (IFRS) stipulates the necessity for detailed provisions for

expected losses. Firms with robust governance are more likely to allocate resources to these provisions, reflecting higher short-term losses.

The heightened adverse effect on firms exhibiting superior audit quality can be ascribed to a confluence of factors, encompassing transparency, market exposure, operational intricacy and adherence to IFRS standards. While such practices enhance long-term sustainability and stakeholder confidence, they also render the financial consequences of war more visible, leading to a drastic short-term impact on profitability. These findings emphasise the dual nature of governance, which fosters resilience and credibility while simultaneously rendering companies susceptible to the full impact of external shocks.

Future strategies for firms with high audit quality should focus on balancing transparency with resilience measures. These measures could include diversifying operations, securing alternative financing options, and communicating effectively with stakeholders in times of crisis. Further research could examine the long-term advantages of good corporate governance in reducing the financial effects of geopolitical shocks.

## 6. Conclusions

This study uses International Financial Reporting Standards (IFRS) to provide insights into the profitability and resilience of Ukrainian companies during the Russo-Ukrainian war, highlighting the interplay between external uncertainties, governance practices, and firm-specific characteristics. The baseline regression analysis reveals that external uncertainties, such as operating in war-affected regions or experiencing geopolitical shocks, do not uniformly impact firm profitability. This emphasises the heterogeneity among firms and the importance of firm-specific strategies.

By contrast, the regression with the triple interaction highlights the pivotal role of governance, as assessed through audit quality, in shaping corporate performance. Firms with high audit quality demonstrate resilience and profitability under normal conditions thanks to good governance and transparency. However, these

firms face heightened financial challenges in war-affected regions during the post-war period. This paradox arises because, while robust governance enhances credibility, it also increases the visibility of financial losses through transparent reporting and International Financial Reporting Standards (IFRS) compliance, thereby exposing firms to heightened short-term scrutiny.

In the face of geopolitical uncertainty, operational resilience emerges as a critical factor. Companies that can maintain operations in the face of disruption tend to be more profitable, which highlights the value of adaptive strategies such as supply chain diversification, contingency planning, and innovation.

The findings have important implications for theory and practice alike. For policymakers, they emphasise the importance of promoting robust governance frameworks and International Financial Reporting Standards (IFRS) adoption to enhance the financial resilience and transparency of conflict-affected economies. Strengthening institutional support can help firms withstand shocks while maintaining stakeholder confidence. For companies, investing in audit quality and operational continuity is essential for effectively managing uncertainty. It is crucial to strike a balance between transparency and strategic flexibility in order to mitigate short-term impacts while ensuring long-term stability.

It is recommended that future research explore the interplay between governance, resilience and external shocks by incorporating variables such as innovation capacity, leadership and market competition. Further comparative studies across conflict zones and regulatory environments have the potential to enhance the understanding of governance practices and their impact on financial performance during crises.

The integration of general and conditional analyses in this study facilitates a nuanced understanding of governance and resilience in determining firm performance during geopolitical crises. It addresses lacunae in extant literature and provides actionable insights for policymakers and practitioners to enhance financial stability in conflict-affected regions.

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