

QUALITATIVE INSIGHTS INTO THE PROVISION OF FINANCIAL INFORMATION BY SMALL AND MEDIUM COMPANIES IN VIETNAM

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Abstract

Small and medium companies (SMCs) have a crucial role to play in the development of transitional economies but their financial reporting practices have been largely ignored. The study contributes to this research area by providing qualitative insights into the views of preparers and users on the provision of financial information of SMCs in the context of the transitional economy of Vietnam. Semi-structured interviews have been conducted with SMCs and their users of financial information. Using content analysis, the study concludes that there is an inadequate provision by SMCs in both quantity and quality of financial information. The lack of the company directors' awareness of the functions of accounting, the high frequency of regulatory changes and the lack of skilled accounting staff was seen as having a negative impact on the provision of financial information. The preparers also found it difficult to recognize the potential benefits obtained from enhanced external financial reporting. Audits were seen as infeasible in the SMCs not because of the cost of the audit but because of their perceived low quality. The results call for the revision of the traditional reporting frameworks in the context of the less developed reporting environment of transitional economies. SMCs also need to be more proactive to meet the financial reporting needs of the real economic users of their information rather than perceiving reporting as mere government compliance.

Keywords: financial reporting, small and medium sized companies, transitional economies, Vietnam

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1. INTRODUCTION

Small and medium sized companies are the main source of wealth creation and employment in transitional economies. Whilst a transparent financial reporting regime is essential for large and listed companies to operate in the business community, it is also just as important for smaller companies and other forms of business to compete, to access financial sources and to find partners for their growth and development. Unfortunately, little has been known about these issues. A review of the relevant literature has showed that much accounting research focuses primarily on large listed companies rather than smaller ones (John & Healeas, 2000; Collis, 2003) and is set in the context of developed rather than developing countries (Hopper & Hoque, 2004; Mirshekary & Saudagaran, 2005). Through focusing on the perceptions of the provision of SMC financial information in the transitional economy of Vietnam, this study makes a contribution to this under researched area.

This study employs a purely qualitative approach. A total of nineteen semi-structured interviews were conducted with SMCs and the external users of their financial information. Conceptual analysis is employed to identify and organize the themes arising from the data and relational analysis is also employed to assess the interrelationships amongst the conceptual categories. From the perceptions of both preparers and users of financial information, a model of the patterns of the factors affecting the provision of financial information is developed. Conclusions and implications of the study are then drawn based on this model.

The remainder of this paper is organized as follows. Firstly, a theoretical framework is introduced to provide a basis for the research. Secondly, the economic and financial environment in Vietnam is discussed to provide insights into the contextual features of the study. Thirdly, the research methodology and data collection are outlined. Finally, conclusions are drawn and implications for future research are discussed.

2. THEORETICAL FRAMEWORK

This study adopts the conceptual frameworks underlying three traditional reporting models¹ as the departure point for the research. According to these models, the conceptual framework of any reporting model is based on ‘decision-usefulness’ and ‘cost-effectiveness’ principles that a company “should produce the information that is useful for users in making economic decisions” (FASB, 1978, p.5). This statement has a significant influence on both the academic literature and the professional community (ICAEW, 2003).

It is surprising that while small and medium companies are crucial to the economic development in any economy, little research has been undertaken on their financial reporting practices (Hopper & Hoque, 2004). SMCs have often complained of their reporting burden due to the application of a reporting model that is primarily created for large and listed companies. This, together with the daily increase in the number of the small companies led to calls for a different reporting regime, known as the “big GAAP/little GAAP debate” (Harvey & Walton, 1996).

¹ The US Financial Accounting Standards Board (FASB, 1978), the International Accounting Standards Board (IASB, 1989) and the UK Accounting Standards Board (ASB, 1999).

The debate on differential reporting focuses on the distinctive organizational structure and ownership of smaller companies and the environment in which they operate. Unlike large firms, smaller companies have somewhat different objectives, motivations and actions (Storey, 1994; Jarvis *et al.*, 2000) and the separation of ownership and control is not common (Carsberg *et al.*, 1985; Marriott & Marriott, 1997). As a consequence, there is little delegation of control and the scope of users of small company financial reports is perceived as more limited (Chittenden *et al.*, 1990; Dang *et al.*, 2005). Agency theory, which is based on the relationship between the external shareholders (the principal) and the management (the agent), may not be considered appropriate. These arguments lead to a fundamental issue considered as highly relevant to small company financial reporting: ‘who should report what, to whom, and why?’ (Perk, 1993). This issue is also relevant for SMCs in transitional economies.

Financial reporting practices in transitional economies have some unique features compared to mature market economies (Bailey, 1995; Scheela & Nguyen, 2004). It is recognized that financial reporting practices in transitional economies have evolved as a response to many socio-economic domestic factors, including the level of economic development, the legal and regulatory system, educational and professional infrastructure, colonial heritage and history and culture (Saudagaran & Diga, 2003; Kosmala-MacLulich *et al.*, 2004). According to Bailey (1995), the institutional arrangements and legal and regulatory frameworks in transitional economies are ‘either absent or, if in the course of creation, functioning ineffectively’ (p.603). As a result, government agencies such as tax authorities dominate the financial reporting requirements imposed on companies. The participation of the private sector in financial reporting regulations is therefore quite limited (Saudagaran & Diga, 2000). Accounting activities, especially in smaller companies, are more concerned with legal compliance than economic relevance. While financial reporting is a highly regulated area, the legal and regulatory framework in transitional economies is “limited in scope and is expressed in loose and general terms” (Abu-Nassar & Rutherford, 1996, p. 74). Therefore, smaller companies are also often notorious for poor or even no accounting records (UNCTAD, 2000) which make it difficult for information users to assess risks and future returns and therefore create funding problems (Lloyd-Reason *et al.*, 2000), competitive disadvantages and higher failure rate (UNCTAD, 2000).

3. ECONOMIC AND FINANCIAL REPORTING ENVIRONMENT OF VIETNAM

Vietnam is a medium sized country located in the South East region of Asia with a population of more than 80 million. The country has been known to embrace a successful economic reform to a market economy in recent years. The reform, known as Doi Moi (revolution) emphasizes gradual transition from a centrally planned economy to a market economy with economic restructuring to come before privatization (Montes, 2001). In the transition process, the private sector is supported as a vital component of the economy (Webster, 1999) and SMCs, defined as independent companies with less than 300 employees or registered working capital of less than 10 billion VND (equivalent to £350,000) (VietnamGov, 2001), are considered one of the key generators of job creation and economic growth (UNIDO, 2000) and to protect Vietnam economic independence (UNDP, 2002). Compared to

neighbouring countries like China or other ASEAN countries, SMCs in Vietnam are relatively few in number (Warner, 2000; Scheela & Nguyen, 2004). However, they have to face similar significant challenges such as limited business skills and an inadequate and underdeveloped institutional infrastructure (Webster, 1999; Scheela & Nguyen, 2004). More importantly, SMCs in these economies lack a transparent reporting regime, which is essential to help them access more financial resources for their growth and development (ADB, 2001).

Financial reporting practices in Vietnam have experienced radical changes as a response to the requirements of economic growth and global harmonization. The changes in the accounting and financial system is influenced by accounting models of countries having strong military, social or trade links with Vietnam (ADB, 2001). From 1969 to 1989, Vietnam's accounting system adopted the socialist accounting models of China and the former Soviet Union. In the 1990s, the accounting system was influenced by the US and then Western models. From 1995 to 1998, the European Union Project (EUROTAPVIET) had a great impact on the revolution of the accounting system. The Enterprise Accounting System (MoF, 1995) and the Accounting System for Small and Medium Sized Enterprises (MoF, 1996) were introduced as the first steps to recognize the private sector as a subject of economic transactions. However, unlike US or UK General Accepted Accounting Principles (GAAP), both accounting systems resemble a bookkeeping manual rather than a collection of concepts and principles and are driven by taxation and state enterprises rather than free market forces (Yang & Nguyen, 2003). The systems are identical to the Chinese accounting systems (see, Lin & Feng, 2000) and very similar to those of Eastern European countries (i.e., Rolfe & Douppnik, 1995). Recently, the Law on Accounting and the National Accounting Standards (MoF, 2002), which comply mostly with International Accounting Standards (IAS/IFRSs), have recently been issued and are intended to be applied in all enterprises, stimulating an increase in the volume and complexity of accounting regulations imposed on SMCs.

4. METHODOLOGY

This study adopts a pure qualitative research method. The qualitative research design is in the form of inductive naturalistic inquiry and is part of the conceptualizing process, namely grounded theory (Glaser & Strauss, 1967; Strauss & Corbin, 1998) or conceptual framing (Llewelyn, 2003). The rationale for the choice of a qualitative approach stems from the nature and context of the study. According to Cassell & Symon (1994), qualitative research is used in the context of the research matter in terms of how and why it occurs and when the research phenomena is emergent rather than prefigured. This study deals with both cases. Firstly, since the study is exploratory in nature, a qualitative approach is needed to provide in-depth evidence. Secondly, since there is a lack of an adequate theoretical framework for small company financial reporting in Vietnam, a qualitative approach, namely grounded theory, is considered as the optimal method to construct a new theory. Furthermore, unreliable economic data and the problems in administering surveys in transitional economies (Hopper & Hoque, 2004) also make quantitative methods impractical at this stage of any research investigation.

Two question guidelines were designed to fit the context of the interviews [Appendix B is provided for reviewers' use]. Semi-structured questions were used in one-to-one personal interviews since they enable flexibility in interview design and conduct, resulting in a rich data set for subsequent analysis (Horton *et al.*, 2004). The interviews commence with general questions regarding issues relevant to the participants. The purpose of these questions is to reduce the risk of response bias and allows the participant to freely answer the questions (Bedard & Gendron, 2004). Follow up questions were then used to guide the participants through major relevant themes identified in the literature. Table 1 shows these themes.

INSERT TABLE 1 ABOUT HERE

The question guidelines were sent to accounting academics and other academics in related disciplines to obtain the face validity of the questions. In addition, each question was revised after each interview to enhance the meaning of the questions. A format of financial statements (MoF, 1996) including a current balance sheet, an income statement and a cash flow report was also used for the respondents' specific comments.

Two samples of respondents were then collected. The first sample was of the directors and accountants of SMCs (n=59) and the other was of the external users of financial information (n=36). The sample of external users of information was based on a list of commercial banks, local tax departments and statistics offices from the Yellow Pages 2004 published by the Vietnam Communications Corporation. Copies of an introductory letter explaining the purpose, content and method of interviewing was sent to all twenty two relevant banks and government offices in Hanoi. The contacts resulted in nine agreements to take part in the research and finally eight interviews were completed.

The sampling process of SMCs was more difficult. Several official statistics sources, including the databases of Ministry of Planning and Investment (MPI), the General Statistics Office (GSO), the Vietnam Chamber of Commerce and Industry (VCCI) and Yellow Pages were taken into account. However, the first three sources generated incomplete or out-of-date information. Finally, the list of 366 companies in Hanoi Yellow Pages 2004 seemed to be the optimal choice since each company in the list had a complete profile including name, address, telephone number with some details of major managers and accountants. Another advantage of this list was that the data was considered as the most up-to-date source. One drawback of the list was that the profile did not include information about the size of the business. However, since over 95% percent of non-state enterprises are small and medium (GSO, 2004), this list was considered to be a suitable sampling frame.

A random sample of companies was then selected by choosing every fifth enterprise in the list of SMCs. The process generated a smaller sample of 74 companies which was regarded as feasible for interviewing. All companies were then contacted via telephone for interview agreements. Most of the initial contacts produced no results because of a variety of reasons: the companies had exited from the market; the interviewees were too busy or not interested in the study. Some interviewees offered appointments, but then changed their mind. Finally, eleven interviews with the

directors and accountants of SMCs were conducted. The profiles of respondents are provided in Appendix A.

It was clear that the response rates of the interviews were low (15% in the sample of SMCs and 36% in the sample of users). However, this was expected if compared to similar qualitative studies in developed countries (i.e. Templeman & Wootton (1987) (12%); Fillis, Johansson and Wagner (2004) (15%)). One reason for the low response rate was that this type of study is uncommon in Vietnam: all the respondents said that it was the first time they had participated in research of this type and some of them also requested significant details about the interviewer before they agreed to be interviewed.

All interviews were carried out in two time periods, from January-February and from May-June 2005. Table 2 gives an analysis of the respondents.

INSERT TABLE 2 ABOUT HERE

Since all interviews were conducted with local people, Vietnamese was used as the only language in the interviews. All interviews were recorded with the respondents' permission to facilitate later analysis. For the purpose of interview analysis, the content of the interviews was transcribed into text documents, which were then translated from Vietnamese into English. The translation was reviewed by an independent, bi-lingual researcher to verify the accuracy of the translation.

Content analysis was employed to analyze the qualitative data. Two types of content analysis, namely conceptual analysis and relational analysis were used. The analysis used the process of conceptual framing conducted by a three-phase approach: data reduction, data display and conclusion drawing and verification (Miles & Huberman, 1994). All interview transcripts were coded with the assistance of qualitative software (Nvivo). The coding process was not only for summarizing segments of data, but also a way of grouping those summaries into a smaller number of sets, themes or constructs. The coding process helped to construct coding models, also known as coding frames (Strauss, 1987; Berg, 2004). This feature facilitates the use of relational analysis to identify the interrelationships amongst the themes arising from the interviews. Table 3 shows these interrelationships and the analysis that follows provides a deeper insight into the views of the respondents.

INSERT TABLE 3 ABOUT HERE

5. THE VIEWS OF THE PREPARERS OF FINANCIAL INFORMATION

5.1. The scope of the provision of financial information by SMCs

Statutory pressure was seen as having a profound impact on the scope of the provision of financial information. All eleven companies said that tax authorities and other government agencies were the main users of their financial statements. Four companies also stated that they also sent their financial statements to the banks. The information provided to users included the balance sheet, income statement and the notes to the financial statements. Although cash flow statements are also required in the legal documents, only two out of the eleven companies interviewed said that they

provided the cash flow statement to users. Those not providing cash flow statements to external users also did not prepare the cash flow reports for internal purposes. The reason for not providing the cash flow information was that they had no specific requests from users or that they did not see any benefits for the external users in using cash flow information. Four companies said that they did not know how to prepare cash flow reports.

“Our reporting system is simple and we continue to learn... we do not prepare the cash flow reports... preparing a cash flow report is too difficult for me... Anyway, they [the government agencies] do not require this report.” (CA (4))

“If I need to know the information about my cash [flows] I could ask [the accountant] for information, there is no need to make a [cash flow] report.” (OM (5))

The changes in accounting regulations were perceived as having a negative impact on the provision of information. It is interesting to note that while the complexity of financial regulations keeps increasing with a view to facilitate better financial reporting practices, this was perceived as having a negative impact on the reporting practice of the companies interviewed. All the accountants in the SMCs regarded the high frequency of regulatory changes as costly and made it difficult to adjust their accounting systems.

“I think every enterprise has concern about the [accounting] regulations. For example, the accounting and tax policies keep changing every month. We cannot keep up with these changes... when the regulations on accounting methods changes, we have to call technicians to adjust our [computer] systems and that requires a lot of time and money.” (CA (1))

As the complexity of accounting regulation increases, a lack of skilled accountants was seen as one of the main obstacles to the financial reporting in SMCs. Nine out of the eleven companies said that they needed more experienced and skilled accountants. The accountants with merely bookkeeping skills were of little value to their management.

“My accountants sometimes do not understand what I need or what I want them to do.” (OM (1))

“They do not meet our requirements on financial budget and analysis and investment... I need more advice on our liabilities and on when and how much I should pay.” (OM (6))

All companies said that they would like to have more choices on recruiting suitable accountants. However, it was difficult for them to find a better choice due to the lack of “accounting labour markets” and underdeveloped accounting profession (see also, Jaruga, 1979; Adams & McMillan, 1997). The evidence tended to support the findings of Han & Baumgarte (2000) that small businesses often find it difficult to find suitable skilled employees to grow and develop the company.

It is interesting to note that information and communication technology (ICT) was not seen as a major obstacle to the preparation and provision of financial information in the SMCs interviewed. Seven out of the eleven companies contended that they used computers for accounting purposes. The others said that they intended to use computers in the near future.

5.2. The directors' financial management skills

The financial skills of the directors were seen as having a negative influence on financial reporting by SMCs. Eight out of the eleven companies reported inadequate management and financial skills among the directors. The directors in these companies said that they were not familiar with analysing skills to interpret accounting information themselves. As a result, the directors said that financial information was also seen as of little benefit to them.

“I am not sure that I understand it properly because some reports are quite complicated and sometimes I do not have time to read them thoroughly...they [the reports] are not helpful”. (OM (1))

The low financial skills of the directors tended to affect their capabilities to manage their businesses and to offer more valuable information to the external interested parties. The directors said they had to rely heavily on their own perceptions to make economic decisions.

“Actually I do not understand the accounting information very well, so I have to keep everything in my head in order to make my plan and to control my business. It depends on my feelings in specific circumstances.” (OM (1))

The close relationship between the managers/directors and their business was seen as a factor affecting the directors' awareness of the accounting function. The director said that their frequent presence at business was more valuable than accounting information.

“I think that I can handle everything without the assistance of the accountant... because I am here all of the time.” (OM (4))

5.3. The desire for external finance

External financial resources were always seen as important to the growth of all the SMCs interviewed. However, it was also reported that financial information was not helpful for SMCs to access external financial sources. Amongst the companies having external sources of finance, one obtained loans solely from private lenders, two obtained loans solely from banks and four from both banks and private lenders. The directors of the companies having bank finance said that there was a conflict between the banks and their companies in the evaluation of the financial indicators in the financial statements.

“There are some disagreements between our company and the banks on some criteria in the financial statements... such as depreciation...or interest charges.” (OM (3))

Security was always seen as an alternative for communication of information. The directors said that collateral secured the success of their loan applications even if their financial statements were not available or not complete. However, as Deakins & Hussain (1994) suggest, collateral also causes problems for small companies. The following example illustrates the issue.

“The banks usually try to avoid risks by requiring collateral, but we do not have appropriate properties...I was assigned to use this house a long time ago but I have not received documents to prove my ownership. Therefore, I cannot use it as collateral for our business loans.” (OM (4))

Those having finance from private lenders said that the reason for approaching this source of finance was that the lending procedures were much less complicated and in some cases, only personal commitment was needed. This evidence tends to support the findings of previous studies (for example, Hoang, 1993; Han & Baumgarte, 2000) that small businesses have negative perceptions about the complex procedures incidental to their loan applications.

Amongst the companies that have external sources of finance, there were positive relationships between the desire for external finance and the form and amount of the financial information provided. In these cases, alternative forms of financial reporting such as direct contacts and the use of interim/special reports were also seen as having a positive impact on the provision of information. Those companies sending their financial statements to their banks reported that alternative methods of communication were a key factor in improving the relationship between the banks and the companies. However, the relationships were considered as weak because a considerable number of the companies (4 out of the 11) did not have external finance. In addition, both directors and chief accountants said that the use of these methods relied heavily on their own experiences in dealing with finance providers. Bribery was also mentioned as a way of accessing finance.

“In order to access financial sources, you should have [illegal] personal relationships with credit officers... the legal regulations on corrupt business activities are not restrictive enough to prevent it. Therefore, these types of relationships are still common.” (OM (4))

5.4. Cost-benefit considerations

A relationship was found between cost-benefit considerations and the provision of information. In all eleven SMCs, the directors and chief accountants recognized the costs incurred by their accounting systems. However, they also said that it was difficult for them to recognize the benefits from the provision of information. The impact of cost-benefit considerations on the preparation and provision of financial information therefore was seen as limited.

“I do not know. I hope that the benefits should exceed the costs.”
(CA (3))

“There are some items of expenses incurred in the preparation of financial statements such as the wages of accountants, software license and maintenance, fixed asset depreciation and some petty cash expenses, but I do not know how to compare [the costs] with the benefits.”(OM (2))

“I think that the only benefit I have from the provision [of financial information] is to fulfil the requirements of the tax laws... However, it is no benefit for me because they [the tax authorities] use the reports to get my money.” (OM (7))

5.5. The perceptions of the role of audit and accounting standards

There was also a positive relationship between the choice of using audit and the provision of financial information. Generally, all SMCs recognised the positive role of the auditor’s reports to improve the quality of financial information. However, only two out of eleven SMCs use audit services. Therefore, the relationship was perceived as weak. Furthermore, the concern regarding the quality of audit was also found.

“The [the auditor’s] recommendations are general and not very helpful. They do not give us specific recommendations on financial and management issues. Their function is just to verify the accounting process and data.”(OM (3))

In contrast to the findings in Keasey *et al.*, (1988), the study found that the demand for and the use of audit was the perceptions of the service quality rather than the cost rationale. The evidence tends to support the findings of Collis *et al.*, (2004) that the perceptions of the directors about the value of the audit were significant in the choice of using audit services. All of the SMCs also said that they were not familiar with national accounting standards and had a little understanding about them.

6. THE VIEWS OF THE EXTERNAL USERS OF INFORMATION

6.1. SMCs’ responses to the demand of financial information

There was a general consensus amongst the views of the external users about the inadequacy of the financial information provided by SMCs. All eight users said that the balance sheets and income statements accompanied by the notes to financial statements were most frequently used. However while the users considered that the information of cash flows and business plans was important, this information is not normally available.

All users mentioned the statutory submissions specified by law as the main method of access to information. Consistent with the views of the preparers, the users also addressed alternative methods of information communication: issuing an alternative format of financial reports and conducting direct contacts with the companies.

“We have our own format of interim reports...consisting of some basic criteria such as the revenues, account receivables/payables, inventory, the owner’s equity and profit margin... Another way to reduce risk in lending is that we have frequent direct contact with them [clients]”. (BL (2))

“I send a format to the companies to collect responses from them...I also pay visits to companies to check their accounting books and reports.” (SO (3))

6.2. The perceptions about the quality of financial information

The main concern of the users was that the information provided by SMCs was of low quality. Financial information was seen as unreliable and out of date. Seven out of the eight users said that the financial background of the owner/directors had a positive impact on the quality of information. However, the financial awareness of the directors was seen as variable, largely depending on their business experience and education. The current low capability of accountants and the influence the directors have over what is reported was perceived as having negative effects on the quality of information.

“I think there are two reasons. Firstly, the capability of accountants [in preparing the reports] in these companies may be low. They cannot prepare a full set of financial statements properly, so they just submit what they can. Secondly, even if the accountant can prepare the financial statements, they have to follow the instructions of the owner/directors of the company...I think that at least about 60-70 percent make a profit, but they will report a loss...” (SO (1))

“Some companies choose to use tax officers and retired government officers to prepare the reports for them. On the one hand they would like to have good relationship with the tax officers. On the other hand they would like to avoid problems arising from reporting accounting data...Therefore, their accounting books and ledgers are not clear and systematic” (FA)

The income statements were seen of little value with the profit margin perceived to be the most unreliable measure. Except for the tax authorities, all other users had to request more frequent reports.

“Now it is very common that each company maintains two parallel recording systems, one is used to submit to government agencies and the other...reporting the real profit figures... for management uses. (BL (2))

The reported revenue is only 30 to 40 percent of the real revenue...and the financial statements do not arrive for three months... (SO (2))

The reason for the late provision of reports was discussed. The most prominent cause was that the time allowed for submission was too long and the approval process performed by the tax authority was too slow.

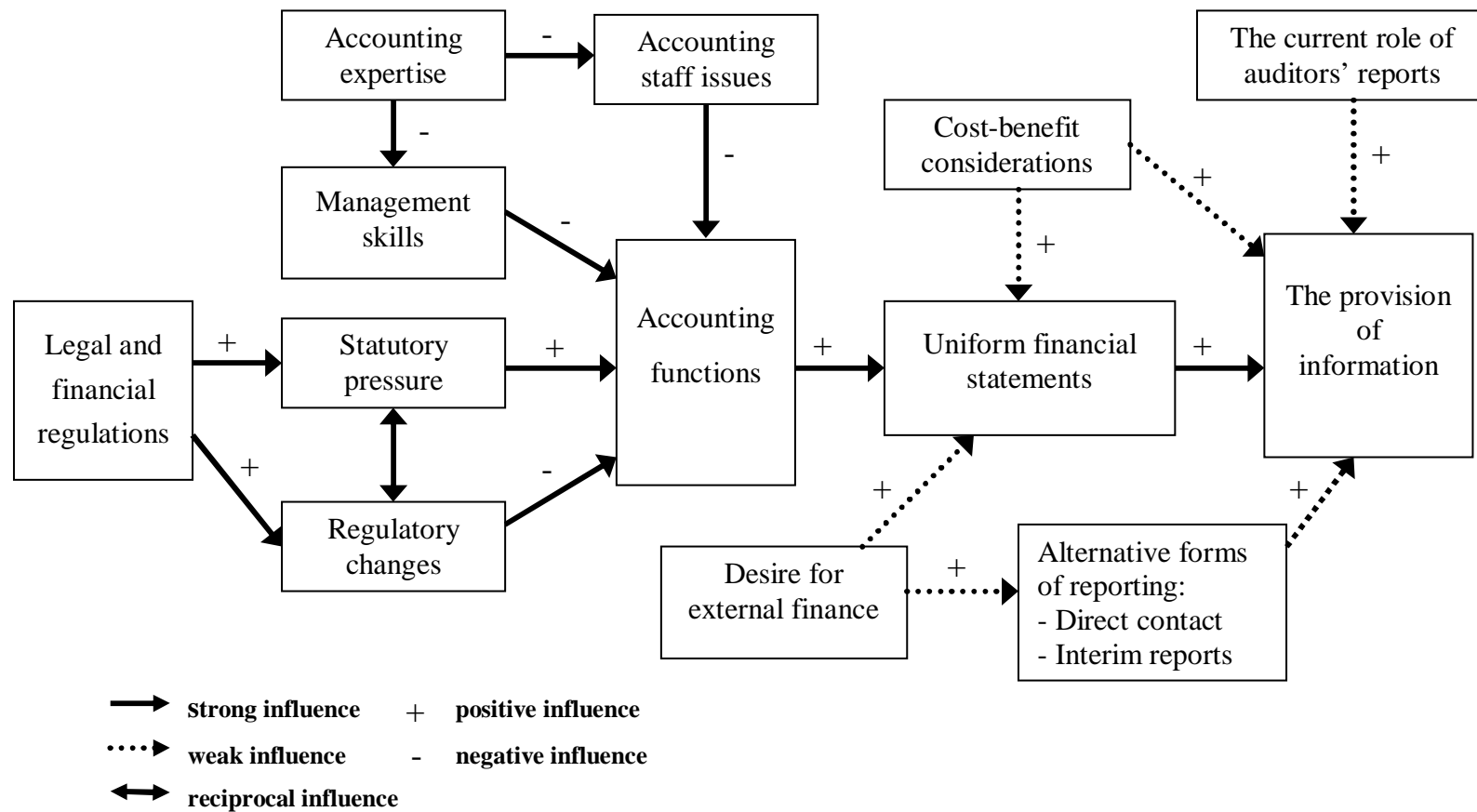
“The number of financial statements submitted to the tax offices is huge, far exceeding the capacity of the tax officers.” (SO (2))

6.3. The perceptions of role of the audit report

Most of the users (7 out of 8) said that they did not receive an audit report on the accounts of SMCs. This tended to support the views of the preparers that the audit was seen as not appropriate to SMCs. When the users were asked about the alternative role of accountants in providing a statutory audit, most of them (7 out of 8) said that this was infeasible since it was not a legal requirement. However, the accountants were seen as having the potential to add value to the financial information.

From the views of the preparers and users of financial information, a model of the patterns of the factors affecting the provision of financial information is developed to facilitate the conclusion drawing and verification. Recognizing that network displaying is effective in showing the interrelationships amongst concepts (Miles & Huberman, 1994), this approach was chosen to depict the model. The model construction is a process of displaying and merging the conceptual categories and the interrelationships among them in a single causal network. Figure 1 depicts the model.

Figure 1: Model of the patterns of the factors affecting the provision of information



7. CONCLUSIONS

This paper reports the findings of an exploratory study analyzing the perceptions of the provision of the financial information of SMCs in the transition economy of Vietnam. The study is based on a qualitative interview survey conducted with both SMCs and users of their financial information.

Using the general conceptual frameworks of traditional reporting models, the study found the SMCs had a very limited number of users of their financial statements and there is an inadequacy in the provision of financial information of SMCs. Whilst cash flow information and business plans were important for the users, these were not included in the provision of SMCs. Statutory pressure was the main driver of the provision of the financial information. However, the high frequencies in changes of accounting regulations negatively affect the preparation and provision of information. Confirming the findings of Abu-Nassar & Rutherford (2001), the study found that the overall level of provision of financial information is poor. This calls for a revision of the traditional frameworks for financial reporting in the context of SMCs in transitional economies.

Extending the findings of previous studies, the study concludes that the directors' perceptions about financial reporting functions play a crucial role in increasing the quality and frequency of the provision of financial information. However, the lack of skilled accounting staff and the low awareness of financial skills among the directors had a negative effect on the quality of information provided. Whilst the main concern of the users was the poor quality of information, this was not recognized by the SMCs interviewed. The preparers also found it difficult to recognize the benefits they might receive from the provision of information. The audit was seen as having a limited role in the provision of information due to its low quality and the small size of the companies.

It is interesting to note that apart from traditional information provision in financial statements there exists informal channels of financial information exchange between the SMCs and their users of financial information. Some alternative forms of information communication between users and reporting companies have been identified, but their informality and infrequency make them an imperfect replacement.

Based on a model developed from the views on the factors affecting the provision of financial information of SMCs, the study concludes that there is an inadequacy of the provision of financial information in the under regulated reporting environment of Vietnam. The company therefore has to be more proactive to meet the needs of the real users of their financial statements rather than merely meeting government compliance if they are to survive and grow in the rapid changing environment of transitional economies.

Since the study focuses on a relatively small sample of the SMCs and the users of financial information, the generalisability of the research findings is restricted. This provides a basis for the need for further research, especially appropriately designed quantitative studies, to be conducted to verify the findings of this study.

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Table 1

Major themes for the provision and uses of the financial information of SMCs

| The provision of information by SMCs | Users' needs and uses of financial information |
|---|---|
| <ul style="list-style-type: none"> ▪ Organizational and ownership structure ▪ Business prospects ▪ Recipients of financial reports ▪ Purposes of the provision of information ▪ Provision of information other than information in financial statements ▪ Information that should not be provided in financial statements ▪ Perceptions about information quality ▪ Cost-benefit considerations ▪ Perceptions about the role of audit and accounting standards ▪ Uses of information for management purposes ▪ Uses of financial information of other businesses ▪ Recognition and measurement in financial reports ▪ Perceptions about the role of auditors' reports and accounting standards | <ul style="list-style-type: none"> ▪ Perceptions about the users of information ▪ General needs for information ▪ Purpose of using information ▪ Experience in dealing with financial statements ▪ Time spent reading financial statements ▪ Perceptions of relevance of the sections of financial reports ▪ Access to information ▪ Frequency of usage ▪ Level of understanding of information ▪ Perceptions about information quality (reliable, relevant, timely, comparable) ▪ Other sources of information ▪ Cost-benefit considerations ▪ Perceptions about the role of auditors' reports and accounting standards |

Table 2

Respondent rates of the sample of the information users and SMCs

| Users | Code* | No. contacted | No. responded | % responded |
|---------------------------------|-------|------------------|------------------|----------------|
| I. SMCs: | | | | |
| Chief accountants | CA | 15 | 4 | 21 |
| Owner/directors | OM | 59 | 7 | 36 |
| II. Users of information | | | | |
| Bank credit managers | BL | 8 | 2 | 10 |
| Financial advisors | FA | 3 | 1 | 5 |
| Tax officers | TA | 7 | 2 | 10 |
| Statistics officers | SO | 4 | 3 | 15 |
| Total | | 96 | 19 | 100 |

* These codes are used in sections 5 and 6 to classify the types of respondent

Table 3

The interrelationships between factors affecting the provision of financial information of SMCs

| Outcomes | Preparers' assessment | | Users' assessment | | Related categories |
|--|-----------------------|--------|-------------------|---------|--|
| | Relation | Freq.* | Relation | Freq.** | |
| The provision of information | ++ | 11 | ++ | 8 | Uniform format of financial statements |
| | + | 5 | ++ | 5 | Alternative forms of reporting |
| | + | 4 | NA | NA | Cost-benefit considerations |
| | + | 3 | - | 1 | The current role of audit |
| Uniform format of financial statements | ++ | 11 | NA | NA | Accounting functions |
| | + | 3 | NA | NA | Cost-benefit considerations |
| Alternative forms of reporting | + | 2 | NA | NA | Desire for external finance |
| Accounting functions | -- | 9 | - | 2 | Accounting staff issues |
| | -- | 4 | -- | 5 | The role of the directors*** |
| | ++ | 11 | ++ | 8 | Statutory pressure |
| | -- | 6 | NA | NA | Regulatory changes |
| | + | 2 | NA | NA | Desire for external finance |
| The role of the directors | - | 4 | - | 3 | Accounting expertise |
| Regulatory changes | ++ | 6 | NA | NA | Legal and financial regulations |
| Accounting staff issues | -- | 9 | NA | NA | Accounting expertise |
| Statutory pressure | ++ | 11 | ++ | 8 | Legal and financial regulations |
| Quality of information | NA | NA | -- | 7 | The role of the directors |
| | NA | NA | + | 4 | The role of accountants |

* Total number of SMCs: 11

** Total number of external users: 8

*** Total number of respondents exclusive of the directors (preparers:11-7=4; external users: 8)

++ strong positive relationship

+ weak positive relationship

-- strong negative relationship

- weak negative relationship

Appendix A

Profiles of interview respondents

| No. | Location | Position | Type of business/institutions | Code used |
|-----|--------------------------|--------------------|--------------------------------------|-----------|
| 1 | Dong Da Dist, Hanoi | Director | Electrical equipment Traders | OM (1) |
| 2 | Hoan Kiem Dist, Hanoi | Director | Electrical Office Equipment Traders | OM (2) |
| 3 | Dong Da Dist, Hanoi | Vice Director | Plastic Card Manufacturers | OM (3) |
| 4 | Ba Dinh Dist, Hanoi | Director | Coal Manufacturers | OM (4) |
| 5 | Hai Ba Trung Dist, Hanoi | Director | Speaker Case Manufacturers | OM (5) |
| 6 | Hoan Kiem Dist, Hanoi | Vice Director | Computer and Software Traders | OM (6) |
| 7 | Tay Ho Dist, Hanoi | Director | Electronic Catalogue Manufacturers | OM (7) |
| 8 | Dong Da Dist, Hanoi | Chief Accountant | Commercial Gifts Traders | CA (1) |
| 9 | Dong Da Dist, Hanoi | Chief Accountant | Textile Product Manufacturers | CA (2) |
| 10 | Dong Da Dist, Hanoi | Chief Accountant | Medical Equipment Traders | CA (3) |
| 11 | Hoang Mai Dist, Hanoi | Chief Accountant | Photography, Decoration and Graphics | CA (4) |
| 12 | Ba Dinh Dist, Hanoi | Finance Director | Consultant on Accounting and Finance | FA |
| 13 | Ba Dinh Dist, Hanoi | Credit manager | Banks | BL (1) |
| 14 | Hai Ba Trung Dist, Hanoi | Credit manager (2) | Banks | BL (2) |
| 15 | Dong Da Dist, Ha noi | Chief tax advisor | Taxation | TA (1) |
| 16 | Dong Da Dist, Ha noi | Tax officer | Taxation | TA (2) |
| 17 | Hoan Kiem Dist, Ha noi | Vice Director | Statistics | SO (1) |
| 18 | Hoan Kiem Dist, Hanoi | Chief advisor | Statistics | SO (2) |
| 19 | Cau Giay Dist, Ha noi | Statistics officer | Statistics | SO (3) |

Appendix B

[This appendix is included for reviewers' use only. However, it is also available to other interested parties by contacting the authors of the paper]

Semi-structured questions

(These questions were used as guidelines for the interviews with owner-managers and accountants of SMCs)

The SMCs' preparation and provision of information to users

A. General questions

Could you tell me about your business?

- Age of business/size of business/industry/future prospects
- Ownership & management structure
- Factors affecting the business activities

B. The provision of information to users

What information do you provide to the external users?

- The recipients of company financial information
- Information provided to users
- Purpose/ frequencies
- Other information.
- The means of information communications

C. The cost-benefit considerations of the provision of information

What do you think about the relationship between the costs and the benefits of your provision of financial information?

- Costs/benefits
- The relationship - overweigh? Why?

D. Uses of information by owner-managers (for owner-managers only)

What information do you need to manage your business?

- Uses of financial information to manage business.
- Purposes/frequencies of uses
- Other information? Information of other businesses?
- The role of accountants

E. The views on recognition and measurement of the items in the financial statements (for accountants only)

What do you think about the recognition and measurement principles?

- Regulation changes?
- Managers' usage of the information.

F. Perceptions about role of auditors and the national accounting standards in financial reporting practices of SMCs

What do you think about the functions of the audit report?

- Useful? Willing to use the audit service

What do you think about the role of national accounting standards?

Semi-structured interviews

Semi-structured questions

(These questions were used as guidelines for the interviews with users of information)

(Extracted from the question guidelines used to investigate the users' needs and uses of financial information of SMCs)

B. General needs for financial information

What information about SMCs do you need to do your job?

- The needs for financial information
 - Sources of information
 - Other information
 - Purposes/frequencies of using the information
-

D. Access to and uses of information

How do you access to the financial information of a SMC?

- Who provide? Available?

How do you use the information?

- Use of information/What information? Frequencies?
 - Concern in using information?
 - Useful? Understand?
 - The amount of information/Overload? Why?
-

F. Perceptions about the audit report and the role of accountants?

What do you think about the role of the audit report?

- How useful is the auditors' report?
- The role of accountant?

What do you think about the role of the national accounting standards?
