RESEARCH OVERVIEW ON THE IMPACT OF FACTORS ON THE QUALITY OF INFORMATION ON FINANCIAL STATEMENTS OF SMALL AND MEDIUM ENTERPRISES IN VIETNAM

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Abstract: ***This study investigates factors influencing financial reporting quality in Vietnamese SMEs, crucial for economic growth and stakeholder confidence. The research addresses gaps in understanding complexity, environmental influences, and unique organizational characteristics impacting reporting accuracy, reliability, and transparency. To have a comprehensive overview, the article applies a systematic literature review method with some articles selected from the Scopus database based on specific criteria of the PRISMA process. In addition, some relevant studies in Vietnam are also used to provide specific perspectives for Vietnam. This study contributes a nuanced understanding of drivers affecting financial reporting quality in Vietnamese SMEs. The findings offer practical implications for policymakers to enhance standards and promote economic growth. Addressing complexities within a Vietnamese framework helps to strengthen SMEs while establishing a strong accounting environment.***

• Keywords: *financial statements, quality of information, small and medium enterprises, Vietnam.*

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1. Introduction

The crucial role of Small and Medium-sized Enterprises (SMEs) in Vietnam's economic landscape is undeniable. This paper investigates the factors influencing the quality of financial reporting within these SMEs, acknowledging that accurate and reliable financial statements are critical for informed decision-making by various stakeholders and for sustaining the growth of this vital sector. Extensive research, both globally and within Vietnam, has focused on identifying factors that affect financial reporting quality. This introduction reviews seminal works in the field to highlight the current state of knowledge and to underscore the need for further investigation within the Vietnamese SME context.

Early research by Jonas and Blanchet (2000) emphasizes the importance of developing comprehensive frameworks for assessing the quality of financial statements. The need for an understanding of the information has been expressed in terms of factors like relevance, reliability, comparability, consistency, and clarity. Other authors such as Nelson and Skinner (2013) highlighted accuracy and completeness as critical characteristics of the information quality.

However, the study of van Beest et al. (2009) focused on measuring the quality based on the viewpoint of the organization like FASB and IASB. The authors developed 21 factors that cover presentation, comprehensibility, comparability, and timeliness. Within Vietnam, researchers have investigated factors specific to the local context. In particular, Nguyen Thi Phuong Hong and Duong Thi Khanh Linh (2014) examined the measurement of financial reporting quality in Vietnamese enterprises using the comprehensive characteristics of the information published by the IASB and FASB. Another study by Doan Thi Hong Nhung and Vu Thi Kim Lan (2014) focused on constructing a process for assessing the quality of financial reporting in Vietnamese enterprises. Nguyen Trong Nguyen (2016) also looked into the governance in SMEs affect the financial report. While existing studies provide valuable insights, gaps remain. More research is needed to identify more factors affecting financial reporting quality and examine in more details. This paper aims to address this need by examining the impact of specific factors on the quality of financial reporting in Vietnamese SMEs. By focusing on the unique context of these enterprises, this research seeks to provide actionable insights for improving the reliability and utility of financial reporting in this critical sector of the Vietnamese economy.

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2. Literature review

2.1. Theoretical foundations and conceptualizations of financial reporting quality

The pursuit of defining and achieving quality in financial reporting has been a long and intricate journey, marked by evolving conceptual frameworks and rigorous empirical investigations. For decades, academics, standard-setters, and practitioners have grappled with the challenge of identifying the essential characteristics that make financial information not just compliant, but truly useful and trustworthy for a diverse range of stakeholders. The significance of this endeavor lies in the fundamental role financial reporting plays in capital allocation, investment decisions, and the overall stability of the financial system. When financial reporting is of high quality, it fosters trust, reduces information asymmetry, and ultimately contributes to more efficient markets. Conversely, poor quality can lead to misallocation of resources, investor distrust, and potentially even systemic risk.

Early contributions to the debate, exemplified by the work of Jonas & Blanchet (2000), emphasized the need for comprehensive frameworks that acknowledged the multifaceted nature of quality. They moved beyond a simplistic view of compliance and instead advocated for a holistic understanding encompassing several key elements: relevance, reliability, comparability, consistency, and clarity. These were not seen as independent attributes, but rather as interconnected components that collectively contribute to the overall quality of financial information. Relevance, for instance, ensures that the information is capable of influencing users' decisions, while reliability guarantees that the information is free from material error and can be depended upon. Comparability allows users to assess the performance of different companies, and consistency ensures that the same accounting principles are applied over time, facilitating trend analysis. Finally, clarity is paramount, ensuring that the information is understandable to reasonably informed users. Jonas & Blanchet's contribution was pivotal in setting a benchmark against which subsequent research and reporting practices could be evaluated, underscoring the need to move beyond mere regulatory compliance and focus on the genuine utility of financial statements.

Building on this foundation, Nelson and Skinner (2013) delved deeper into the specific characteristics that drive perceptions of information quality among data users. Their research, based on a survey, provided empirical evidence supporting the notion that accuracy, completeness, and understandability are critical determinants of perceived quality. Accuracy, of course, refers to the degree to which the information reflects the underlying economic reality. Completeness ensures that all relevant information is presented, preventing misleading omissions. Understandability, again, highlights the importance of clear and concise communication, making the information accessible to a wide range of users, from professional analysts to individual investors. The strength of Nelson and Skinner's work lies in its user-centric approach. By directly surveying data users, they provided valuable insights into what information attributes are most valued and influential in shaping investment and resource allocation decisions. This reinforces the idea that financial reporting quality is not merely a technical exercise, but rather a crucial element in fostering trust and confidence among stakeholders. Their findings highlight that even meticulously prepared financial statements that are technically compliant may be deemed of low quality if they lack accuracy, completeness, or are difficult to understand.

The practical measurement of these qualitative characteristics has also been a significant area of research. Van Beest et al. (2009) directly addressed this challenge by developing a comprehensive framework consisting of 21 factors spanning five key dimensions: relevance, faithful representation (closely related to reliability), understandability, comparability, and timeliness. This framework, informed by the guidelines established by accounting standard-setting bodies like the FASB (Financial Accounting Standards Board) and the IASB (International Accounting Standards Board), offered a more granular and operationalized approach to assessing financial reporting quality. By analyzing annual reports from companies in the United Kingdom, the United States, and the Netherlands, they provided empirical insights into the practical application of these qualitative characteristics in diverse reporting environments.

The work of Van Beest et al. is particularly valuable because it attempts to bridge the gap between abstract conceptual frameworks and the practical realities of financial reporting. Their detailed analysis of specific factors, such as the clarity of footnotes or the extent of segment reporting, provides a more concrete understanding of how qualitative characteristics can be assessed and improved. Furthermore, by examining annual reports from different countries, they shed light on the potential influence of different regulatory environments and accounting standards on financial reporting quality.

In conclusion, the quest for quality in financial reporting is an ongoing process, informed by a rich body of research that continues to refine our understanding of the key attributes that contribute to its usefulness and trustworthiness. From the early emphasis on holistic frameworks to the more recent focus on user perceptions and practical measurement, the field has evolved significantly. While achieving perfect quality may remain an elusive goal, the continued focus on these essential characteristics will undoubtedly lead to more informative, transparent, and reliable financial reporting, ultimately benefiting investors, markets, and the wider economy.

2.2. Drivers of financial reporting quality: global insights

Financial reporting quality is not a given; it's the product of a complex interplay of factors that influence the accuracy, reliability, and overall credibility of the information presented to stakeholders. Understanding these drivers is crucial for policymakers, regulators, and corporate managers alike, as they provide insights into how to foster a more transparent and trustworthy financial reporting environment. Research consistently points to three key determinants: robust corporate governance mechanisms, the assurance provided by high-quality external audits, and a strong regulatory and legal framework. Key determinants that have consistently emerged include:

(1) Corporate Governance Mechanisms: The structure and effectiveness of corporate governance mechanisms are paramount. A well-governed company is more likely to produce high-quality financial reports. This stems from the fact that effective governance creates a culture of accountability and transparency. Key elements include the independence and expertise of board members. Independent directors are less susceptible to management influence, ensuring objective oversight of financial reporting processes. Similarly, board members with financial expertise are better equipped to understand and challenge management's accounting choices. The presence of a strong and active audit committee is also vital. This committee, composed of independent directors, is responsible for overseeing the financial reporting process, selecting the external auditor, and reviewing internal controls. Furthermore, robust internal controls are essential for preventing and detecting errors and fraud. Heidi (2001) emphasizes the critical role of these governance structures in upholding the integrity of financial reporting, suggesting that a weak governance framework can significantly undermine the reliability of reported information.

(2) External Audit Quality: The quality of the external audit serves as another crucial pillar supporting financial reporting quality. The external audit provides an independent assessment of whether a company's financial statements are fairly presented in accordance with applicable accounting standards. An audit conducted by experienced and independent auditors provides assurance to stakeholders that the financial statements are free from material misstatements. This independence is paramount; auditors must be free from any conflicts of interest that could compromise their objectivity. The auditor's expertise is also critical, as they must possess the technical knowledge and industry understanding to effectively scrutinize the company's financial reporting practices. The external audit acts as a vital check on management's assertions, contributing significantly to the credibility of financial information (Heidi, 2001).

(3) Regulatory and Legal Environment: The strength and enforcement of the regulatory and legal environment play a significant role in shaping financial reporting behavior. Stringent regulatory requirements, such as those imposed by securities regulators, provide a framework for acceptable accounting practices and disclosure requirements. Effective enforcement mechanisms, including penalties for non-compliance and legal recourse for investors, encourage companies to adhere to these standards. When companies perceive a high risk of detection and punishment for financial misconduct, they are more likely to invest in robust internal controls and produce accurate financial reports. Soderstrom & Sun (2007) highlight the positive impact of strong regulatory oversight in promoting financial reporting integrity, suggesting that a weak regulatory environment can create opportunities for opportunistic behavior and reduce the overall quality of financial information.

2.3. Financial reporting quality in Vietnamese SMEs: Specific factors

Recognizing the unique characteristics of SMEs, numerous Vietnamese researchers have focused on identifying factors that influence financial reporting quality within this specific context. For instance, Nguyen Thi Phuong Hong and Duong Thi Khanh Linh (2014) examined the measurement of financial reporting quality in Vietnamese enterprises using the comprehensive characteristics of the information published by the IASB and FASB. Similarly, Doan Thi Hong Nhung and Vu Thi Kim Lan (2014) constructed a process for assessing the quality of financial reporting in Vietnamese enterprises. Furthermore, Nguyen Trong Nguyen (2016) explored the impact of corporate governance characteristics on financial reporting quality in listed companies in Vietnam.

Other studies have delved into the impact of specific factors on financial reporting quality in Vietnamese SMEs, including: *(i) Application of Accounting Software:* Tran Phuoc (2007) examined the application of accounting software and found that it increased the satisfaction of the information presented in financial statements; *(ii) Company Size:* Cao Nguyen Le Thu (2014) found that larger companies had improved financial reporting quality; *(iii) Internal Controls:* Pham Thanh Trung (2016) found that SMEs with better internal controls had higher quality of financial reporting.

3. Research gaps and opportunities

The extensive research has been dedicated to understanding financial reporting quality, but significant gaps persist, particularly concerning the unique context of Vietnamese SMEs. Applying established theories and models developed primarily in developed economies to Vietnamese SMEs without careful consideration of their specific characteristic risks yielding incomplete and potentially misleading insights. Future research must address these gaps by focusing on the inherent complexity of financial statements in this sector, the pervasive influence of environmental factors, and the myriads of other factors specific to the Vietnamese SMEs landscape. Addressing these areas will lead to a more nuanced and accurate understanding of the drivers and impediments to high-quality financial reporting in this critical segment of the Vietnamese economy.

Firstly, future research needs to delve into the inherent complexities of financial statements within Vietnamese SMEs. Existing studies often treat financial reporting quality as a monolithic concept, failing to acknowledge the practical challenges faced by these enterprises in preparing and interpreting financial information. SMEs in Vietnam typically operate with limited resources, including a shortage of specialized accounting personnel and limited access to sophisticated accounting software and systems. Furthermore, these businesses often struggle to navigate complex accounting standards and comply with evolving regulatory requirements, particularly when those requirements are directly translated from international standards without adequate contextualization. Therefore, future investigations should focus on how these resource constraints, the level of accounting expertise available within Vietnamese SMEs, and the specific nuances of Vietnamese accounting standards collectively impact financial reporting quality. This might involve exploring whether simpler, more tailored reporting frameworks, designed specifically for the needs and capabilities of SMEs, would be more effective in promoting accuracy and transparency than a direct and wholesale application of full-blown international standards. For instance, a study could compare the quality of financial reporting under the current system with that under a simplified system focusing on core metrics and disclosures. Such research could also assess the effectiveness of targeted training programs aimed at enhancing the accounting skills of SME personnel.

Secondly, a more rigorous investigation into the influence of environmental factors is warranted. Prior studies tend to concentrate on internal firm characteristics, often overlooking the significant and potentially dominating impact of external factors on financial reporting quality. In the Vietnamese context, a range of environmental factors, including the regulatory environment, the prevailing economic climate, and deeply ingrained cultural norms, can exert a profound influence on how SMEs approach financial reporting. For example, levels of corruption, which are known to exist in some sectors of the Vietnamese economy, could significantly distort financial reporting practices. Government policies, such as tax incentives or subsidies, can also influence how SMEs present their financial performance. Furthermore, the prevalence of informal economic activity, which is common in many developing economies, may incentivize SMEs to underreport their income or engage in other forms of financial manipulation. Future research should consider incorporating these environmental factors into empirical models to provide a more holistic and accurate understanding of the determinants of financial reporting quality in

Vietnamese SMEs. This could involve examining the influence of specific tax policies, the level of regulatory oversight exerted by different government agencies, or the documented presence of corruption in specific industries on the reliability and transparency of SMEs financial statements.

Finally, there is a pressing need for research to identify and explore factors that are unique to Vietnamese SMEs. Existing literature, often based on studies conducted in Western or developed Asian contexts, may not fully capture the nuances of organizational culture, management practices, and employee motivation that are prevalent within the Vietnamese SME landscape. For instance, the dominance of family-owned businesses is a significant characteristic of the Vietnamese SME sector. This can lead to unique dynamics, where personal relationships and family ties often supersede formal accounting procedures. The role of personal relationships in business dealings, often referred to as "guanxi," and the influence of traditional cultural values on ethical behavior can also significantly affect how SMEs approach financial reporting. Future research should therefore explore these unique factors, perhaps through qualitative investigations such as in-depth case studies or interviews with SME owners and managers. These qualitative methods can provide a richer and more nuanced understanding of the drivers of financial reporting quality within this specific cultural and economic context. For instance, a study could examine how family ownership influences the level of transparency in financial reporting or how cultural values affect the implementation of internal control systems. Such research could also explore the impact of social networks and personal relationships on the credibility of financial information provided by SMEs. By addressing these research gaps, we can gain a more comprehensive and accurate understanding of financial reporting quality in Vietnamese SMEs, which can inform the development of more effective policies and practices to promote transparency and accountability in this vital sector.

4. Conclusion

The existing body of literature on financial reporting quality presents a rich tapestry of insights, examining diverse factors that shape the accuracy, reliability, and transparency of financial information. From foundational theoretical frameworks to empirical investigations across various contexts, significant progress has been made in identifying key determinants of reporting quality, especially within SMEs. However, the application and relevance of these findings to specific contexts, particularly developing economies like Vietnam, requires careful consideration and further investigation. Several research opportunities remain in refining the comprehension of aspects relating to financial reporting quality. First of all, the SMEs are often resource-constrained and have unique governance structures, but more in-depth analysis can uncover novel perspectives. Investigating the interplay between these factors in the specific economic and institutional conditions of Vietnam is crucial for developing effective interventions. Furthermore, it is also critical to consider how external factors influence the statements in SMEs.

The implications of addressing the identified research gaps extend beyond academic understanding. By improving our understanding of the factors that influence financial reporting quality, future research can contribute to more transparent, accountable, and economically robust operations in Vietnam. A higher quality information can drive economic growth. For all stakeholders can make decisions based on reliable information. Ultimately, future research efforts should focus on developing tailored approaches to financial reporting that are both practical and effective for Vietnamese SMEs. By embracing a context-sensitive perspective and leveraging both quantitative and qualitative methods, we can unlock new insights that lead to improved transparency, accountability, and sustained economic growth in this dynamic sector of the Vietnamese economy.

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