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Analyzing Theories of the Quality of Financial Statement Information in Commercial Firms

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Abstract

The commercial business industry also offers opportunities for creativity and innovation. Firms have taken advantage of the emergence of a variety of artificial intelligence technologies, digital media, and many other tools to create new products and services to enhance the customer experience and improve business performance. However, the fact that any business can easily participate in this market has created extremely fierce competition. This requires firms to make efforts to find new creative ideas and create values to attract and retain customers. Providing high-quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and resource allocation decisions within the organization to achieve economic efficiency (IASB, 2010) [10]. Vietnam's accounting law stipulates the quality attributes of financial statement information such as honesty, objectivity, completeness, timeliness, understandability, and comparability (National Assembly, 2015) [14]. Accounting information is used for helping the users to make useful decision. Therefore, quality financial statement information is obviously needed for investors to create an effective market. This study systematizes theories of the quality of financial statement information in firms in order to help firms improve the quality of financial statement information to achieve their set objectives. The formulation of a theoretical basis for the quality of financial statement information depends on the manager's support, the views of finance managers, chief accountants, accounting standards, the development of information technology, the user's attitude, and the financial statement's involvement.

Keywords: Theory, The Quality of Financial Statements Information, Commercial Firms, Accounting, Finance

JEL Codes: M40, M41, F65

1. Introduction

According to Gelinas (2012) [7], investors need high-quality financial statement information in order to establish an efficient market since accounting information is utilized to assist users in making meaningful judgments.

Providing high-quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and resource allocation decisions within the organization to achieve economic efficiency (IASB, 2010) [10].

Vietnam is a member of international economic organizations such as the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation Forum (APEC), and the World Trade Organization (WTO). The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the ASEAN Economic Community (AEC), and the Free Trade Agreement (FTA) have promoted Vietnam's international economic integration today. More extensive. International economic integration, free trade, and fair competition require financial information to be transparent, quality, and reliable. On the other hand, it creates many opportunities and challenges for firms in Vietnam during production and business activities. Therefore, the quality of financial statement information becomes more important and necessary for the economic decision-making of information users.

The trading industry is a rapidly changing and highly competitive field. It requires firms to always update trends and technology in order to maintain their competitiveness in the market. However, the commercial business industry also offers attractive opportunities for many people.

Trends in the commercial business industry have been changing significantly in recent times. In particular, the strong development of the internet and information technology has made buying and selling goods online an important part of daily life. In order to meet this demand, commercial firms are increasing at a remarkable rate. At the same time, firms are required to build e-commerce platforms and provide quick delivery services. To implement these activities, one of the solutions is to improve the quality of financial reporting information.

2. Viewpoints and schools of thought on the quality of financial reporting information

According to the professional organization FASB (1993) [4], information quality is defined as including attributes that are relevant, reliable, and understandable to users. The IASB believes that quality is understood as the attributes that make the information presented on financial statements useful to information users, including: Understandability, fit, reliability, and capability of comparison (IASB, 2001) [9].

The general objective of preparing financial statements is to provide useful financial information for existing and potential investors, lenders, and other creditors in making decisions about providing resources for a business (IASB, 2010) [10].

Braam & Beest (2013) [2] measured the quality of financial statement information in listed firms in the US and UK. The authors used a mixed research method, collecting data from information on the 2010 financial statements. Based on the criteria for quality of financial statement information published by FASB and IASB (2010) [10], the authors we have built a scale to measure the quality of financial statement information: Appropriate (13 observed variables); honest presentation (7 observed variables); understandable (6 observed variables); capable of comparison (6 observed variables); timely (1 observed variable). Research results show that the quality of financial statement information in US firms and UK firms has an average score of 2.94 and 3.18, respectively.

Nhung & Lan (2014) [16] develop a process for assessing the quality of financial statement information in Vietnamese firms. The authors have developed a 3-step process to evaluate the quality of enterprise financial statement information, including: Selecting financial statements for analysis on the basis of prioritizing audited and tax-finalized financial statements; checking the truthfulness and reasonableness of the indicators on the financial statements on the basis of checking and comparing data between the current period and the previous period and checking evidence to verify information; and evaluating the quality of assets and capital sources in the financial statements.

French Commercial Law requires financial statements to be valid, truthful, and provide a true picture of the financial situation and operating results of the enterprise. Vietnam's accounting law stipulates the quality attributes of financial statement information such as honesty, objectivity, completeness, timeliness, understandability, and comparability (National Assembly, 2015) [14].

3. Theories related to the quality of financial reporting information

Typical theories on financial reporting information quality that have been applied by many researchers around the world and in the country when researching financial reporting in general and financial reporting information quality in particular include:

3.1 Agency theory

Agency theory was first formulated by Ross (1973) [18] and later further developed by Jensen & Meckling (1976) [13]. The content of this theory refers to the relationship between the principal and the agent through a contract. In which the authorized party will perform a number of tasks on behalf of the principal, including delegating a level of decision-making authority to the authorized party.

Agency theory holds that both parties want to maximize their benefits. Normally, the principal (agent) is expected to behave in a way that brings the greatest benefit to the principal, but the principals themselves also pursue their own interests. Therefore, in this relationship, there are always conflicts, and this gives rise to an agency cost, divided into two types: The cost of investing in the control system necessary to minimize the principal's lack of information and the cost of minimizing information risk through risk sharing with the principal through output-based incentives.

The proxy relationship appears clearly in two important cases: Between shareholders and corporate managers who directly manage the company's activities, and between creditors and the company's shareholders.

Thus, agency theory shows that conflicts between the principal and the principal are always present. Contrary to the principal's expectation of maximizing his or her own benefits, the agent—usually company administrators—sometimes has their own goals, and for that purpose, these managers adjust profits again. That action may cause the financial statements to not reflect honestly and reasonably the company's operating situation and not provide useful information to users such as shareholders, investors, creditors, and financial analysts.

Based on agency theory, firms need to change personnel on the board of directors because firms that do not have concurrent chairmanship of the board of directors with the general director have ownership rights by the higher the manager, the higher the concentration of ownership, and the higher the independence of the board of directors, the higher the quality of financial statement information and the better financial leverage. If an enterprise has a bonus plan, the quality of financial statement information is quite low. In addition, firms need to choose auditing services because auditing companies with good service quality, such as Big 4 auditing companies, will contribute to improving the quality of financial statement information.

3.2 Information processing theory

Information processing theory was formulated by Galbraith (1973) [6]. This theory considers three concepts: (i) information processing requirements; (ii) information processing ability; and (iii) compatibility between requirements and information processing capabilities to achieve optimal business performance. According to this theory, firms need to regulate information to overcome environmental uncertainty and improve decision-making. Environmental uncertainty originates from its own complexity and change (Premkumar *et al.*, 2005). Information processing theory suggests that the appropriateness of information processing ability will have a major impact on the financial performance of a firm

(Galbraith, 1973) [6].

Information processing theory suggests that firms can adopt two strategies to cope with environmental uncertainty and increased information requirements:

First, factors need to be developed to minimize the impact of this uncertainty.

Second, increase information processing capacity to increase the efficiency of information and thereby minimize the impact of this uncertainty (Premkumar *et al*., 2005) [17].

To achieve this, firms need to create connections between information requirements and capabilities. On the other hand, information processing theory also shows that information technology has an impact on the quality of financial statement information for enterprises. Therefore, to improve the quality of financial statement information, firms need to improve their accounting information system, apply and receive the transfer of the latest information technology into production and business activities, and provide accounting information.

3.3 Contingency Theory

Contingency theory has been analyzed and concluded by the authors Ferreira and Otley (2005) [5]: There is no single effective management system that is suitable for all organizations and suitable for all situations because the unique characteristics of the system and its effectiveness will depend on the specific characteristics of the organization and contextual actors. In the field of accounting, this theory is used by many studies to explain the relationship between factors such as enterprise size, the effectiveness of the internal control system, independent audits, and employee qualifications on the effectiveness of accounting work in firms (Ahmad & Mohamed, 2015) [1].

Thus, the contingency theory is related to the size of the firm, support from firm administrators, the capacity of employees to prepare financial statements, the effectiveness of the internal control system, etc. These factors all have an impact on the quality of financial statement information. From there, firms can improve the quality of financial statement information based on the factors mentioned above.

3.4 Technology Diffusion Theory

Technology Diffusion Theory was first mentioned by Tarde Gabriel, a French sociologist (Gopalkrishnan, 2013) [8]. This theory explains why some innovations diffuse within a culture and others do not. Tarde Gabriel formulated the S-curve model and introduced innovations that were easily adopted by individuals on a large scale or from an international perspective (Gopalkrishnan, 2013) [8]. Tarde Gabriel's S-model was developed in later studies. Gopalkrishnan (2013) [8] introduced the concept of diffusion, whereby diffusion is said to be the process by which innovation is communicated through multiple means among members of a social system. He also conceptualized innovation as an idea, practice, or object that is perceived as new by an individual or unit. Ismail & King (2007) [11] argue that limited managers' understanding of the importance of accounting information has reduced the quality of accounting information in meeting the needs of information users. Ismail (2009) [12] asserts that auditing firms also play an important role in the implementation and provision of accounting information. Besides, consultants and software providers can help firms choose technology that suits their firm and organizational characteristics, so the support of this external factor helps reduce the lack of knowledge and techniques related to handling accounting work that firms often encounter.

Thus, technology diffusion theory shows that the roles of managers, experts, and external organizations such as auditing firms, consulting units, software providers, etc. all have a relationship with the quality of the financial statement information of the enterprise. Therefore, in order to improve the quality of financial statement information, firms need to apply the theory of technical diffusion. In addition, improving the quality of financial statement information for enterprises also depends on managers.

4. Conclusion

This study has presented and analyzed the quality of financial reporting information in enterprises and four (4) background theories related to the quality of financial reporting information in enterprises.

The results of the above studies on theories related to the quality of financial reporting information show that: When firms improve the quality of financial reporting information, which theory is the basis? It also depends on the characteristics of the firm, the support of the board of directors, the decisions of the financial director, the chief accountant, and accounting standards.

The quality of information provided by accounting is considered one of the most important standards to ensure safety and the ability to bring efficiency to business decisions (Cuc, 2014) [3]. In addition, financial statements play an important role in the development of firms as a basis for firms to attract investment capital, expand relationships with credit institutions, suppliers, customers, etc. Therefore, firms need to further improve the quality of financial reporting information to ensure the sustainable development of their firms.

This research is not only meaningful for firms in improving the quality of financial reporting information to improve business performance and expand business scale, but it also has significance for researchers when studying finance in general and financial reporting in particular.

One of the attractive opportunities that the commercial industry brings to firms is the ability to access a large market. Previously, in business, it was difficult for us to reach customers from other countries; now, this has become much simpler. With the strong development of technology, firms can easily reach customers and expand their supply network. Many firms are taking advantage of this to sell products and services online, creating a convenient shopping environment for customers.

Besides, the commercial business industry also offers opportunities for creativity and innovation. Firms have taken advantage of the emergence of a variety of artificial intelligence technologies, digital media, and many other tools to create new products and services to enhance the customer experience and improve business performance. This opportunity also encourages creativity and entrepreneurship, creating many conditions for small and medium enterprises to participate in this potential market.

However, the fact that any business can easily participate in this market has created extremely fierce competition. This requires firms to make efforts to find new creative ideas and create values to attract and retain customers. Especially, the difference and uniqueness of each product are important, which helps firms become more competitive in this fierce market.

Another challenge in this industry is technological change. The rapid development of technology has created many opportunities but also brought many challenges. To be able to improve operational performance and create the best value for customers, firms must apply technology effectively. At the same time, the issue of information security and data management is also a big challenge, requiring firms to ensure security and comply with data protection regulations.

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