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Opportunities and Challenges for the Application of International Financial Reporting Standards in Small and Medium Enterprises in Vietnam

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Abstract

This study is conducted to explore the opportunities and challenges for the application of international financial reporting standards in SMEs in Vietnam. By qualitative research methods, on the basis of researching relevant documents. The results show that IFRS adoption helps SMEs improve the quality and transparency of financial reporting, access to global capital markets, and competitiveness. However, SMEs in Vietnam also face

challenges arising from limited technical expertise and resources, cultural and regulatory differences, and cost and time constraints. By addressing these challenges through capacity building, collaboration, regulatory engagement, phased implementation, and leveraging technology, SMEs can maximize the benefits of IFRS adoption and position themselves to achieve sustainable growth and success in the global business arena.

Keywords: International Financial Reporting Standards, IFRS, SMEs, Vietnam

1. Introduction

Vietnam has experienced rapid economic growth and development over the past few decades. With a strong focus on trade and investment, the country has seen a significant increase in the number of SMEs. These enterprises play an important role in promoting economic growth, employment and innovation in Vietnam. However, financial reporting practices in SMEs are often inconsistent, making it difficult for stakeholders to accurately assess their financial performance.

Meanwhile, the global convergence towards IFRS has been leading to an increasing harmonization of financial reporting practices worldwide. IFRS is an accounting standard developed by the International Accounting Standards Board (IASB) to provide a common language for financial reporting (Fox *et al.*, 2018)^[2]. It aims to improve the transparency, comparability and reliability of cross-border financial reporting. The adoption of IFRS not only facilitates international trade and investment but also improves the quality of financial information, enabling stakeholders to make informed decisions (Ozu *et al.*, 2018)^[10].

The implementation of IFRS in SMEs in Vietnam is particularly important. SMEs make up a significant portion of the country's business landscape, contributing to job creation and economic growth. However, many SMEs in Vietnam face difficulties in accessing capital and attracting investors due to the lack of reliable and comparable financial information. IFRS adoption can enhance the reliability of SMEs' financial reporting, thereby enhancing their access to financial and investment opportunities (Secinaro *et al.*, 2020)^[12]. In addition, as Vietnam continues to integrate into the global economy, SMEs need to meet international reporting standards to compete effectively in the international market. The adoption of IFRS allows SMEs to align their financial reporting practices with global standards, which enhances credibility and facilitates business transactions with international partners (Christie *et al.*, 2010)^[1]. Moreover, IFRS adoption in SMEs can improve the overall financial reporting ecosystem in Vietnam (Pham, 2022)^[11]. By promoting transparency and comparability, IFRS adoption encourages better corporate governance practices, reduces information asymmetry, and enhances investor confidence in the market.

However, IFRS adoption in Vietnam is still in its early stages, with most major listed companies switching to IFRS from 2015. Meanwhile, the implementation of IFRS in SMEs is relatively slow. Many SMEs face challenges such as limited financial resources, lack of technical expertise, and the need for capacity building to meet IFRS requirements (Hung, 2023)^[5].

There have been a number of studies conducted to understand IFRS adoption in Vietnam in recent years, for example research by Hung (2022)^[4] has provided an overview of the factors affecting IFRS adoption through the synthesis and analysis of data sources from previous studies to provide future research direction. The review study provided a comprehensive review of the

academic research related to the factors that have been studied to help other researchers have a meaningful background and to consider the impact factors that need to be further tested. In addition, research by Luong (2019) ^[8] explored the benefits of IFRS adoption for enterprises in Vietnam. The study found that IFRS implementation improved the quality of financial reporting, increased access to financing, and increased the reliability of SMEs, thereby supporting their growth and development. In addition, research by Tran (2021) ^[14] focuses on the role of Government policies and regulations in promoting IFRS adoption among SMEs in Vietnam. It highlights the need for supportive policies, technical assistance and capacity building initiatives to overcome the challenges faced by SMEs in the adoption process.

The above studies mainly focus on the common challenges and benefits of IFRS adoption without going into the context and characteristics of small and medium enterprises in Vietnam. As such, this study aims to fill this gap by conducting a comprehensive investigation of the opportunities and challenges of IFRS adoption among SMEs in Vietnam, providing valuable insights for SMEs owners, policymakers, and regulators.

2. Literature review

An overview of the world's research on the opportunities and challenges for the application of international financial reporting standards in small and medium-sized enterprises, including some of the following studies:

Research by Wang (2019) ^[15] explored the influence of cultural factors on IFRS adoption among SMEs in three African countries. Research results show that cultural dimensions such as individualism/collectivism, uncertainty avoidance, and power distance have significantly affected SMEs' willingness to adopt and implement IFRS. The study suggests that accounting standards committees and policymakers should consider cultural factors when designing and promoting IFRS adoption initiatives. Appropriate training and support programs should be provided to address cultural barriers and facilitate successful implementation.

Ngubo (2018) ^[9] analyzes the economic impact of IFRS adoption in SMEs in South African countries. The author finds that the implementation of IFRS has helped to improve investor confidence and increase access to capital for small and medium enterprises. However, it also identifies challenges related to implementation costs and the need for technical expertise. The study recommends that SMEs in South Africa collaborate with accounting professionals and industry associations to address the challenges associated with IFRS adoption. Government agencies should provide training programs and financial support to facilitate the transition to IFRS.

Smith (2023) ^[13] conducted a study to examine the impact of IFRS adoption on SMEs in the United States. The results of the study show that the adoption of IFRS in SMEs in the United States has helped to improve the quality of financial reporting, increase access to capital and improve international competitiveness. The study proposes that SMEs should invest in training and capacity building to implement IFRS effectively and take advantage of its benefits. Regulators should provide guidance and support to facilitate the application process.

Research by Johnson (2022) ^[6] aims to explore the challenges and opportunities of IFRS implementation in SMEs in Germany. The study results show that, although IFRS adoption among SMEs in Germany has improved financial transparency and comparability, it has also posed challenges such as increased reporting complexity and the need for highly skilled accounting resources. The study recommends that SMEs in Germany should cooperate with accounting professionals and seek technical assistance to overcome challenges in the implementation process.

Lee (2021) ^[7] conducted a study to investigate IFRS adoption among SMEs: A comparative analysis between China and Japan. The study results compare the impact of IFRS adoption on SMEs in China and Japan. The study found that, while IFRS implementation improved financial transparency and facilitated cross-border transactions in both countries, SMEs in China faced challenges related to cultural differences and a more serious lack of accounting expertise. Based on the results of the study, the author recommends that Chinese SMEs should invest in training programs to enhance their accounting knowledge and cultural understanding, while Japanese SMEs should focus on leveraging IFRS benefits to expand their global reach.

Research by Garcia (2020) ^[3] was conducted to explore the role of government support in IFRS adoption in SMEs: Evidence from Brazil. This study examines the effect of government support for IFRS adoption in small and medium-sized enterprises in Brazil. It found that proactive government policies, such as providing financial incentives, training programs, and simplified reporting requirements, significantly facilitated the adoption process and improved the quality of financial reporting. The study proposes that the government should continue to support SMEs through initiatives such as targeted funding programs and capacity building programs. This will further encourage IFRS adoption and enhance the competitiveness of small and medium enterprises in Brazil.

Thus, mentioning opportunities and challenges for the application of international financial reporting standards in small and medium-sized enterprises is not only a concern of developed countries in particular but also of all countries in the world. It can be seen that the studies on opportunities and challenges for the application of international financial reporting standards in SMEs agree with the view: The application of IFRS in SMEs always leads to improving the quality of financial reporting, improving transparency and reliability. It also opens up access to capital as the implementation of IFRS enhances the reliability and attractiveness of SMEs to investors and lenders. However, challenges arise, including the increasing complexity of reporting and the need for additional resources. Government support through policies, financial incentives, and capacity-building programs plays an important role. Cultural factors also influence IFRS adoption, emphasizing the need to consider and address these factors in the implementation strategy. Therefore, it is essential to study the opportunities and challenges for the application of international financial reporting standards in SMEs to improve the integrity of financial reporting and protect the interests of stakeholders.

3. Research Method

This article uses a direct content analysis method from published articles, reports and documents on IFRS adoption

in enterprises to provide greater clarity on the opportunities and challenges for the adoption of international financial reporting standards in SMEs in Vietnam.

A systematic literature review will be conducted to understand global trends in IFRS framework, adoption dynamics, and barriers faced. Related databases such as ScienceDirect, Web of Science and Google Scholar have been searched using keywords such as “IFRS”, “The role of IFRS” and “The challenge of IFRS adoption”. The results show that 15 relevant and appropriate articles and reports are taken from the above database and regulatory organizations and international accounting and auditing professional associations.

4. Research results

4.1 Opportunities for the application of international financial reporting standards in SMEs in Vietnam

Improving the quality and transparency of financial reporting

Implementing IFRS can help improve the quality and transparency of financial reporting for SMEs in Vietnam. By complying with internationally recognized accounting standards, SMEs can provide more reliable and comparable financial information. This increased transparency enhances the reliability of financial reporting, giving confidence to investors, lenders, and other stakeholders. It also facilitates access to capital and encourages business partnerships, both domestically and internationally.

Moreover, IFRS adoption can help SMEs align their financial reporting practices with global standards, making it easier to engage in cross-border transactions. This compatibility promotes trust between potential business partners, leading to increased collaboration opportunities and a wider customer base.

To access to the global market

IFRS adoption could open the door for Vietnamese SMEs to access global capital markets. By using internationally recognized accounting standards, these firms can attract foreign investors seeking opportunities in emerging markets such as Vietnam. The adoption of IFRS enhances transparency and comparability, allowing potential investors to make informed decisions.

Access to global capital markets not only provides SMEs with additional funding, but they also gain diverse investment opportunities and potential partnerships. This access can be instrumental in business expansion, technological advancement, and product diversification.

Strengthening competitiveness and business growth

IFRS adoption can significantly enhance the competitiveness of SMEs in Vietnam. By aligning their financial reporting practices with international standards, these businesses can demonstrate their commitment to transparency, accountability, and strong financial management. Compliance with these IFRS standards can set them apart from their competitors and attract customers who value trusted and trustworthy business partners.

Moreover, IFRS adoption can facilitate strategic decision making and business planning. A standardized reporting framework allows SMEs to assess financial performance accurately, identify areas for improvement, and make informed decisions about resource allocation, investment, and expansion strategies. This systematic approach to financial management can foster sustainable growth and support long-term business success.

In summary, IFRS adoption offers significant opportunities for SMEs in Vietnam. Improved financial reporting quality and transparency, access to global capital markets, and increased business competitiveness and growth are key advantages. By adopting IFRS, small and medium enterprises in Vietnam can position themselves as reliable partners, attract investment, promote international cooperation and promote sustainable growth in an increasingly connected global economy.

4.2 Challenges for the application of international financial reporting standards in small and medium enterprises in Vietnam

When SMEs in Vietnam implement IFRS, they may face some challenges. These challenges can arise due to a variety of factors, including limited resources, differences in accounting practices, and the complexity of the transition to a new reporting framework, as follows:

Lack of technical expertise

A major challenge for SMEs in Vietnam is the lack of technical expertise and resources to implement IFRS effectively. Many SMEs have limited access to skilled accounting or finance professionals who are well versed in IFRS requirements. The complexity of the new reporting framework can make it difficult to understand and apply standards correctly. In addition, SMEs may face resource constraints, including time and financial constraints that could hamper their ability to allocate resources for training, software implementation, and other necessary infrastructure.

Cultural and Regulatory Differences

Cultural and regulatory differences pose another challenge for SMEs in Vietnam to adopt IFRS. Vietnamese accounting practices and regulations may differ from the principles and requirements outlined in IFRS. This disparity can create confusion and difficulty in aligning financial reporting practices with international standards. Furthermore, cultural factors such as preferences for local customs and practices can influence IFRS awareness and acceptance among SMEs.

Cost and time

Implementation of IFRS could result in significant costs for SMEs in Vietnam. This includes costs associated with staff training, upgrading accounting systems, and hiring external consultants to facilitate the transition. Small and medium enterprises with limited financial resources may have difficulty bearing these costs. In addition, the transition itself requires time and effort, which can divert SMEs' attention from day-to-day operations.

5. Conclusion and recommendation

Research on the opportunities and challenges in the application of IFRS in small and medium enterprises in Vietnam shows the great potential for these enterprises to thrive in the global market. IFRS adoption offers opportunities such as enhanced quality and transparency of financial reporting, access to global capital markets, increased competitiveness and business growth. However, SMEs also face challenges, including lack of technical expertise and resources, cultural and regulatory differences, and cost and time constraints.

To maximize the benefits of IFRS adoption, SMEs should focus on the following recommendations:

Firstly, improve technical expertise and resources

SMEs should invest in training programs and capacity building initiatives to enhance the technical expertise of

their finance and accounting teams. This may include partnering with professional accounting bodies, industry associations, or educational institutions to provide professional training on IFRS. SMEs may also consider hiring or outsourcing accounting firms or consultants with expertise in IFRS implementation. Allocating resources to software upgrades and infrastructure improvements is essential to streamline the financial reporting process and ensure compliance with IFRS requirements.

Second, promote cooperation and knowledge sharing

SMEs can benefit from collaborating with industry peers and sharing best practices in IFRS adoption. Setting up networks or forums where SMEs can discuss challenges, exchange experiences, and learn from each other's success stories can be very valuable. In addition, industry associations or sales departments may hold seminars, talks or conferences focused on IFRS implementation to facilitate knowledge sharing and create a supportive ecosystem for SMEs.

Third, engage regulators and seek guidance

SMEs should actively cooperate with regulators and seek guidance on local IFRS regulation. Partnering with regulators can help SMEs understand any deviations or specific requirements in local regulations and ensure compliance when applying IFRS. SMEs should actively participate in community consultations and provide feedback on the challenges they face along the way. This involvement can influence regulatory decisions and lead to more tailored support for SMEs in navigating IFRS adoption.

Fourth, develop a phased approach

Considering the cost and time constraints, SMEs can adopt a phased approach to IFRS adoption. This involves prioritizing key areas such as financial reporting or key accounting policies in the early stages. By gradually expanding the scope of implementation, SMEs can manage costs, allocate resources efficiently, and minimize disruption to their daily operations. It is essential to develop a clearly defined project plan with clear timelines and milestones to ensure a smooth transition to IFRS.

Fifth, leverage technology and automation

SMEs should leverage technology and automation to streamline financial reporting processes and reduce the burden of manual tasks. Implementing accounting software that complies with IFRS standards can enhance data accuracy, efficiency, and integrity. Automation can also help generate IFRS-compliant financial statements and support data analysis. Small and medium-sized businesses should explore the potential of cloud-based solutions that bring scalability, cost-effectiveness, and accessibility to remote teams.

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