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### Study the Factors Affecting the Readiness to Apply International Financial Reporting Standards of Small and Medium Enterprises in Hanoi

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#### Abstract

This study explores the factors affecting the readiness of Small and Medium Enterprises (SMEs) in Hanoi City in adopting International Financial Reporting Standards (IFRS). Through qualitative research, the study found that the level of IFRS adoption in SMEs is relatively low, with larger firms and firms with international operations more likely to adopt IFRS. Key factors influencing IFRS readiness include organizational dimensions such as firm size, resources, management perceptions, and expertise; environmental factors such as competition, market demand, and internationalization; and institutional factors such as government policy, regulation, and support. SMEs see

benefits such as improved access to capital, enhanced credibility, better decision-making, internationalization support, and regulatory compliance. However, they also face challenges including complexity and cost, lack of expertise, resource constraints, regulatory burdens, and resistance to change. Based on the results of the study, recommendations for policymakers and regulators include providing regulatory support, fostering professional networks, addressing resource constraints, raising management awareness, and fostering a positive organizational culture to facilitate the transition of SMEs to IFRS.

**Keywords:** SMEs, IFRS, Vietnam

#### 1. Introduction

SMEs play an important role in the economic development of Hanoi City in particular and Vietnam in general. According to the General Statistics Office of Vietnam, SMEs account for about 98% of the total number of enterprises, contribute about 40% to the Gross Domestic Product (GDP) and create about 50% of jobs in the country (Vietnam Briefing, 2021) <sup>[10]</sup>. In Hanoi City, SMEs are popular in many fields such as manufacturing, trade, services and construction. These businesses are important drivers of innovation, economic growth, and job creation. However, SMEs in Hanoi City face many challenges, including limited access to finance, lack of market access, inadequate infrastructure, and regulatory burdens.

The Government of Vietnam has implemented many policies and initiatives to support SME development, such as the Law on Support for SMEs (2017) and the National SME Development Program (2016-2025). These policies aim to create a conducive business environment, enhance SME competitiveness, and promote sustainable growth.

International Financial Reporting Standards (IFRS) have achieved significant global acceptance and are now required or permitted in more than 140 countries (IFRS Foundation, 2021). IFRS aims to provide a set of high quality, easy-to-understand, enforceable and globally accepted accounting standards to enhance the comparability and transparency of financial reporting (IASB, 2010) <sup>[6]</sup>.

Adoption of IFRS can bring many benefits to SMEs. By enhancing the comparability and transparency of financial statements, IFRS adoption can facilitate SMEs' access to international capital markets and foreign direct investment (Ball, 2006) <sup>[11]</sup>. In addition, IFRS compliance can promote the reputation and reputation of SMEs, demonstrating their commitment to transparent and high-quality financial reporting (Covrig *et al.*, 2007) <sup>[4]</sup>. Furthermore, IFRS can support better decision-making by providing SME owners and managers with a comprehensive and accurate view of their financial position and performance (IASB, 2010) <sup>[6]</sup>. IFRS adoption also supports SMEs to expand internationally by enabling cross-border comparisons and better communication with foreign stakeholders (Ball, 2006) <sup>[11]</sup>. Finally, IFRS alignment can help SMEs meet regulatory requirements, as many countries have adopted or converged their national accounting standards with IFRS (IFRS Foundation, 2021).

While IFRS adoption offers many practical benefits, SMEs may face challenges in IFRS adoption due to limited resources, lack of expertise, and complexity of standards. Therefore, it is essential to understand the factors affecting the willingness of SMEs to adopt IFRS and to understand their perceptions and experiences in order to develop targeted support strategies.

Therefore, the main objective of this study is to explore the factors affecting the readiness of SMEs in Hanoi City in IFRS adoption. Specific objectives:

1. To understand the current situation of IFRS adoption in small and medium-sized enterprises in Hanoi City: This objective aims to consider the extent to which small and medium-sized enterprises in Hanoi City have adopted IFRS and intend to apply these standards in the future. By understanding the current level of IFRS adoption, the study will provide a basis for assessing progress and identifying areas of further concern.
2. Identification of factors affecting IFRS readiness in SMEs: This objective aims to explore the organizational, environmental and institutional factors affecting SMEs' readiness to adopt IFRS. Identifying these factors will help policymakers, regulators, and other stakeholders develop targeted strategies to support SMEs in their IFRS adoption journey.
3. Understanding the perceptions and experiences of SME owners/managers related to IFRS adoption: This objective seeks to deepen the perspectives, attitudes and experiences of SME owners and managers related to IFRS adoption. Understanding their perceptions and experiences will provide valuable context for interpreting the factors that influence IFRS readiness and making practical recommendations to address the identified challenges.

By addressing these research objectives, the study will generate valuable insights into factors affecting the readiness of small and medium enterprises to adopt IFRS in Hanoi City. The findings will contribute to existing literature on IFRS adoption and SMEs and provide practical recommendations to policymakers, regulators, and other stakeholders to support SMEs in their transition to IFRS. Furthermore, the study will provide a comprehensive understanding of the perceptions and experiences of SME owners and managers regarding IFRS adoption, which can inform the development of targeted training programs, guidance, and resources to support SMEs in their IFRS implementation efforts.

In the following sections, the study will delve into a literature review, methodology, research findings, discussions and conclusions to present a comprehensive analysis of factors affecting IFRS readiness among SMEs in Hanoi City.

## 2. Literature review

### 2.1 Theoretical basis

#### Institutional theory

Institutional theory provides a solid framework for understanding how organizations, including SMEs, respond to external pressures and adopt new practices such as IFRS. This theory posits that organizations operate in an institutional environment that shapes their behavior and structure (DiMaggio & Powell, 1983) [5]. Institutional sameness - the process by which organizations become similar - is a central concept in institutional theory.

DiMaggio & Powell (1983) [5] identified three types of homogeneous pressure:

*Forced pressure:* This refers to the formal and informal pressure that other organizations they depend on exert on organizations and to the cultural expectations within the society in which the organizations operate (DiMaggio & Powell, 1983) [5]. In the context of IFRS adoption, coercive pressure can come from regulators, government policies, and international financial institutions that mandate or strongly encourage the use of IFRS.

*Pressure to imitate:* This occurs when organizations model themselves after other organizations, often those considered more successful or legitimate (DiMaggio & Powell, 1983) [5]. For SMEs, mimicry pressures may be associated with IFRS adoption as larger, more successful firms have done so, thus enhancing their legitimacy and credibility in the marketplace.

*Normative pressure:* This mainly arises from the process of professionalization, which includes formal education and professional networks spread across institutions and through which new models are institutionalized (DiMaggio & Powell, 1983) [5]. In the context of IFRS, normative pressure can come from professional accounting institutions, educational institutions, and professional networks that promote IFRS adoption as a best practice.

Institutional theory is particularly relevant to the study of IFRS adoption in SMEs as it explains how external pressures affect organizational behavior. SMEs can adopt IFRS not only based on their internal capabilities but also due to the institutional environment in which they operate. Understanding these pressures can help identify factors that promote or hinder IFRS adoption in SMEs.

#### Resource-Based Perspective (RBV)

The firm's resource-based view, introduced by Wernerfelt (1984) [11] and further developed by Barney (1991) [2], holds that firms gain competitive advantage by leveraging their unique resources and capabilities. According to RBV, resources must be valuable, rare, inimitable and irreplaceable (VRIN) to provide a sustainable competitive advantage (Barney, 1991) [2]. In the context of IFRS adoption, RBV can help explain how the internal resources and capabilities of SMEs affect their IFRS readiness.

### 2.2 Application of International Financial Reporting Standards in SMEs

SMEs' IFRS adoption has garnered considerable attention due to its potential benefits to both individual firms and the economy as a whole. IFRS aims to provide a set of high quality, easy-to-understand, enforceable and globally accepted accounting standards that enhance the comparability and transparency of financial statements (IASB, 2010) [6].

For SMEs, IFRS adoption can offer many advantages, including improved access to capital, enhanced credibility and reputation, better decision-making, internationalization support, and regulatory compliance.

*Improved access to capital:* One of the main benefits of IFRS adoption for SMEs is improved access to capital markets (Hung, 2022) [8]. By enhancing the comparability and transparency of financial statements, SMEs can attract international investors and foreign direct investment (Ball, 2006) [1]. Transparent and high-quality financial reporting signals to investors that the company is well managed and financially healthy, reducing information asymmetry and

reducing capital costs.

*Enhanced Reputation and Credibility:* Compliance with IFRS can promote the reputation and credibility of SMEs. The adoption of IFRS signals a commitment to transparent and high-quality financial reporting, which is highly valued by stakeholders such as investors, customers, and suppliers (Covrig *et al.*, 2007) <sup>[4]</sup>. This enhanced credibility can lead to better business opportunities, increased stakeholder confidence and a stronger market position.

*Better decision making:* IFRS provide a comprehensive and accurate view of a company's financial position and performance, enabling SME owners and managers to make more informed decisions (IASB, 2010) <sup>[6]</sup>. By adopting IFRS, SMEs can better understand their financial situation, identify areas for improvement, and develop strategic plans for growth and sustainability.

*Support internationalization:* IFRS adoption can support SMEs to expand internationally. By facilitating cross-border comparisons and enabling better communication with foreign stakeholders, IFRS helps SMEs overcome internationalization barriers (Ball, 2006) <sup>[1]</sup>. This is especially important for SMEs looking to enter new markets, form international partnerships, or engage in cross-border trade.

*Regulatory Compliance:* Alignment to IFRS can help SMEs meet regulatory requirements. Many countries have adopted or converged their national accounting standards with IFRS, making IFRS compliance a regulatory requirement (IFRS Foundation, 2021). By adopting IFRS, SMEs can ensure that they comply with international and local regulations, reduce the risk of regulatory penalties, and enhance their legitimacy.

While there are many benefits to adopting IFRS, SMEs still face significant challenges and barriers that may hinder their readiness to adopt these standards. These challenges can be categorized into organizational, environmental, and institutional factors.

*Organizational factors:* Organizational factors such as company size, resources, management awareness, and expertise play an important role in determining the IFRS readiness of SMEs. Smaller firms may lack the financial and human resources needed to implement IFRS, as well as the expertise needed to understand and apply these complex standards (Chong *et al.*, 2015) <sup>[3]</sup>. Management awareness and support is also important for successful IFRS adoption, as senior management must be committed to the initiative and allocate the necessary resources.

*Environmental factors:* Environmental factors such as competition, market demand, and internationalization also affect the readiness of SMEs to adopt IFRS. In competitive markets, SMEs may feel pressure to adopt IFRS to keep up with competitors or to meet the needs of international investors and customers (Ball, 2006) <sup>[1]</sup>. However, the complexity and cost of IFRS adoption can be a barrier for SMEs operating in less competitive or domestic markets.

*Institutional factors:* Institutional factors such as government policy, regulation, and support are essential to facilitate IFRS adoption in SMEs. Government policies that require or encourage IFRS adoption can provide strong incentives for SMEs to comply (IFRS Foundation, 2021). However, the lack of regulatory support, such as training programs, guidance, and financial support, can be significant barriers to IFRS adoption. In addition, the perceived burden of regulatory compliance and the fear of

greater scrutiny may deter SMEs from adopting IFRS.

The awareness and experience of SME owners and managers regarding IFRS adoption is important to understand the factors that influence their willingness to adopt these standards. Research has shown that SME owners and managers often consider IFRS adoption to be a complex and costly endeavor that requires a lot of resources and expertise (Chong *et al.*, 2015) <sup>[3]</sup>. These perceptions may affect their will to invest in IFRS adoption and their ability to overcome implementation-related challenges.

Furthermore, the experience of SME owners and managers with IFRS adoption can vary widely. Some may have positive experiences, finding that IFRS adoption enhances their company's reputation and access to capital. Others may experience difficulties such as resource constraints, lack of expertise, and regulatory burdens. Understanding these different perceptions and experiences is essential to developing targeted support strategies that address the specific needs and challenges faced by SMEs.

### 2.3 Factors affecting the adoption of IFRS.

#### Organizational factors

Organizational factors play an important role in determining the readiness and desirability of SMEs to adopt IFRS. These factors relate to the internal characteristics and capabilities of the company, which may facilitate or hinder the application process. Key organizational factors include company size, resources, management awareness and expertise, organizational culture, and financial system.

*Firm size:* The size of an SME significantly affects the applicability of IFRS. Larger SMEs often have more resources, including financial and human capital, that can be devoted to the complex and costly process of adopting IFRS (Chong *et al.*, 2015) <sup>[3]</sup>. Smaller firms, on the other hand, may have difficulty allocating the resources needed for training, technology upgrades, and IFRS-related compliance costs.

*Resources:* The availability of resources, such as financial capital, human resources, and technological infrastructure, is critical to IFRS adoption. Financial resources are needed to cover the costs of training, consulting services, and technology upgrades. Human resources, especially those with specialized accounting knowledge, are essential for understanding and implementing IFRS. Technological infrastructures, including advanced financial management systems, are needed to support the complex reporting requirements of IFRS (Barney, 1991) <sup>[2]</sup>.

*Management awareness and expertise:* Senior management awareness and expertise on IFRS is critical to successful adoption. Management must have an understanding of the benefits and challenges of IFRS and be committed to the adoption process. IFRS expertise is required to understand complex standards and ensure accurate and compliant financial reporting (Covrig *et al.*, 2007) <sup>[4]</sup>. Management awareness and support can promote resource allocation, development of strategies, and implementation of training programs necessary for IFRS adoption (Pham, 2022) <sup>[9]</sup>.

*Organizational culture:* The organizational culture of an SME can significantly impact the readiness to adopt IFRS. A culture that values transparency, high-quality financial reporting, and continuous improvement is more likely to support IFRS adoption. Organizations with a strong commitment to ethical practices and regulatory compliance are also more likely to adopt IFRS (DiMaggio & Powell,

1983) [5]. An organizational culture that encourages innovation and adaptability can facilitate the adoption of new accounting standards.

*Financial Systems:* Existing financial systems and processes in an SME can affect IFRS adoption readiness. Companies with sophisticated and well-established financial management systems are better positioned to integrate IFRS. Advanced financial systems can support the complex reporting requirements of IFRS, including the preparation of detailed financial statements and disclosures (IASB, 2010) [6]. Companies with outdated or manual financial systems may have difficulty meeting IFRS requirements.

#### **Environmental Factors**

Environmental factors refer to the external conditions and pressures that influence the decision to adopt IFRS by SMEs. These factors include competition, market demand, internationalization, and economic conditions.

*Competition:* Fierce competition can motivate SMEs to adopt IFRS to maintain their competitive advantage. In competitive markets, SMEs may feel pressure to adopt IFRS to align with competitors' financial reporting standards (Ball, 2006) [1]. Applying IFRS can enhance the reputation and reputation of a SME, making it more attractive to investors, customers, and partners. Competition can also motivate SMEs to adopt IFRS to reach new markets and expand their business.

*Market demand:* Market demand for transparent and high-quality financial reporting can affect the IFRS adoption of SMEs. Investors, lenders, and customers increasingly expect companies to provide detailed and accurate financial information. The adoption of IFRS can help SMEs meet these needs and attract investment, finance, and business opportunities (Covrig *et al.*, 2007) [4]. Market demand may also come from suppliers and partners that require transparent financial reporting to assess the creditworthiness and reliability of SMEs.

*Internationalization:* The globalization of markets and businesses has created pressure for SMEs to adopt IFRS. Internationalization can motivate SMEs to adopt IFRS to facilitate cross-border trade, attract foreign investment, and expand into international markets (Ball, 2006) [1]. Adopting IFRS can help better communicate with foreign stakeholders, including investors, customers, and regulators. It can also support the standardization of financial reporting between different countries, making it easier for SMEs to operate in more markets.

*Economic conditions:* Economic conditions, including economic growth, stability, and regulatory environment, can affect the adoption of IFRS by SMEs. In stable and developing economies, SMEs may be willing to invest in IFRS adoption to support their growth and expansion. Economic stability can also provide the financial resources needed to implement IFRS. A regulatory environment that fosters transparency and high-quality financial reporting can encourage SMEs to adopt IFRS (IFRS Foundation, 2021). Conversely, economic uncertainty and uncertainty may deter SMEs from investing in IFRS adoption.

#### **Institutional factors**

Institutional factors include the legal, political and social environment in which SMEs operate. These factors shape the drivers and pressures for IFRS adoption and include government policies, regulations, legal support, and professional networks.

*Government policies and regulations:* Government policies and regulations play an important role in influencing the adoption of IFRS by SMEs. Governments may mandate or encourage IFRS adoption through legislation, guidance, and incentives (IFRS Foundation, 2021). Regulators, such as the securities commission and the accounting standards board, can also promote IFRS adoption by establishing reporting standards and enforcing compliance. Mandatory IFRS adoption can provide a strong incentive for SMEs to comply, while voluntary adoption may depend on perceived benefits and costs.

*Regulatory support:* Regulatory support, including training programs, guidance, and financial support, is essential to facilitate IFRS adoption in SMEs. Governments and regulators can provide resources and support to help SMEs understand and implement IFRS (Chong *et al.*, 2015) [3]. This support may include educational materials, workshops, and counselling services. Regulatory support may also include the development of simplified IFRS standards for SMEs, making it easier for smaller firms to comply.

*Professional networks:* Professional networks, including accounting associations, consulting firms, and educational institutions, play an important role in promoting IFRS adoption. These networks can provide expertise, resources, and support to SMEs during adoption (DiMaggio & Powell, 1983) [5]. Professional associations can provide training programs, certifications, and best practice guidance to help SMEs understand and apply IFRS. Consulting firms can provide specialized services to support SMEs to implement IFRS. Educational institutions can develop IFRS-focused curricula and courses to train the next generation of accounting professionals.

*Industry standards and practices:* Industry standards and practices may affect the adoption of IFRS by SMEs. Industries that have adopted IFRS as a best practice may create pressure for SMEs to comply (Ball, 2006) [1]. Industry associations and trade groups can promote IFRS adoption by establishing standards, providing resources, and encouraging members to adopt IFRS. Peer pressure and a desire to comply with industry standards can also motivate SMEs to adopt IFRS.

### **3. Research Method**

This article will use qualitative research methods to explore the experiences and views of small and medium enterprise owners, managers and accountants on the factors that affect the readiness to apply IFRS in small and medium enterprises in Hanoi city. The sample in this study was selected through intentional sampling, focusing on small and medium business owners and managers who have at least three years of work experience. Data was collected through semi-structured interviews with 11 small and medium enterprise owners, managers and accountants (including: 4 managers, 4 owners and 3 accountants) of 11 small and medium enterprises in Hanoi city. The interviews were conducted between March 2024 and August 2024 on the basis of face-to-face and telephone interviews lasting from 30 minutes to 45 minutes each, the contents of which were recorded and transcribed for analysis. Data is analyzed using thematic analysis to identify key topics and samples emerging from interviews.



## 4. Research results

### 4.1 The situation of IFRS application in small and medium enterprises

The current situation of IFRS adoption among SMEs in Hanoi City presents a mixed context, with varying levels of implementation and readiness. The findings from semi-structured interviews with SME owners/managers and accountants provide valuable insights into the extent to which SMEs have adopted IFRS and their future intentions.

*Applicability:* The study indicates that the level of IFRS adoption among SMEs in Hanoi City is relatively low. Only a small percentage of SMEs have fully converted to IFRS, while the majority are still using Vietnamese Accounting Standards (VAS) or a combination of VAS and IFRS. The transition to IFRS is more common among larger SMEs and those with international business operations, as they are more likely to face external pressure and have the resources to implement IFRS.

*IFRS Implementation Progress:* SMEs that have begun their transition to IFRS report varying levels of progress. Some have applied IFRS to specific areas of their financial statements, such as revenue recognition or financial instruments, while others are still in the early stages of assessing the impact of IFRS on their financial statements. The speed of implementation is influenced by a number of factors, including the complexity of standards, the availability of resources, and the level of commitment of management.

*Future intentions:* The research results show that many SMEs in Hanoi City intend to adopt IFRS in the future, due to perceived benefits and external pressures. However, application timelines vary significantly among SMEs. Some businesses plan to adopt IFRS in the next few years, while others have a longer-term outlook, citing the need for more time to prepare and allocate resources.

*The most commonly adopted IFRS standards:* Among SMEs that have begun to transition to IFRS, the most commonly adopted standards are IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers), and IFRS 16 (Financial Leasing). These standards are considered to have a significant impact on financial reporting and are therefore prioritized by SMEs. However, the adoption of other benchmarks, such as IFRS 2 (Stock-Based Payments) and IFRS 13 (Fair Value Measurement), is less common due to their complexity and less relevance to SMEs.

### 4.2 Factors Affecting IFRS Readiness

#### Organizational factors

*Firm size:* The research findings confirm that firm size is a significant determinant of IFRS adoption readiness among SMEs in Hanoi City. Larger SMEs are more likely to have the necessary resources and capacity to adopt IFRS. They tend to have more financial and human capital, as well as advanced technological infrastructure, which can facilitate the transition to IFRS. In contrast, smaller SMEs face significant resource constraints, making it difficult for them to allocate the time, money, and expertise needed to adopt IFRS.

*Resources:* The availability of resources, including financial capital, human resources, and technological infrastructure, is critical to IFRS adoption. SMEs with sufficient resources are better positioned to implement IFRS successfully. Financial resources are needed to cover the costs of training, consulting services, and technology upgrades. Human

resources, especially those with specialist knowledge of accounting, are essential to understanding and applying IFRS. Technological infrastructures, such as advanced financial management systems, are needed to support the complex reporting requirements of IFRS.

*Management awareness and expertise:* Management awareness and expertise on IFRS is critical to successful adoption. Research findings indicate that SMEs with senior management understanding of IFRS and commitment to the adoption process are more likely to be willing to adopt IFRS. Management awareness and support can promote resource allocation, development of strategies, and implementation of training programs necessary for IFRS adoption. However, many SME owners and managers lack the necessary expertise on IFRS, which highlights the need for targeted training and education programs.

*Organizational culture:* The organizational culture of an SME can significantly impact the readiness to adopt IFRS. A culture that values transparency, high-quality financial reporting, and continuous improvement is more likely to support IFRS adoption. Organizations with a strong commitment to ethical practices and regulatory compliance are also more likely to adopt IFRS. The research findings show that SMEs with a positive organizational culture are more willing to invest in IFRS adoption and see it as an opportunity to enhance their reputation and competitiveness.

#### Environmental Factors

*Competition:* Fierce competition can motivate SMEs to adopt IFRS to maintain their competitive advantage. Research findings indicate that SMEs operating in competitive markets are more likely to adopt IFRS to align with competitor financial reporting standards. Applying IFRS can enhance the reputation and reputation of a SME, making it more attractive to investors, customers, and partners. Competition can also motivate SMEs to adopt IFRS to reach new markets and expand their business.

*Market demand:* Market demand for transparent and high-quality financial reporting can affect the adoption of IFRS by SMEs. Investors, lenders, and customers increasingly expect companies to provide detailed and accurate financial information. IFRS adoption can help SMEs meet these needs and attract investment, finance, and business opportunities. The research findings suggest that SMEs facing strong market demand for transparent financial reporting are more likely to be willing to adopt IFRS.

*Internationalization:* The globalization of markets and businesses has created pressure for SMEs to adopt IFRS. Research findings indicate that SMEs that engage in international trade or seek to expand into international markets are more likely to adopt IFRS. Adopting IFRS can help better communicate with foreign stakeholders, including investors, customers, and regulators. It can also support the standardization of financial reporting between different countries, making it easier for SMEs to operate in more markets.

#### Institutional factors

*Government policies and regulations:* Government policies and regulations play an important role in influencing the adoption of IFRS by SMEs. Research findings suggest that SMEs are more likely to adopt IFRS when there are clear government requirements or incentives. Regulators, such as the Ministry of Finance and the State Securities Commission, can promote IFRS adoption by establishing reporting standards and enforcing compliance. Mandatory

IFRS adoption can provide a strong incentive for SMEs to comply, while voluntary adoption may depend on perceived benefits and costs.

*Regulatory support:* Regulatory support, including training programs, guidance, and financial support, is essential to facilitate IFRS adoption in SMEs. Research findings indicate that SMEs receiving adequate regulatory support are more likely to be willing to adopt IFRS. Governments and regulators can provide resources and support to help SMEs understand and implement IFRS. This support may include educational materials, workshops, and counselling services. Regulatory support may also include the development of simplified IFRS standards for SMEs, making it easier for smaller firms to comply.

*Professional networks:* Professional networks, including accounting associations, consulting firms, and educational institutions, play an important role in promoting IFRS adoption. Research findings show that SMEs connected to professional networks are more likely to be willing to adopt IFRS. These networks can provide expertise, resources, and support to SMEs in the adoption process. Professional associations can provide training programs, certifications, and best practice guidance to help SMEs understand and apply IFRS. Consulting firms can provide specialized services to support SMEs to implement IFRS. Educational institutions can develop IFRS-focused curricula and courses to train the next generation of accounting professionals.

### **4.3 perceived benefits and challenges of IFRS adoption**

#### **Cognitive Benefits**

*Improved access to capital:* One of the main benefits of IFRS adoption for SMEs is improved access to capital markets. The study findings indicate that SMEs see IFRS adoption as a means to attract international investors and foreign direct investment by enhancing the comparability and transparency of their financial statements. Transparent and high-quality financial reporting signals to investors that the company is well managed and financially healthy, reducing information asymmetry and reducing capital costs.

*Enhanced Reputation and Credibility:* Compliance with IFRS can promote the reputation and credibility of SMEs. The research findings suggest that SMEs see IFRS adoption as a way of demonstrating their commitment to transparent and high-quality financial reporting, which is highly valued by stakeholders such as investors, customers, and suppliers. This enhanced credibility can lead to better business opportunities, increased stakeholder confidence and a stronger market position.

*Better decision making:* IFRS provide a comprehensive and accurate view of a company's financial position and performance, enabling SME owners and managers to make more informed decisions. The research findings indicate that SMEs see IFRS adoption as a means to better understand their financial situation, identify areas for improvement, and develop strategic plans for growth and sustainable development. By adopting IFRS, SMEs can strengthen their internal financial management and improve their overall performance.

*Support internationalization:* IFRS adoption can support SMEs to expand internationally. The study findings suggest that SMEs view IFRS as a tool to facilitate cross-border trade, attract foreign investment, and expand internationally. Adopting IFRS can help better communicate with foreign stakeholders, including investors, customers, and regulators.

It can also support the standardization of financial reporting between different countries, making it easier for SMEs to operate in more markets.

*Regulatory Compliance:* Alignment to IFRS can help SMEs meet regulatory requirements. Research findings indicate that SMEs see IFRS adoption as a means to ensure compliance with international and local regulations, reduce the risk of regulatory penalties, and enhance their legitimacy. Many countries have adopted or converged their national accounting standards with IFRS, making IFRS compliance a regulatory requirement.

#### **The challenges of IFRS adoption**

*Complexity and cost:* The complexity and cost of IFRS adoption are significant challenges for SMEs. Research findings indicate that SMEs see IFRS as a complex and costly endeavor that requires a lot of resources and expertise. The complexity of standards, the demand for specialist knowledge, and the cost of training, consulting services, and high-tech upgrades can be overwhelming for SMEs, especially small firms with limited resources.

*Lack of expertise:* Lack of IFRS expertise is a major barrier to adoption in SMEs. Research findings show that many SME owners and managers lack the knowledge and skills needed to understand and apply IFRS. The lack of qualified IFRS accounting professionals exacerbates this challenge. Lack of expertise can lead to financial reporting errors, non-compliance with IFRS, and missed opportunities for SMEs.

*Resource constraints:* Resource constraints, including limited financial capital and human resources, are significant challenges for SMEs in adopting IFRS. Research findings indicate that SMEs have difficulty allocating the resources needed to adopt IFRS. The cost of training, consulting services and high-tech upgrades, combined with the demand for specialized human resources, can be a barrier for many small and medium enterprises. Resource constraints can also limit SMEs' ability to invest in advanced financial management systems and other technologies needed to comply with IFRS.

*Multiple legal procedures:* The burden of legal compliance is considered a major challenge for SMEs to adopt IFRS. Research findings suggest that SMEs view IFRS compliance as a time- and resource-intensive process that can reduce their core business activities. Fears of greater scrutiny and regulatory penalties may also deter SMEs from adopting IFRS. The regulatory environment in Vietnam, with its many reporting requirements and compliance costs, can be particularly burdensome for SMEs.

*Resistance to change:* Resistance to change is another significant challenge for SMEs to adopt IFRS. Research findings indicate that many SME owners and managers oppose the adoption of new accounting standards, preferring to maintain their current operations and systems. This resistance may stem from a lack of understanding of the benefits of IFRS, fear of the unknown, and perceived costs and risks associated with change. Resistance to change can lead to delays in IFRS adoption and missed opportunities for SMEs.

### **5. Conclusion and recommendation**

This study explored the factors that influence SME readiness in Hanoi City in IFRS adoption. The study's findings indicate that the level of IFRS adoption in SMEs is relatively low, while larger SMEs and internationally active

SMEs are more likely to adopt IFRS. Key factors influencing IFRS readiness include organizational factors such as firm size, resources, management perceptions, and expertise; environmental factors such as competition, market demand, and internationalization; and institutional factors such as government policy, regulation, and support. SMEs see benefits such as improved access to capital, enhanced reputation, better decision-making, support for internationalization, and regulatory compliance. However, they also face challenges including complexity and cost, lack of expertise, resource constraints, regulatory burdens, and resistance to change.

Based on the research results, the author focuses on some recommendations for policy makers and regulators, specifically as follows:

First, provide adequate legal support by providing educational materials, workshops, counseling services, and financial support to help SMEs understand and implement IFRS. Second, promote the development of professional networks, including accounting associations, consulting firms, and educational institutions, to provide expertise, resources, and support in the application process. Third, address resource constraints by implementing financial incentives such as tax breaks and subsidies for training and technology upgrades. Fourth, increase management awareness and expertise by developing targeted training and education programs to enhance the knowledge and skills of SME owners and managers about IFRS. Finally, promote a positive organizational culture that values transparency, high-quality financial reporting, and continuous improvement in SMEs. Implementing these recommendations will help SMEs overcome the challenges associated with IFRS adoption and reap the benefits of enhanced reputation, improved access to capital, and increased competitiveness.

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