Users' perceptions and uses of financial reports of small and medium companies (SMCs) in transitional economies
Qualitative evidence from Vietnam

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Abstract

Purpose – The purpose of this paper is to report the findings of an exploratory study examining users' perceptions and uses of SMC financial reports in the transitional economy of Vietnam.

Design/methodology/approach – Semi-structured interviews were conducted with a wide range of users of financial information.

Findings – The range of users of financial information was limited, mainly the tax authorities and government agencies. Banks were considered to be another important user, but only by a minority of the companies interviewed. External users were concerned with the reliability of information provided by SMCs. In addition to the main indicators in the financial statements, cash flow information and forecasts were seen as important, but these were normally unavailable or poorly presented.

Research limitations/implications – As the study focuses on a small sample of users of financial information, the generalisability of the findings is restricted. Appropriately designed quantitative studies could be conducted to verify the findings of this study.

Practical implications – Accounting expertise was seen as the main concern in the directors' use of information. The study also found a low awareness of cost-benefit considerations amongst the directors of SMCs. Auditing was regarded as infeasible because of the low quality of the audits available and inadequate capacity of auditors to supply the small company market.

Originality/value – The study offers rich data on the users' perceptions and uses of financial information of SMCs. This is the first time this type of research has been conducted in Vietnam.

Keywords Financial reporting, Small to medium sized enterprises, Vietnam

Paper type Research paper

1. Introduction
Small and medium sized companies (SMCs) comprise the vast majority of incorporated enterprises and are also the main source of wealth creation and employment of transitional economies. Whilst a transparent financial reporting regime is essential for large listed companies, it is also just as important for SMCs to compete, to access financial sources and to find partners for their growth and development (UNCTAD, 2002). This paper attempts to identify and conceptualize the patterns arising from the users' perceptions and uses of information in the financial reports of SMCs in the

transitional economy of Vietnam. The research is undertaken against a rationale for differential reporting by smaller entities both from an international (IASB, 2004) and country-specific perspective (ASB, 1999). The changes are generally based on the background of user-friendliness and cost-benefit considerations of the information produced. Therefore, it is reasonable to address the question of how the users' information requirements are served by these changes.

National financial reporting practices in transitional economies have evolved as a response to many socio-economic domestic factors, including the level of economic development, the legal and regulatory system, educational and professional infrastructure, colonial heritage and history and culture (UNCTAD, 2000; Saudagaran and Diga, 2003; Kosmala-MacLullich *et al.*, 2004; Sevic, 2004). These factors are likely to have significant impacts on the utility of small company financial information. Therefore, it is important to explore what factors affect the uses of information and how and why SMCs are able to provide the information. Unfortunately, little has been known about these issues. A review of the relevant literature has shown that much accounting research focuses primarily on large listed companies rather than smaller ones (John and Healeas, 2000; Collis, 2003) and is set in the context of developed rather than developing countries (Hopper and Hoque, 2004; Mirshekary and Saudagaran, 2005). Furthermore, most studies base their inquiry on specific-user rather than multi-user groups which are considered more appropriate for the general purpose of traditional financial reporting (ASSC, 1975). Through focusing on a multi-user perspective and developing a model of the patterns of the perceptions and uses of small company financial reports in a developing economy, this study makes a contribution to this under researched area.

This study employs a purely qualitative approach. In Vietnam, 19 semi-structured interviews were conducted with users of financial information of SMCs. A content analysis method was employed to analyze the qualitative data and to interpret the findings of the study.

The remainder of this paper is organized as follows. Firstly, a user perspective of financial reporting is discussed as a theoretical framework for the study. Secondly, the recent economic and financial environment in Vietnam is discussed focusing on contextual differences in the reporting environment between the Vietnamese economy and developed economies. Thirdly, the research methodology and data collection are outlined and the findings and implications for future research are discussed.

2. Users and uses of financial reports of small and medium sized companies
The rationale for the identification of users and uses of corporate financial information is based on "decision-usefulness" theory (Staubus, 1961, 1977). The theory, attempts to describe accounting as a process of providing the relevant information to the relevant decision makers (Gray *et al.*, 1996). The development of decision-usefulness theory can be traced to the middle of the twentieth century when financial statements were criticized as of being of little use to the user in making economic decisions (Edwards, 1989). The usefulness of financial information was, therefore, estimated by how it aids the users in making rational decisions and a user perspective of the objective of financial reporting also made it easier to choose accounting treatments. Despite some criticism (Puxty and Laughlin, 1983; Page, 1990) this has become fundamental to information disclosure and its theoretical and practical implications play a significant

role in the history of financial accounting and standard setting in developed countries (Staubus, 2000; Sharma and Iselin, 2003).

Decision usefulness theory was first adopted by the publication of the Trueblood Report (AICPA, 1973) in the USA with the view that the objective of financial statements is to provide information on which to base economic decisions. The report clearly indicates the shift from the stewardship function to a decision usefulness perspective.

In the UK, the Corporate Report (ASSC, 1975) was an early attempt to discuss the decision usefulness perspective of financial reports. The report identifies seven user groups of corporate financial reports, including the equity investors, loan creditors, employees, analyst-advisors, business contacts, the government and the public. The report has influenced many later studies in the field. However, the report was criticized as it was exclusive to large companies and the uses of each user group were not explicitly discussed.

From the early 1980s, there has been increasing interest in the users' needs and uses of financial information of smaller firms (Stanga and Tiller, 1983; Page, 1984; Berry *et al.*, 1987; Keasey and Watson, 1988; Marriott and Marriott, 2000; Collis and Jarvis, 2002) and most of these studies are located in developed countries. The key rationale for these studies is the distinctive organizational and ownership structure of SMCs and the environment in which they operate. Unlike large firms, smaller companies have somewhat different objectives, motivations and actions (Storey, 1994; Jarvis *et al.*, 2000) and the separation of ownership and control is not common (Carsberg *et al.*, 1985; Marriott and Marriott, 2000). As a consequence, there is little delegation of control and the agency theory which is based on the relationship between the external shareholders (the principal) and the management (the agent) may not be considered appropriate. These arguments lead to a fundamental issue considered as highly relevant to small company financial reporting: "who should report what, to whom, and why?" (Perks, 1993; cited in John and Healeas, 2000, p. 17).

It is interesting to note that since there is no statutory requirement for public disclosure for small company financial information, the number of users of small company financial reports is perceived to be limited (Chittenden *et al.*, 1990). However, it is surprising that the conclusions on the main users and their uses of small company financial statements are quite diverse. The issue is likely to cause disagreements as to what information SMCs should provide to their users. Some studies (Page, 1984; Barker and Noonan, 1996; Collis and Jarvis, 2000) argue that the main use of accounts is for management purposes by the directors of the companies. Page (1984) examines the use of the reports of small independent companies and concluded that tax authorities are also a main user of small company information. However, he also argues that: "employees have personal contact with the proprietors and the role of the analyst/advisor group is very restricted where there is no public market for the company's securities" (p. 272). Despite research identifying owner-directors and taxation authorities as the main users of the financial statements of small companies, accounting standard setting bodies, such as the IASB, focus on general purpose financial statements and exclude the specific needs of these two key users. Instead the needs of the users of the financial statements of large companies dominate the standard setting debate, resulting in a rather confusing situation for small firms.

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Some studies (Carsberg *et al.*, 1985; Deakins and Hussain, 1994) argue that financial reports play a critical role in lending decisions of banks, which are the main source of external finance of small companies. Jarvis (1996) noted that venture capitalists, equity investors and employees are also discussed frequently in the literature as main users of small company accounts. However, he also suggests that business contacts, such as the trade creditors, should be considered as a main user group of the companies. The diversity of the above findings means that to some extent, fundamental questions about the users and their uses of small company financial information remains unanswered.

Although the literature on a user perspective of financial reports has been established in developed countries, very little seems to be known about this issue in transitional countries. With the development of a separate financial reporting standards for smaller entities in the UK (ASB, 1997) and in the international arena (IASB, 2004), it is necessary to address this issue in the transitional economy of Vietnam. Recognizing that financial reporting practices in transitional economies have some unique features compared to mature market economies (Bailey, 1995; Scheela and Nguyen, 2004), research in this area is likely to contribute to the economic development of such countries and fill the existing gap identified in the literature.

3. Economic and financial reporting environment of Vietnam
Vietnam is a medium sized country located in the South East region of Asia with a population of more than 80 million. The country has embraced a successful economic reform to a market economy in recent years. The reform, known as *Doi Moi* (revolution) emphasizes gradual transition from a centrally planned economy to a market economy with economic restructuring to come before privatization (Montes, 2001). In the transition process, the private sector is supported as a vital component of the economy (Webster, 1999) and SMCs, defined as independent companies with less than 300 employees or registered working capital of less than 10 billion VND (equivalent to £350,000) (VieGov, 2001), are considered one of the key resolutions to create jobs and economic growth (UNIDO, 2000) and to protect economic independence (UNDP, 2002). Recent data from the General Statistics Office shows that SMCs with less than 300 employees account for more than 95 percent of all companies and have grown in number by about 30 percent each year for the last ten years (GSO, 2004). In spite of their economic importance, SMCs face significant challenges such as limited business skills and an inadequate and underdeveloped institutional infrastructure (Webster, 1999; Scheela and Nguyen, 2004). More importantly, SMCs lack a transparent reporting regime, which is essential to help them access more financial resources for their growth and development (ADB, 2001).

As in other transition countries such as China or Eastern European countries, the accounting and financial system in Vietnam has experienced radical changes from the socialist accounting regime to a market oriented model. However, these changes lag far behind the development of economic activities. In 1995, after six years of *Doi Moi*, the enterprise accounting system (MoF, 1995) and the accounting system for smaller enterprises (MoF, 1996) were introduced as the first steps to recognize the private sector as a subject of economic transactions. Unlike the USA or the UK generally accepted accounting principles (GAAP), both the Vietnamese accounting systems resemble a bookkeeping manual rather than a collection of concepts and principles and

are driven by taxation and state enterprises rather than free market forces (Yang and Nguyen, 2003). The systems are not standards, but consist of the sub-systems of financial statements, ledger accounts, accounting documents and detailed accounting regulations. The primary focus of reporting is directed at state-owned enterprises (ADB, 2001), the tax authorities and other government agencies are the primary users of financial statements.

Although the importance of SMCs in national economic development is fully recognized, their financial reporting practices have been largely ignored. SMCs are required to share the same reporting regulations with large companies. Furthermore, Vietnamese Accounting Standards, which mostly comply with International Accounting Standards, have recently been issued and are intended to be used in all enterprises, stimulating an increase in the volume and complexity of accounting regulations imposed on SMCs. It can be argued that accounting activities, especially in SMCs, are more concerned with legal compliance than economic relevance. However, the legal and regulatory framework in Vietnam, as in other transition countries, is limited in scope and is expressed in loose and general terms (Abu-Nassar and Rutherford, 1996). Therefore, SMCs have become notorious for having poor or even no accounting records (UNCTAD, 2000). Consequently, the users of their financial information are unable to assess risks and future returns and this can create funding problems (Lloyd-Reason *et al.*, 2000), competitive disadvantages and higher failure rates (UNCTAD, 2002).

It can be concluded that the basic accounting assumptions on the usefulness of accounting information have been challenged in the context of transitional economies. This calls for empirical evidence on the user's perception and use of financial information of SMCs which this study attempts to address.

4. Methodology
This study adopts a pure qualitative research method. The rationale for the choice of a qualitative approach stems from the nature and context of the study. Qualitative research is used when researchers seek to understand the context of the research matter in terms of how and why it occurs (Cassell and Symon, 1994) and when the research phenomena is emergent rather than prefigured (Creswell, 2003). These features are present in this study: it is an exploratory study providing an in-depth investigation to supply evidence of the users' perceptions and uses of the information and it also attempts to identify and conceptualize the relationship between the emerging themes grounded in the data. Other reasons for the choice of method are the unreliability of economic data and the problems in administering surveys in transitional economies (Hopper and Hoque, 2004) which rendered alternative quantitative methods impractical. The qualitative research design is in the form of inductive naturalistic inquiry and is part of the conceptualizing process, namely conceptual framing (Llewelyn, 2003) or grounded theory (Glaser and Strauss, 1967; Strauss and Corbin, 1998).

The study selected a wide range of users using a random sample. Interviews were carried out with 19 respondents considered as potential users of financial statements prepared by SMCs, including statutory users (tax authorities and statistics officers) and non-statutory users (financial advisors, bank lending managers and directors and

financial director/chief accountants). All respondents were located in Hanoi, the capital city of Vietnam. Table I shows the breakdown of respondents.

The sample of users of information was based on the *Hanoi Yellow Pages 2004* published by the Vietnam Communications Corporation. One of the advantages of this source was that each company/institution had a complete profile including name, address, telephone number and some details of managers. Another advantage was that the list was considered the most up-to-date data source available.

An initial search on the bank, government offices and consultancy categories produced a list of 22 commercial banks (the number of banks was then reduced to eight by choosing every third name of the list), 11 government offices (including tax and statistics sections) and 3 financial consultancies. The search was then followed by mail contacts. Copies of an introductory letter explaining the purpose, content and method of interviewing were sent to the managers of all departments or organizations. The contacts resulted in nine agreements to take part in the study and eventually eight interviews were completed.

A second search on the private company category in the *Hanoi Yellow Page* generated a list of 366 private companies. This list was the most up-to-date accessible database of private companies since an alternative comprehensive sampling frame of SMEs which does not exist. A major drawback of the list was that it did not indicate the size of the business. However, as over 95 percent of non-state enterprises are small and medium (GSO, 2004), this list was considered adequate for the needs of the study. A random sample of respondents was then selected by choosing every fifth element. The process resulted in a smaller sample of 74 companies which were regarded as feasible for interviewing. These companies were then contacted via telephone to arrange interviews. The majority of these initial contacts were unsuccessful for a number of reasons: the companies had exited from the market; the interviewees were too busy or not interested in the study. Some potential interviewees initially offered appointments, but then changed their minds. Finally, 11 interviews with owner/directors and chief accountants of the companies were conducted. The profiles of respondents are provided in the Appendix (Table AI).

Although the response rates of the interviews are low (36 percent in the sample of users and 15 percent in the sample of SMCs), this is expected. For example, Templeman and Wootton (1987) had a response rate of 12 percent, Marriott and Marriott (2000) reported a response rate of 6.7 percent; and Fillis *et al.* (2004) also managed their interviews with a response rate of 15 percent. One reason for the low response rate is that this type of study is unusual in Vietnam: all the respondents said that it was the first time they had participated in research of this type. There was also a degree of suspicion and some of respondents requested significant details about the researcher before they agreed to be interviewed.

Users	Code used	No. contacted	No. responded	Percentage responded
Bank credit managers	BL	8	2	25.00
Financial advisors	FA	3	1	33.33
Tax officers	TA	7	2	28.57
Statistics officers	SO	4	3	75.00
Chief accountants	CA	15	4	26.66
Owner/directors	OM	59	7	11.86
Total		96	19	19.79

Table I.
Respondent rates of the sample of users

While 19 responses may appear to be quite restricted, this can be regarded as sufficient for a qualitative study. In phenomenology, "theoretical sampling" is the term used to indicate where the size of the sample is determined as the theory emerges (Glaser and Strauss, 1967). In addition, as there was a degree of consistency in the answers of the respondents, the sample size, therefore, can be considered to be adequate for the purpose of this investigation.

Two questionnaires were designed to fit the context of the interviews. A semi-structured approach enables flexibility in interview design and conduct, resulting in a rich data set for subsequent analysis (Horton *et al.*, 2004). Semi-structured questions were used in one-to-one personal interviews. The questionnaires start with general questions regarding issues relevant to the participants. The purpose of these questions is to allow the participant to freely answer the questions, raising their own ideas and reduce the risk of response bias (Dicken, 1987; cited in Marriott and Marriott, 1999; Bedard and Gendron, 2004). Follow up questions were then used to guide the participants through major relevant themes arising from the literature. These themes are listed below:

- SMC definition;
- general needs of information;
- purpose of using information;
- experience in dealing with financial statements;
- time spent reading financial statements;
- perceptions of relevance of different sections of the financial reports;
- access to information;
- frequency of usage;
- level of understanding of information;
- perceptions about information quality (reliability, relevance, timely, comparability);
- other sources of information;
- cost-benefit considerations; and
- perceptions about the role of audit and accounting standards.

The questionnaires were sent to academics in accounting and related disciplines to obtain the face validity of the questions. A format of financial statements (MoF, 1996) was also used for the respondents' specific comments. Each interview took from 40 minutes to 2 hours. All interviews were completed during two time periods, from January-February and from May-June 2005.

All interviews were tape recorded with the respondents' permission to facilitate later analysis and Nvivo (Version 2.0), was used to assist the qualitative analysis process. It is recognized that the meaning of the information embedded in the transcribed words is important rather than the words themselves (Miles and Huberman, 1994). Therefore, the coding process was performed as a "looking-for-information" process rather than a mere breakdown of paragraphs.

The coding process was not only for summarizing segments of data, but also a way of grouping those summaries into a smaller numbers of sets, themes or constructs. This feature was also useful in identifying the relationship of the themes arising from

the interviews. The coding process helped to construct coding models, also known as coding frames (Strauss, 1987; Berg, 2004) and to serve as a tool for identifying and analyzing new themes arising from the interviews. These frames were used interactively with all cases (interview documents) to produce a model of patterns of users' needs and uses of information. Figure 1 shows this model.

5. Results and discussion
A frequency scale was developed to summarize the responses of the interviews conducted. Table II shows details of this scale. The scale is calculated by counting the number of similar opinions about the same issue addressed in the interviews.

The major issues are discussed in the following sections providing a deeper insight into the views of the respondents.

5.1 The definition of SMCs
The first impression gained from all the interviews was that although all the respondents were aware of the economic importance of SMCs, their general knowledge on SMCs' legal status seemed to be limited. All respondents said that they did not know how an SMC was defined by the government. Most of the respondents (14 out of the 19) reported that the definition of SMC depended on their own perceptions and on the requirements of their jobs:

> It is common in Vietnam that non-state owned enterprises are considered as [an] SMC ... I think that the most relevant criteria are the annual revenue and gross profit. (SO (1)).

> I am not clear about those criteria, as I think the criteria include the number of employees and total investment capital. However, this is just my opinion. (BL (2)).

There was also an issue of how a SMC should be defined. When the respondents were informed about the official thresholds of SMC's defined by the government (VieGov, 2001), they said that the definition was inadequate and other criteria should be
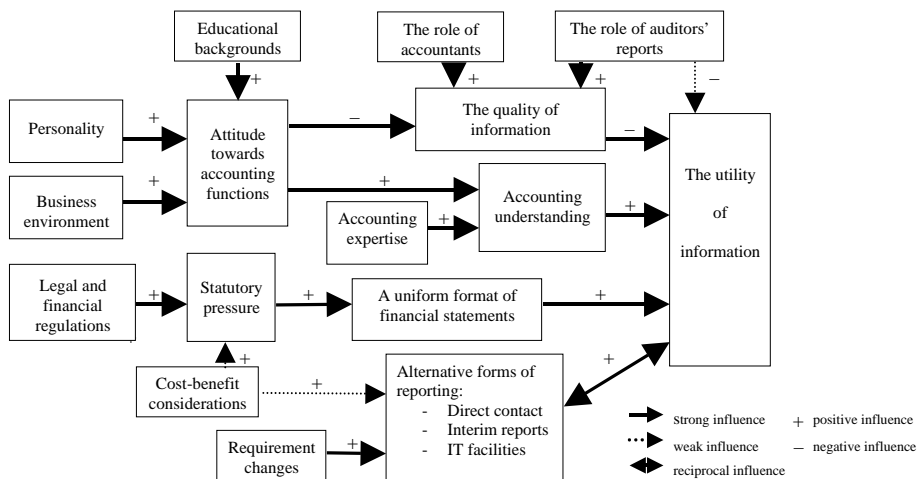

Figure 1.
Model of patterns of users'
perceptions and use of
information

	Number of users[a]		
	Yes	No	N/A
1. The definition of SMC			
Lack of information about the definition	19	0	0
Offer personal perceptions about SMC concept	14	3	2
2. The users and their needs for information			
Government agencies are the main users of information	19	0	0
Other users (investors, banks and credit institutions, other shareholders)	6	13	0
Total balance sheets and annual revenues are important	14	4	1
Cash flow information is important	16	2	1
Other information	14	3	2
Use alternative methods of communications	8	11	0
3. The users' access to and use of information			
Statutory submission is the main method of information collection	19	0	0
An alternative format of reports is used extensively	5	14	0
Direct contact with the companies is used extensively	8	11	0
Use IT facilities to access financial information	3	16	0
The main use of financial reports is government compliance (taxation, statistics collection, other administration purposes)	17	2	0
Accounting expertise is a constraint to make use of information	7	11	1
4. Quality of information			
The reliability of information is low	13	2	0
The perceptions of the directors affect the quality of information[b]	8	3	1
Accountants' capability was important to the quality of information[c]	13	2	0
The costs outweigh the benefits of accounting activities	4	3	12
5. The role of audit			
Audit is an important indicator of the quality of information	19	0	0
Quality of audit negatively affect the quality of information	14	5	0
The audit fee is the main consideration to use audit service	2	17	0
Accountants may provide audit service[c]	1	14	0

Table II.
Frequency scale of patterns of users' perceptions and use of financial information

Notes: [a]Total number of users – 19, [b]total number of users exclusive of the directors (19 − 7 = 12), [c]total number of users exclusive of the accountants (19 − 4 = 15)

considered. While there was no strong consensus, the following is an example of the criteria that could be used:

> I think we should consider the industry factor as well... or we should have some supplementary criteria such as average income of employees, state budget contribution, etc. (BL (2)).

The SMCs in this study appeared ignorant of their own legal status. This will have repercussion for the government in their attempt to introduce and apply financial regulations pertaining to SMCs. While the lack of awareness of SMC legal status is not mentioned in the literature, this could be a feature of SMCs in other transitional economies.

5.2 The users of financial statements and their information needs
The main users of the financial reports were perceived as more limited compared to the findings of studies in developed countries. Consistent with the findings of Page (1984) and Chittenden *et al.* (1990), the study found that tax authorities and other government agencies were the main users of financial statements:

I submit the reports to the Tax department and the Companies Registrar. I know it is obligatory to submit to the local Statistics Office . . . but I have not done for years. (CA (3))

Only about 30-40% of non state owned enterprises submit [their] financial statements to the administrative agencies such as our office . . . I have asked some enterprises. . . they said that they did not know about that or there was no query from the agency (SO (1)).

As Carsberg *et al.* (1985) and Deakins and Hussain (1994) argue, banks are also mentioned as one of the main users of financial information. However, the evidence from the study also showed that a considerable number of companies interviewed did not use the services offered by the banks. Only 4 of the 11 SMCs reported that banks were the main users of their financial statements. The limited scope of the SMC's business activities and complex lending procedures were cited as the main reason for their reluctance in using banks as a source of finance. The relationship between the owner/directors and the banks was seen as one of conflict due to a lack of transparent information exchange, especially in terms of reliability and frequency of information. This phenomenon confirms the findings of previous studies in developed economies (Keasey and Watson, 1993; Jarvis *et al.*, 1996). However, it was also reported that alternative methods of communication were a key factor in improving the relationship. The use of alternative information also indicates the inadequacy, either in quantity or quality of information, of the existing financial statements as far as the banks are concerned:

. . . we always use direct contacts with them [SMCs] as the main source of information . . .We also have a [different] format of reports. (BL (2)).

They pay frequent site visits to my company and even work with accounting staff . . . (OM (1)).

In some cases, the failure in information communication between the banks and SMCs was not solely the fault of the SMCs. Two bank lending officers contended that their lack of experience in dealing with the private sector also had a profound effect on the relationship between the banks and their small business clients:

Not until recently have we extended our market to [the] private sector. . . (BL (1)).

All respondents said that they appreciated the positive role of financial advisor/analysts in helping them to improve their understanding of financial information. However, at the current time, none of them used this source of advice due to the small size of their business and cost burden in terms of staff required to produce financial information.

The information provided by SMCs seems not to satisfy what is expected from users. All users perceived financial statements as a main tool of communication between outside interested parties and the SMCs. However, besides the main economic indicators available in the financial statements such as the total revenues, expenses, profits and account receivable/payables, the users also requested information about the future prospects of the business:

The main point . . . is the economic efficiency and the feasibility of the project for which they use the loan. (BL (1)).

I think that cash flow information is very important in managing a business. However, most companies do not understand the nature and usefulness [of the cash flow report] (BL (2)).

Most users (16 out of the 19) said that forecasts and cash flow information were also important. However, the information was of limited use because it was unavailable and/or

the management's accompanying explanation and prediction capabilities were poor. All eight external users said that the SMCs were unable to produce meaningful cash flow forecasts:

> I think that the forecast is very poor. Most information is subjective . . . and is done in an *ad hoc* manner (FA).

5.3 The users' access to and uses of information
It can be argued that the users' access to the financial information of SMCs varies considerably according to their needs. All users mentioned the statutory submissions specified by law as the main method of access to information. Five respondents also addressed other methods of information communication: issuing an alternative format of financial reports and conducting direct contacts with the company:

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

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

All 19 respondents said that the main use of financial statements was for taxation and administrative purposes of the government agencies. The interviews with the directors also revealed that the production of financial reports was not for economic use, but merely government compliance. This situation led to the owner-directors developing negative attitudes toward the role of financial reporting which was described in Keasey and Short (1990) as a distress purchase for SMCs and as a pure "burden" to the business:

> I submit them [the financial statements] to the tax department. We have to do that because it is statutory . . . (OM (2)).

> I just use information to meet the requirements of my work (SO (3)).

The users' accounting expertise was seen as one of the biggest factors affecting the information use of the owner/directors of the SMCs interviewed. The directors may not understand or use the information they produced:

> I may not fully understand them . . . I have to employ accountants to take care of these issues (OM (5)).

> The reason is that I do not have much accounting expertise. In fact, I am interested in only the main business performance indicators (SO (2)).

This was contrast to the findings of studies on the users of large companies (Abu-Nassar and Rutherford, 1996) but was in line with similar studies on small companies in developed countries (Marriott and Marriott, 2000) that there was a need for more investigation on the possibility of the introduction of management accounting in SMCs to meet the needs of internal management. However, more research is needed to measure the extent to which the directors understand financial information.

5.4 The users' opinion of the quality of information
There was a general consensus amongst the non-SMC respondents that the information provided by SMCs was of low quality. Seven respondents said that the financial

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background of owner/directors was variable, largely depending on their business experience and education and that the directors' perceptions about the role of accounting were negative. As a result, the directors make no attempt to increase the quality of information and there is some evidence of them influencing their internal accountants to produce unreliable accounting information for tax avoidance:

> Even some of them do not know how to allocate the revenues or expenses . . . If the director would like to produce a higher quality report . . . his accounting process has to be done properly (SO (3)).

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

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

Regarding the characteristics of information provided, reliability and timeliness were seen as the most desirable characteristics affecting the utility of information. The income statements were perceived as having little value with the profit margin being the most unreliable measure. Except for the tax authorities and accountants, all other users had to request specifically if they required more frequent reports:

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

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

> . . . the companies try to avoid taxes by including in their payrolls a lot of their relatives who never [actually] work for them . . .or record their revenue under the form of account payables (SO (2)).

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

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

Some solutions were offered to remedy the problems:

> It [the government] should be more restrictive in the approval and investigation processes to assure the quality of their [SMCs] reporting practices. It is also related to legal compliance . . . (SO (2)).

It is interesting that 8 out of 11 SMCs use the internet as a source of information. The increase in the use of information technology is anticipated to create more opportunities to improve the relationship between the users and the companies. However, most users said that they had not accessed the information through this channel.

5.5 Cost-benefit considerations
Contrary to the work of Drury and Tayles (1995), but similar to the findings of Carsberg *et al.* (1985) and Keasey and Short (1990), this study found that there is a lack of cost-benefit considerations of financial reporting among the respondents. All owner/directors and accountants said that they retained their accounting system mainly because it was legally required. They also did not recognize the relationship between the costs and benefits of reporting activities:

I never think of that. I do not see any relevance in the accounting activities (OM (1)).

I think it is hard to assess the relationship between them. In fact, I never think of it (CA (2)).

It is also noted that, as Marriott and Marriott (2000) discuss, the perceptions of costs and benefits from financial reporting practices also rely on the knowledge and management skills of the owner/managers themselves.

5.6 The role of audit
There was a consensus among all respondents upon the role of audit in improving the quality of information. However, only 2 out of 11 SMCs use audit services. When the respondents were asked about the audit fees incurred by some audited SMCs, they said that they were most concerned with the quality and the capacity of audit rather than any cost burden:

The recommendations are general and not very helpful. They do not give us specific comments on financial and management issues . . . (OM (3)).

I do not think that the problem lies in the audit fees, but in the fear that the auditors will uncover the management problems inherent in the company operations . . . All auditing companies also should be [more] responsible for the quality of audit (FA).

. . . The auditors cannot help all enterprises, especially small and very small enterprises . . . (SO (3)).

. . . the auditors have no responsibility for the fraud they failed to identify when they conducted their audit (TA (1)).

When the users were asked about the role of accountants in providing a statutory audit, most of them (14 out of 15, except accountants) said that this was not feasible as it was not a legal requirement. Although accountants were seen as having the potential to add value to the information provided, the respondents also stated that the accountants' honesty in preparing and providing the information was also questionable:

Even some of the chief accountants are also not reliable . . . As far as I know, some chief accountants even take advantage of their roles to provide false data . . . (BL (1)).

It was implied that the main factor that affects the demand for and the use of audit was the perceptions of the service quality rather than the cost rationale. Therefore, it is also worth considering the relationship between the accountants and the companies as a way to improve the quality of information.

6. Conclusions
This paper reports the findings of an exploratory study analyzing users' perceptions and uses of information of SMCs in a transition country. The study is based on decision

usefulness theory of accounting and is conducted under the form of semi-structured interviews with a wide range of users of financial information of SMCs in Vietnam.

As with previous studies in the area, this study also found that the main users of SMCs financial reports are the tax authorities and other government agencies. Banks were also considered as an important user group of financial information. However, the limitation in scope of business activities and a negative perception of the complexity of bank lending procedures were cited as the reasons for the reluctance to provide the financial information to this user group. There is a general consensus amongst the users of the need for the key business performance indicators to accompany the financial statements. Cash flow information and forecasts were also seen as important by bank lending officers, but this was unavailable or prepared in an *ad hoc* manner.

Contrary to the findings of Abu-Nassar and Rutherford (1996), the study found that accounting expertise was viewed as the biggest constraint to the use of financial information by the SMC directors and their perceptions of financial reporting functions were also commented upon as playing a crucial role in increasing the quality of information and the frequency of the reports provided to users. The directors perceive little benefit from the current reporting practice as they do not understand the information and the quality of information produced is low. As a result, they had a low awareness of cost-benefit considerations of reporting tasks. There was a negative perception amongst the users about the reliability of financial information provided by SMCs. Some alternative forms of information communication between users and reporting companies have been deployed to remedy these problems, but their informality and infrequency make them an imperfect replacement. The study also found that the definition of a SMC was not well recognized and government control and regulation was still the main driver for the preparation of small company financial information in SMCs in Vietnam. Audited financial reports were seen to be of limited use because of the issues concerning audit quality and feasibility in the small business sector.

This study concludes that there exists a "less decision usefulness" perspective of the financial information provided in SMC financial reports in the under-regulated reporting environment of Vietnam. SMCs, therefore, have to be more proactive to meet the needs of the real users of their financial statements rather than merely complying with government regulations if they are to survive and grow in the rapidly changing environment of a transitional economy.

Since, the study focuses on a small sample of users of financial information in the area of Hanoi, the generalisability of the research findings is restricted. These limitations provide a basis for further research, especially appropriately designed quantitative studies, to be conducted to verify the findings of this study. This quantitative work will be difficult to undertake, however, this research method could extend the findings of this study by examining the relationship between the SMCs ability to provide further financial information that meets the users' needs.

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Further reading

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Appendix
Profiles of interview respondents

No.	Location	Position	Type of business/institutions	Code used
1	Dong Da Dist, Hanoi	Owner/director	Electrical equipment traders	OM (1)
2	Hoan Kiem Dist, Hanoi	Owner/director	Electrical office equipment traders	OM (2)
3	Dong Da Dist, Hanoi	Vice director	Plastic card Manufacturers	OM (3)
4	Ba Dinh Dist, Hanoi	Director	Coal Manufacturers	OM (4)
5	Hai Ba Trung Dist, Hanoi	Director	Speaker case manufacturers	OM (5)
6	Hoan Kiem Dist, Hanoi	Vice director	Computer and software traders	OM (6)
7	Tay Ho Dist, Hanoi	Director	Electronic catalogue manufacturers	OM (7)
8	Dong Da Dist, Hanoi	Chief accountant	Commercial gifts traders	CA (1)
9	Dong Da Dist, Hanoi	Chief accountant	Textile product manufacturers	CA (2)
10	Dong Da Dist, Hanoi	Chief accountant	Medical equipment traders	CA (3)
11	Hoang Mai Dist, Hanoi	Chief accountant	Photography, decoration and graphics	CA (4)
12	Ba Dinh Dist, Hanoi	Finance director	Consultant on accounting and finance	FA
13	Ba Dinh Dist, Hanoi	Credit manager	Banks	BL (1)
14	Hai Ba Trung Dist, Hanoi	Credit manager (2)	Banks	BL (2)
15	Dong Da Dist, Ha noi	Chief tax advisor	Taxation	TA (1)
16	Dong Da Dist, Ha noi	Tax officer	Taxation	TA (2)
17	Hoan Kiem Dist, Ha noi	Vice director	Statistics	SO (1)
18	Hoan Kiem Dist, Hanoi	Chief advisor	Statistics	SO (2)
19	Cau Giay Dist, Ha noi	Statistics officer	Statistics	SO (3)

Table AI.

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