



## THE BUSINESS PERFORMANCE AND ACCOUNTING PRACTICE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN VIETNAM

by Assoc. Prof. Dr. VÕ VĂN NHỊ & Dr. NGUYỄN NGỌC DUNG\*

*Small and medium enterprises (SME) play an important role in the economy. Their sustainable development is one of preconditions for economic growth at present and in future as well. In the past period, Vietnamese SMEs have contributed a lot to various aspects of the socioeconomic development. To help them make the best use of their advantages, overcome difficulties and shortcomings, and deal successfully with challenges posed by international competition, quality of business management in general, and accounting in particular, should be improved radically.*

*The paper examines and estimates some aspects of business performance and accounting jobs in SMEs in the past few years to establish a basis for researches on, and development of, a model of accounting task appropriate to Vietnamese SMEs.*

Keywords: accounting practices, business performance, SME management, accounting regulations.

### 1. An overview of SMEs in Vietnam

Criteria to define a small and medium-sized enterprise (SME) are various from country to country. However, they still have a lot in common, for example, small capital, small workforce, narrow scope of business, simple organizational structure, small market share, low sales, poor management capacity, and need for the governmental assistance in terms of capital, technologies, tax, interest rate, etc. so as to evolve itself.

SMEs play an important role in the economic development of many countries including titan economies of the US, Japan, etc. In developing countries, SMEs are in the majority and take the decisive role in the socioeconomic stability and development.

SMEs in Vietnam, as put forth in many literatures, are showing an onward trend in terms of both quantity and scope of business as well. For example:

- Super small and small-sized enterprises make up the vast majority of SMEs; and are run

as either a private company or a limited liability company.

- The business scope of SMEs is diverse but most of them are in trading and service sector. In terms of manufacturing, SMEs primarily produce handicrafts or do subcontracting to meet the local need.

- The business performance of SMEs is not high enough and usually sharply competed by large companies; and thus the lifespan of some SMEs is not long (i.e. some flatline after nearly a year of operation).

- SMEs are mainly run by household members and with personal experiences, and thus the management capacity and efficiency is usually not high. The information system in general and accounting disclosures in particular are quite poor which is just to provisionally cope with requirements of the tax bureau rather than govern the enterprise better.

Much as there are a lot of limitations in terms of operation and business performance, Vietnam's SMEs play a vital role in the economic development and social stability of the country. SMEs contribute around 40% of GDP, account for a large proportion of budget income, offer jobs to laborers of all ages and skills, provide the society with diverse products and services, and assist large enterprises and other businesses in the national economy. Apparently, SMEs, by providing a solid foundation for the socioeconomic growth, have paved the way for the industrialization and modernization of Vietnam in time to come.

However, in order for Vietnam's SMEs to gain a sustainable growth and promote the national economic potentials in both long and short run, it is necessary to tackle some difficulties and challenges such as:

- (1) A closely-integrated market economy can generate fierce competition amongst enterprises. Therefore, to assure stable capital source, technologies, market shares, and high management competence seems to challenge SMEs, especially when the legal infrastructure

and the business climate of Vietnam are still restricted and need perfecting.

- (2) Vietnam's SMEs, as family businesses and due to dependency on individual roles and skepticism, are often incapable of defining long-term strategies. This is the main obstacle to the sustainable development of SMEs in Vietnam at present.

- (3) Due to effect of the world economy, the national economy in general and the operation of SMEs in particular have also been sharply influenced by high inflation and interest rates, changeable exchange and tax rates, poor supportive policies and human resource, etc. If neither a policy nor an economic remedy is worked out, such obstacle will adversely influence the economic efficiency of the country; and SMEs definitely fall victim to this.

In spite of difficulties and challenges, Vietnam's SMEs also possess some advantages which, if fully exploited, can facilitate their sustainable development. For example:

- Due to a limited scope of business, and small capital and workforce, SMEs can adjust their business and even call a temporary halt to the business at a reasonable cost without suffering serious disturbances.

- The relationship within SMEs is kind of simple, and thus easing discussions about internal affairs, and limiting business risks caused by unfavorable working conditions or high pressure.

- Social responsibility of SMEs is not too heavy and public opinions do not affect the operation of SMEs a lot. Thus, SMEs are more active and independent to tackle their own business difficulties.

Such advantages, of course, are just able to help deal with transient issues. The crucial point is that there must be appropriate policies, especially those to facilitate and enhance the management and operation of SMEs, which can positively impinge on the operation and development of Vietnam's SMEs.

### **2. Accounting in SMEs**

The accounting practice of SMEs in Vietnam, as rendered in researches by the author and some students, is terribly poor and weak. Accounting disclosures are inadequate and opaque, and thus cannot facilitate the enterprise management or the utilization of disclosures by out-company entities.

Weaknesses in the accounting practice of SMEs in Vietnam can be put forth as follows:

- Accounting is merely practiced methodologically by small, nearly medium, and medium-sized enterprises. Meanwhile, it is done perfunctorily in super-small-sized enterprises as a formality to the tax bureau and without any attention to the purpose of corporate governance.

- SMEs accounting practice concentrates on the financial accounting rather than the management accounting which, if any, has not been done systematically and thus cannot facilitate the corporate governance. Moreover, the concept of management accounting seems very weird in nearly small and small-sized enterprises.

The above-mentioned limitations have a close rapport with weaknesses in the accounting practice of SMEs, which are expressed via some facets below:

- The goal of accounting practice has not been defined manifestly and sufficiently.

- Contents of accounting practice have not been systematically linked together. Instead, they are handled casually.

- To determine accounting objects and contents and to utilize accounting methods are still casual and weighted towards subjective opinions of the managers and accountants without any stringent control or good evaluation.

- Organizing the accounting system and employing accounting practitioners has not been done scientifically. Proficiency and professional ethics of accounting practitioners has not been attended to. Instead, many managers just employ docile accountants and find a way to minimize accounting costs.

- Most SMEs have not undertaken the accounting check or analyzed the business

performance via accounting disclosures, and thereby making the amendment or correction of mistakes tardy and ineffective.

### 3. Causes of limitations

Reasons for the above-mentioned limitations are various. Yet, it is possible to divide them into two main kinds, viz. internal reasons and external reasons.

#### *a. Internal reasons:*

- Enterprise owners have not concerned themselves with the accounting practice. They are seemingly unaware of the role and impacts of accounting practice on the corporate governance. For many of them, accounting practitioners are merely employed to produce tax reports or to cope with requirements of the tax bureau. This fact usually occurs in private companies or limited liability companies of super small, nearly small or small sizes. In this kind of business, the corporate governance is primarily based on personal experience and relationships.

- In fact, many of corporate managers, to some extent, attend to the accounting practice. However, due to limitations in the organization of accounting system and the proficiency of accounting practitioners, the accounting practice is not efficient enough and has improbably generated useful information at service of users and the corporate governance. This often takes place in nearly medium or medium-sized state-owned enterprises and some other groups of businesses; and causes difficulties in defining, inspecting and deciding business strategies, especially long-term ones. It is also the apparent weakness of Vietnam's SMEs.

#### *b. External reasons:*

- The accounting practice is influenced by legal provisions. At present, many clauses and articles in the Accounting Law that are out-of-date and slow to be amended or modified, which adversely impinge on the accounting practice of SMEs. Accounting standards and principles which, if not studied and promulgated punctually, can influence the accounting practice as well. However, the law document that directly impacts

on the accounting practice of SMEs is the Decision 48 providing the accounting regime. Such the Decision, as the Ministry of Finance put it, is designed in compliance with the market mechanism, existing accounting regulations, international accounting standards, and the governance capacity of SMEs. Especially, regulations of the Decision are built on the cornerstone of comprehensibility, transparency, publicity, checkability, and controllability. On the outside, it is seemingly rational and precise; yet systematically and scientifically, it is a little bit biased towards the Decision-makers and contains plenty contradictions. For example:

- + Stipulating simultaneously two accounting regimes has generated difficulties in application due to the fact that criteria which are employed to define the business size are not manifest and unanimous, and that enterprises are not tied to choosing a certain regime to apply.

- + The accounting regime is tardily renewed in correspondence with the development of the country and the world economic integration, and thereby cannot satisfy the accounting information need of users.

- + The accounting practice, if done as per such regime, will be very complicated and time-consuming due to requirements for disclosing in more detail and the lack of scientific grounds and practicality in accounting systems.

- + Design of financial statements is rigid, and thereby cannot meet the information need of users or assure flexibility in the accounting practice when the scope of business is altered.

- The second reason falls to the accounting practitioners training. Although Vietnam's SMEs, as mentioned before, represent approximately 97% enterprises of Vietnam, the accounting practice training at all levels just concentrates on the case of large-sized enterprises. Therefore, accounting practitioners, when working for SMEs, are confronted with many difficulties to work to the best. It is possible to state that the army of accounting practitioners is tremendous, the facts that their proficiency, professionalism, and practical expertise is poor and the

governance in SMEs contains weaknesses have pushed the accounting practice in SMEs to a cul-de-sac.

- The third one is related to occupational associations and SMEs-supporting organizations. Even though they are established in a hope of supporting SMEs in terms of professional expertise in its production and management, they have not met practical needs of SMEs as expected. For the accounting practice alone, such support is insubstantial. The idea is that SMEs need an appropriate paradigm for their accounting practice. At present, SMEs still have to grope around for a good way in their accounting practice, and thus above-mentioned limitations are inevitable.

Apparently, SMEs play a vital role in both long and short-term development of Vietnam. In order for SMEs to govern well their business and grow steadily in the context of fierce competition, it is a must to perfect the accounting practice due to the fact that it provides with important information so as for enterprises to define, check and decide their business strategies, especially long-run ones. Nonetheless, the accounting practice of SMEs is kind of weak, adversely affecting the corporate governance and information need of users. This weakness derives from both internal and external reasons; yet to be more specific, it is due to inappropriate and unscientific regulations of the accounting regime promulgated by the government. The idea is that all those concerned in the accounting practice of SMEs should study and define an appropriate and viable model for their accounting practice with a view to gaining a better business performance■

### References

1. Chế độ kế toán áp dụng cho các doanh nghiệp vừa và nhỏ ở Việt Nam ban hành theo QĐ48 (An accounting regime for SMEs in Vietnam, as promulgated in the Decision 48)
2. Võ Văn Nhị (2003), *Nguyên lý kế toán* (Accounting principles).
3. Võ Văn Nhị (2005), *Kế toán tài chính* (Financial accounting).
4. Võ Văn Nhị (2006), *Kế toán doanh nghiệp nhỏ và vừa* (Accounting in small and medium-sized enterprises).