



The Research Landscape: research in SME financial reporting

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Outline

01 SURVEY OF EMPIRICAL RESEARCH STUDIES ON SME FINANCIAL REPORTING

- > SCREENING PROCESS
- > TYPES OF EMPIRICAL STUDIES
- > NUMBER OF STUDIES PUBLISHED PER YEAR
- > RESEARCH INSTRUMENTS
- > COUNTRIES ANALYSED
- > MAJOR TARGET GROUPS
- > SME DEFINITIONS APPLIED
- > MAJOR RESEARCH AREAS

02 ISSUES ARISING FROM THE REVIEW

Outline

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02 ISSUES ARISING FROM THE REVIEW

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> SCREENING PROCESS

Key-word searches

- > electronic databases (EBSCO Business Source Premier, Scencedirect, SSRN) and
- > internet search engine google

Three groups of key-words

- > SME, private firm, private entity, private enterprise, small business, small, small enterprise, medium-sized, closely held
- > financial reporting, financial statements, accounting, reporting, IFRS
- > empirical, research, empirical research, empirical study

For each search at least two key-words were used simultaneously from two different groups

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> SCREENING PROCESS

Time of screening process: June 2009 – April 2010

Identified studies had to meet following additional screening criteria:

- > papers had to be available in English
- > studies must deal with financial reporting
- > studies must focus on non-listed enterprises
- > research approach had to be empirical

→ Using these criteria, a total of 117 papers were identified

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

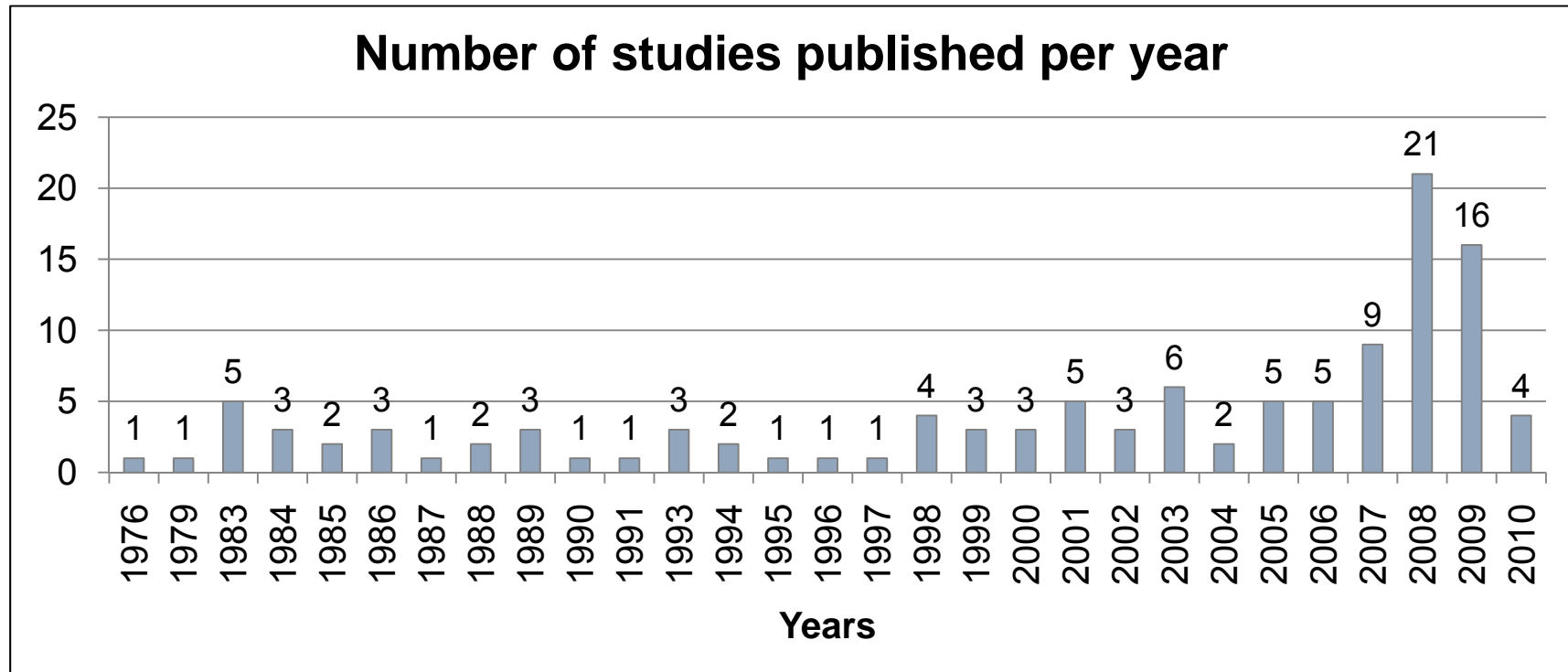
> TYPES OF EMPIRICAL STUDIES

Types of empirical studies	Total
Papers published in academic journals	53
Unpublished conference papers/ working papers	35
Reports of commissioned research	22
Monographs	7
Total	117

→ Compared to capital market based research there is little research available that deals with SME financial reporting

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

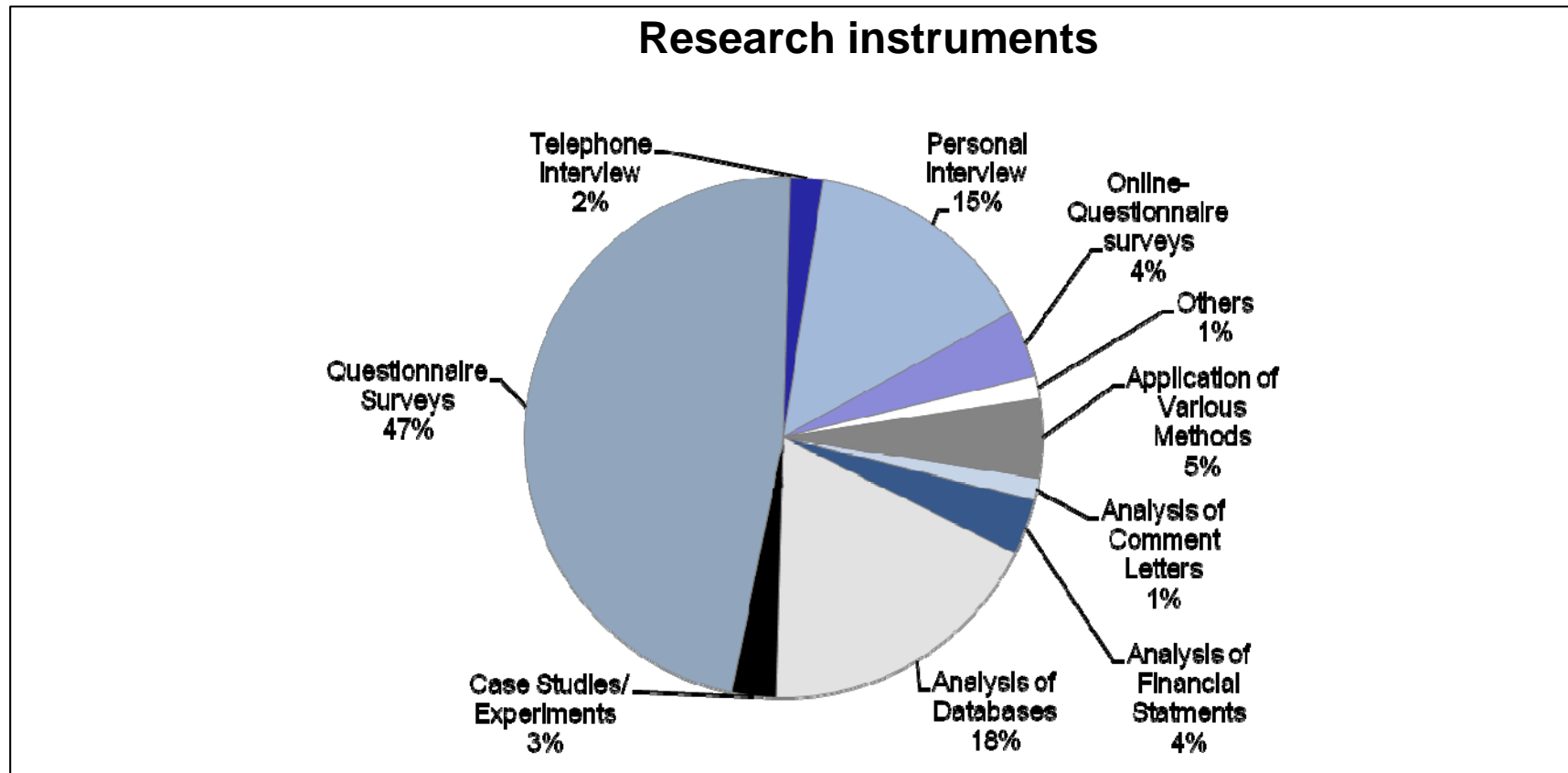
> NUMBER OF STUDIES PUBLISHED PER YEAR



→ Since 2006 the number of studies has increased

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> RESEARCH INSTRUMENTS



- Many research studies are questionnaire surveys or interviews
- Interviews usually suffer from small sample sizes and questionnaire surveys from low response rates

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> RESEARCH INSTRUMENTS

Research instrument	Number of usable responses							
	1-50	51-200	201-350	351-500	501-1.000	1.001-5.000	5.001-10.000	> 10.000
Analysis of comment letters	1	1						
Questionnaire survey	7	25	11	13	6	5		
Personal interview	14	6						
Analysis of financial statements	1	1	2	1				
Case studies/experiments	3		1					
Analysis of databases	1	3	1	1	3	4	2	11
Online-questionnaire surveys			2	2	1		1	
Telephone interview			1			2		
Combined data collection	2	3	1		1			

→ 87 studies had less than 350 usable responses

→ Low numbers of usable responses impact the generalisability of the results

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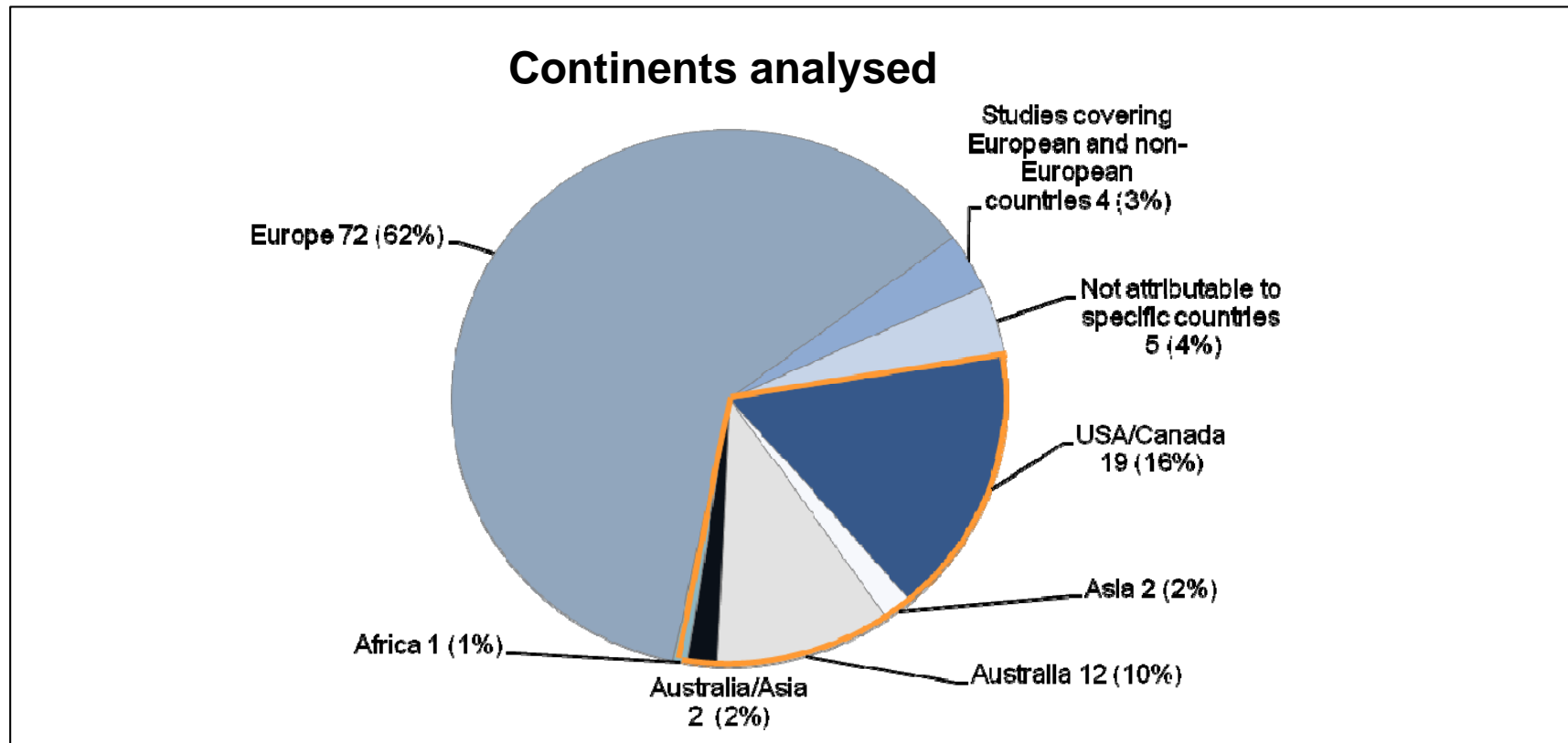
> COUNTRIES ANALYSED

	Europe	Non-European Countries	Studies covering European and non-European Countries	Not attributable to specific countries	Total
Types of empirical studies					
Papers published in academic journals	29	22	1	1	53
Unpublished conference papers/ working papers	27	3	2	3	35
Reports of commissioned research	12	8	1	1	22
Monographs	4	3			7
Total	72	36	4	5	117

→ Most studies are available for European countries

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> COUNTRIES ANALYSED



- Outside Europe most studies exist for the USA/Canada followed by Australia
- Only a few studies exist for Asia

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> COUNTRIES ANALYSED

European countries	Number of studies
UK	37
Germany	13
Belgium	9
Italy	8
Spain	5
France	5
Finland	5
Netherlands	3
Rumania	3
Sweden	3
Slovenia	2
Austria	2
Poland	2
Portugal	2
Denmark	1
Luxembourg	1
Bulgaria	1
Hungary	1

European countries	Number of studies
Estonia	1
Lithuania	1
Slowakia	1
Czech Republic	1
Norway	2
Croatia	2
Switzerland	1
Bosnia	1
Moldowa	1
Kazakhstan	1
Turkey	1
Russia	1
Albania	1
Ukraine	1
Republic of Belarus	1

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> COUNTRIES ANALYSED

European countries	Analysis of databases	Mail questionnaire survey	Online questionnaire	Personal interview	Telephone interview	Analysis of financial statements	Case studies/experiments	Application of various methods	Others
UK	7	18	1	8	1		1	1	2
Germany	4	4	2	2	1		1		
Belgium	5	2	1	1		1			
Italy	3	3			1			1	1
Spain	5	2			1				
France	3	1	1		1			1	
Finland	5			1					
Netherlands	2		1		1	1			
Rumania		3							
Sweden	2	1							
Slovenia	2	1							
Austria	1					1			
Poland		1							1
Portugal	1	1							
Denmark	1								
Luxembourg	1								
Bulgaria		1							
Hungary		1							

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> COUNTRIES ANALYSED

European countries	Analysis of databases	Mail questionnaire survey	Online questionnaire	Personal interview	Telephone interview	Analysis of financial statements	Case studies/experiments	Application of various methods	Others
Estonia		1							
Lithuania		1							
Slowakia		1							
Czech Republic		1							
Norway	2								
Croatia		2							
Switzerland	1								
Bosnia		1							
Moldova		1							
Kazakhstan		1							
Turkey		1							
Russia		1							
Albania		1							
Ukraine		1							
Republic of Belarus		1							

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> MAJOR TARGET GROUPS

Major target groups	Number of studies
SMEs/SME Managers	61
Auditors/External Accountant/Practitioners	25
Members of the Accounting Profession	2
Bank Loan Officers/Bankers	18
Venture Capitalists	1
Research without a specific target group (e.g. analysis of databases, comment letters)	37

- The majority of studies deals with SME managers/directors
- There are only a few user studies
- User studies are mainly restricted to banks

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> MAJOR TARGET GROUPS

European countries	Target groups				
	SMEs/SME manager	Bank loan officers/ bankers	Auditors/ practitioners	Venture capitalists	Research without a specific target group
UK	22	6	10		9
Germany	6	3			5
Belgium	2		2		7
Italy	6			1	4
Spain	3		1		6
France	3		1		3
Finland	1		1		4
Netherlands	2	1	1		3
Rumania	3				
Sweden	1				2
Slovenia	1				2
Austria					2
Poland	2				
Portugal	1				1
Denmark					1
Luxembourg					1
Bulgaria	1				
Hungary	1				

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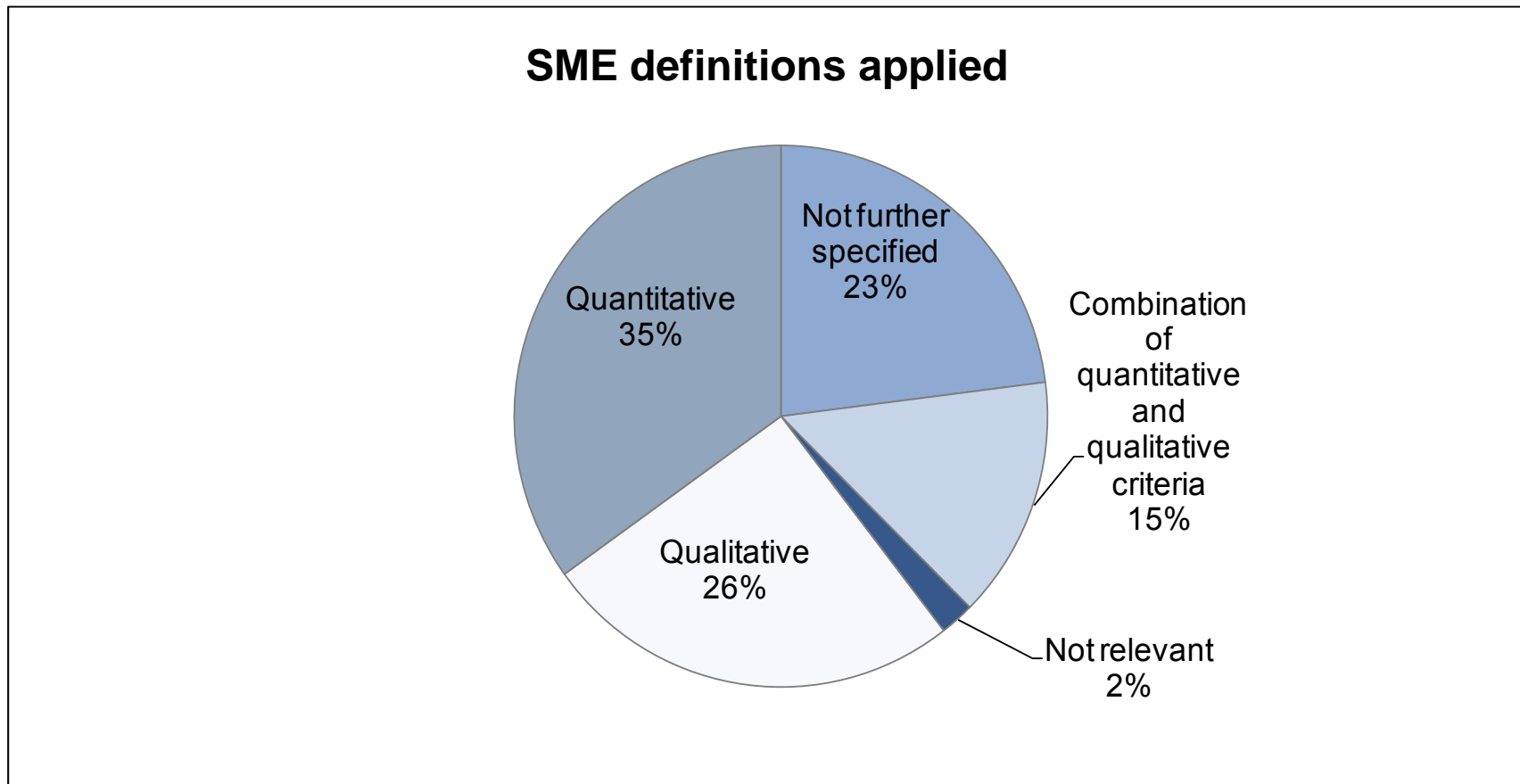
> MAJOR TARGET GROUPS

European countries	Target groups				
	SMEs/SME manager	Bank loan officers/ bankers	Auditors/ practitioners	Venture capitalists	Research without a specific target group
Estonia	1				
Lithuania	1				
Slowakia	1				
Czech Republic	1				
Norway					2
Croatia	2				
Switzerland					1
Bosnia	1				
Moldowa	1				
Kazakhstan	1				
Turkey	1				
Russia	1				
Albania	1				
Ukraine	1				
Republic of Belarus	1				

- Studies focusing on SMEs/SME manager are available for various European countries
- Studies targeted on auditors, bankers or venture capitalists are only available for a very few European countries

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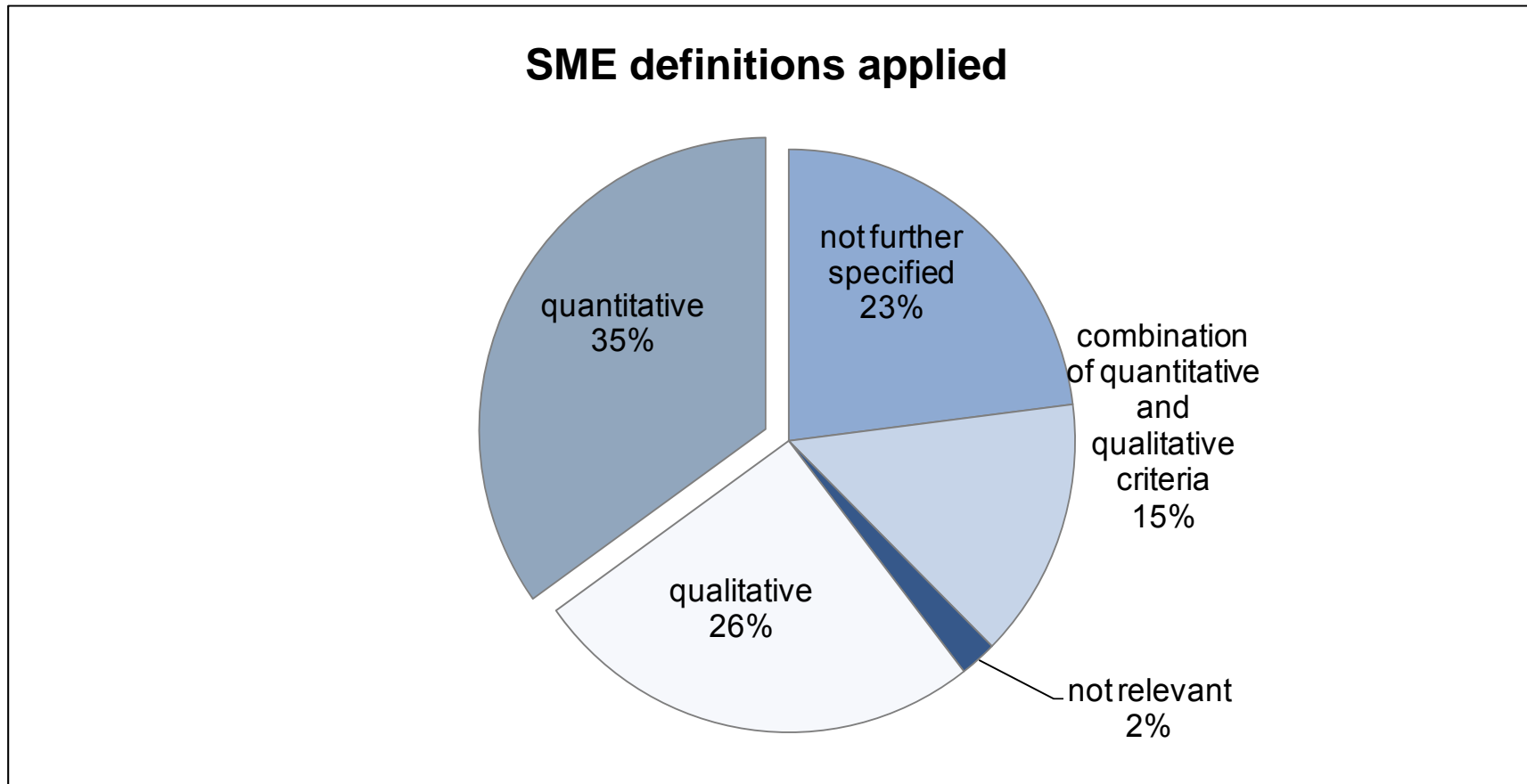
> SME DEFINITIONS APPLIED FOR SAMPLE SELECTION



- Various types of definitions are used
- Most studies use quantitative definitions

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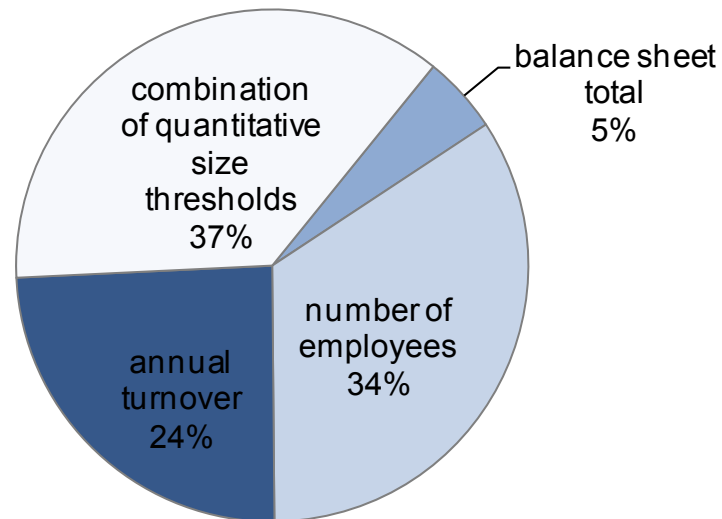
> SME DEFINITIONS APPLIED



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> SME DEFINITIONS APPLIED

Quantitative criteria



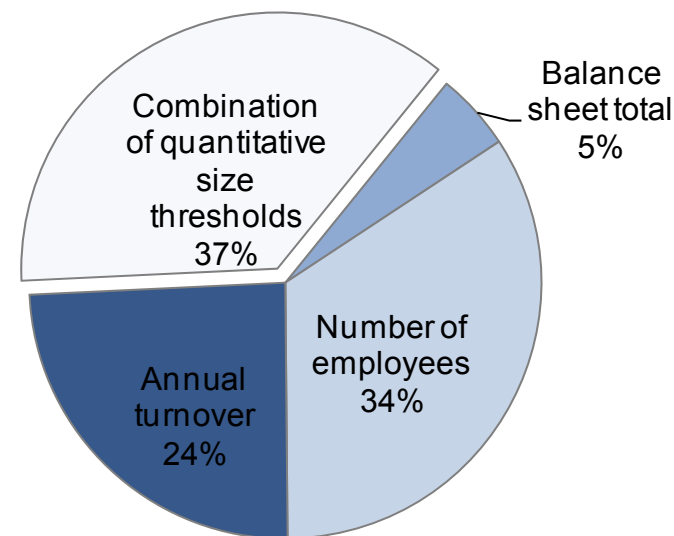
→ Most studies applying quantitative size thresholds use a combination of various quantitative size criteria

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> SME DEFINITIONS APPLIED

Quantitative criteria: combination of quantitative size thresholds

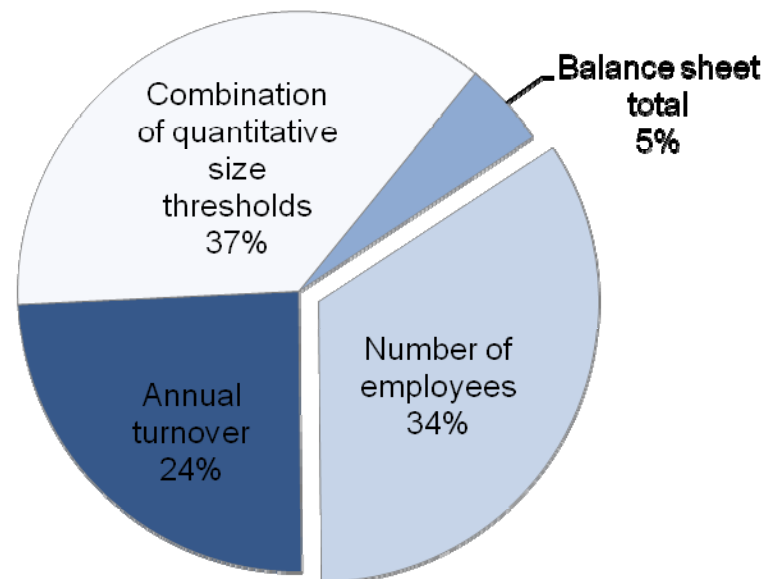
Combination of quantitative size thresholds	Number of studies
Fourth Directive criteria or similar – small entities	3
Fourth Directive criteria or similar – small & medium-sized entities	4
Number of employees < 50 Annual turnover < 1 m £	2
Number of employees < 50 Annual turnover < 2 m \$ Borrowing limit < 100.000 \$	1
Fixed production costs < 8 m \$ Number of employees 10-100 Annual turnover < 15 m \$	1
Annual turnover ≤ 350 m £ Balance sheet total ≤ 1.4 m £	1
Number of employees ≤ 250 Annual turnover ≤ 40 m EUR	1
Number of employees ≤ 250 Annual turnover ≥ 20 m EUR	1
Number of employees < 500 Balance sheet total < 10 m \$ or < 500 owners	1



01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> SME DEFINITIONS APPLIED

Quantitative criteria: number of employees



Number of Employees	Number of Studies
< 10	1
< 20	3
1-50	1
< 100	2
5-200	1
10-250	1
< 250	3
< 300	1
20-499	1

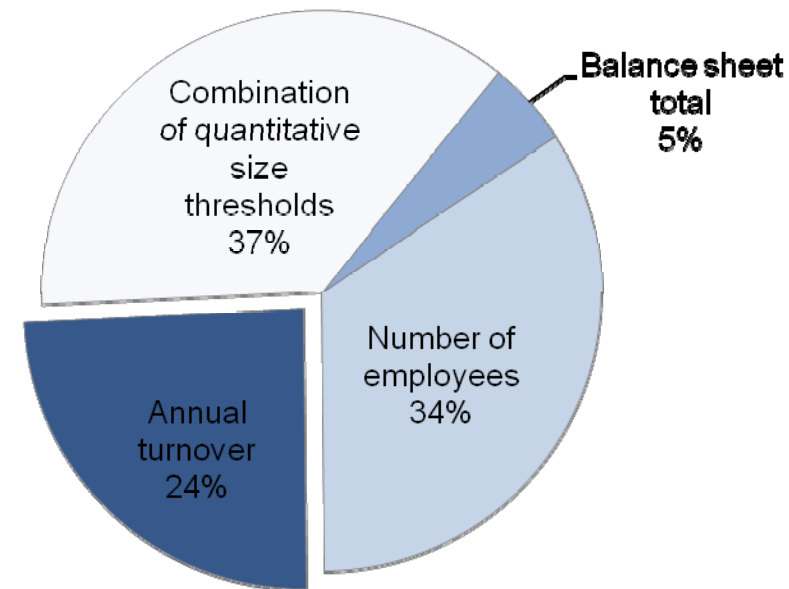
- Many studies applying quantitative size thresholds use the number of employees for defining SMEs
- The number of employees specified to define SMEs differs however extremely

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> SME DEFINITIONS APPLIED

Quantitative criteria: annual turnover

Annual turnover	Number of Studies
< 1m £	1
< 1.4 m £	1
1 m – 11.2 m £	1
5 m – 50 m EUR	1
< 5 m \$	1
≤ 500 m EUR	1
> 750,000 £	1
≥ 8 m EUR	2
≥ 40 m EUR	1

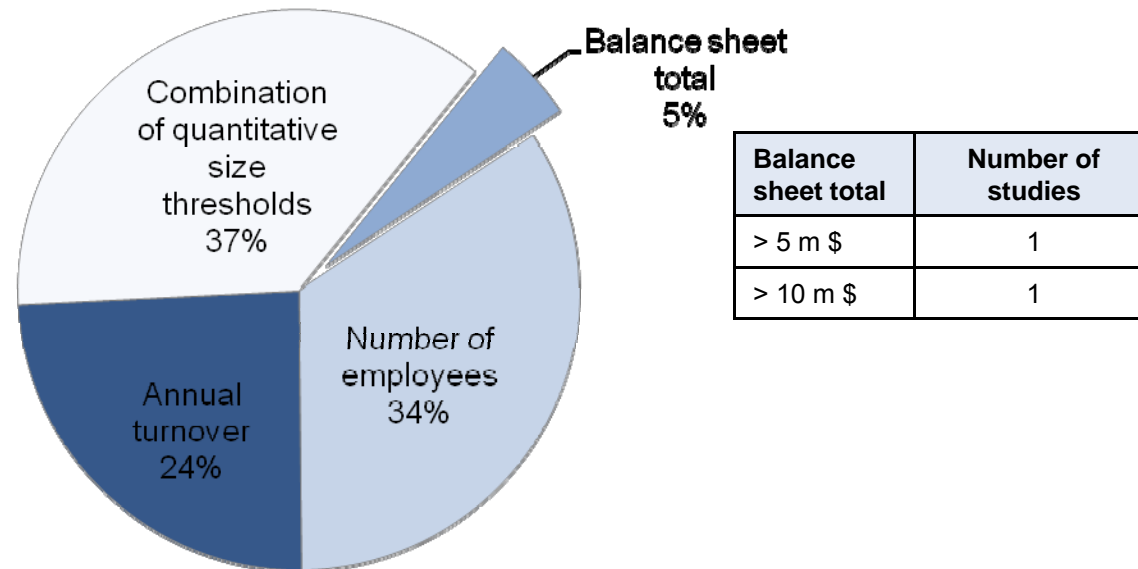


→ Definitions based on turnover thresholds also differ extremely

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> SME DEFINITIONS APPLIED

Quantitative criteria: balance sheet total



→ Only two studies used the balance sheet total for sample selection purposes

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> SME DEFINITIONS APPLIED

Micro entities		Number of Employees	Number of studies	Annual turnover	Number of studies
Combination of quantitative size thresholds	Number of studies	< 10	1	< 1m £	1
Fourth Directive criteria or similar – small entities	3	< 20	3	< 1.4 m £	1
Fourth Directive criteria or similar – small & medium-sized entities	4	1-50	1	1 m – 11.2 m £	1
Number of employees < 50 Annual turnover < 1 m £	2	< 100	2	5 m – 50 m EUR	1
Number of employees < 50 Annual turnover < 2 m \$ Borrowing limit < 100.000 \$	1	5-200	1	< 5 m \$	1
Fixed production costs < 8 m \$ Number of employees 10-100 Annual turnover < 15 m \$	1	10-250	1	≤ 500 m EUR	1
Annual turnover ≤ 350 m £ Balance sheet total ≤ 1.4 m £	1	< 250	3	> 750,000 £	1
Number of employees ≤ 250 Annual turnover ≤ 40 m EUR	1	< 300	1	≥ 8 m EUR	2
Number of employees ≤ 250 Annual turnover ≥ 20 m EUR	1	20-499	1	≥ 40 m EUR	1
Number of employees < 500 Balance sheet total < 10 m \$ or < 500 owners	1				
		Balance sheet total	Number of studies		
		> 5 m \$	1		
		> 10 m \$	1		

- Definitions used differ extremely
- Very little research has been conducted looking specifically at micro entities

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> MAJOR RESEARCH AREAS

	Number of studies
Users of financial statements	32
Information needs in bank lending decisions/cost of debt	22
Role of auditors/practitioners	20
Evaluation of accounting burdens, cost/benefit	18
Differential reporting (necessity, advantages and disadvantages, criteria)	17
Voluntary preparation/audit of financial statements (behaviour, attitude/relevance)	16
Uses of financial statements by SME managers	15
Filing choices of SMEs (Behaviour, attitude, relevance)	14
Attitude towards IFRS/IFRS for SMEs, advantages/disadvantages of IFRS	11
Characteristics and risks of SME audits/audit quality	9
Relative importance of specific accounting items/transactions	8
Accounting choices/earnings management/earnings quality/conservative accounting	8
Link between taxation and accounting/fiscal issues	8
Evaluation of specific accounting methods/requirements of the (ED) IFRS for SMEs	6
Determinants influencing the quantity and quality of financial accounting information	6
Knowledge of IFRS: SME managers/bankers/auditors/practitioners	6
Insolvency risk	2
Transition to IFRS	1
Information needs of financial statement users	1
Others	16

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> MAJOR RESEARCH AREAS

	UK	Germany	Belgium	Italy	Spain	France	Finland	Netherlands	Romania	Sweden	Slovenia
Users of financial statements	12	4	1	3	2	3		3			
Information needs in bank lending decisions/cost of debt	5	3	1	1	1			1			
Role of auditors/practitioners	11		1	1			1				
Evaluation of accounting burdens, cost/benefit	8	2		2	1	1					
Differential reporting (necessity, advantages and disadvantages, criteria)	7			1					2		
Voluntary preparation/audit of financial statements (behaviour, attitude/relevance)	10										
Uses of financial statements by SME managers	5	1		1					1		
Filing choices of SMEs (Behaviour, attitude, relevance)	9				1			1			
Attitude towards IFRS/IFRS for SMEs, advantages/disadvantages of IFRS	2	3	2	1	1	1	1	1			
Characteristics and risks of SME audits/audit quality	2		1				2				
Relative importance of specific accounting items/transactions	3	3		2	1	2		1			
Accounting choices/earnings management/earnings quality/conservative accounting	3	3	3	3	4	3	3	2		1	1
Link between taxation and accounting/fiscal issues	2	1	2	1	2	2	1	2			
Evaluation of specific accounting methods/requirements of the (ED) IFRS for SMEs		3				1			1		
Determinants influencing the quantity and quality of financial accounting information		1		1	1	1			1	1	1
Knowledge of IFRS: SME managers/bankers/auditors/practitioners		3	2			1					
Insolvency risk	1									1	
Transition to IFRS											
Information needs of financial statement users	1	1	1			1		1			
Others	5	2	2	1							1

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> MAJOR RESEARCH AREAS

	Austria	Poland	Portugal	Denmark	Luxem- bourg	Bulgaria	Hungary	Estonia	Lithuania	Slowakia	Czech Republic
Users of financial statements											
Information needs in bank lending decisions/cost of debt		1			1						
Role of auditors/practitioners		1									
Evaluation of accounting burdens, cost/benefit		1									
Differential reporting (necessity, advantages and disadvantages, criteria)		1									
Voluntary preparation/audit of financial statements (behaviour, attitude/relevance)											
Uses of financial statements by SME managers											
Filing choices of SMEs (Behaviour, attitude, relevance)	1										
Attitude towards IFRS/IFRS for SMEs, advantages/disadvantages of IFRS											
Characteristics and risks of SME audits/audit quality											
Relative importance of specific accounting items/transactions											
Accounting choices/earnings management/earnings quality/conservative accounting	1		1	1							
Link between taxation and accounting/fiscal issues											
Evaluation of specific accounting methods/requirements of the (ED) IFRS for SMEs											
Determinants influencing the quantity and quality of financial accounting information		1	1			1	1	1	1	1	1
Knowledge of IFRS: SME managers/bankers/auditors/practitioners											
Insolvency risk											
Transition to IFRS											
Information needs of financial statement users											
Others					1						

01 SURVEY OF EMPIRICAL STUDIES ON SME FINANCIAL REPORTING

> MAJOR RESEARCH AREAS

	Norway	Croatia	Switzerland	Bosnia	Moldova	Kazakhstan	Turkey	Russia	Albania	Ukraine	Republic of Belarus
Users of financial statements		1									
Information needs in bank lending decisions/cost of debt											
Role of auditors/practitioners											
Evaluation of accounting burdens, cost/benefit											
Differential reporting (necessity, advantages and disadvantages, criteria)											
Voluntary preparation/audit of financial statements (behaviour, attitude/relevance)											
Uses of financial statements by SME managers											
Filing choices of SMEs (Behaviour, attitude, relevance)											
Attitude towards IFRS/IFRS for SMEs, advantages/disadvantages of IFRS											
Characteristics and risks of SME audits/audit quality	1										
Relative importance of specific accounting items/transactions											
Accounting choices/earnings management/earnings quality/conservative accounting	1		1								
Link between taxation and accounting/fiscal issues											
Evaluation of specific accounting methods/requirements of the (ED) IFRS for SMEs											
Determinants influencing the quantity and quality of financial accounting information		1		1	1	1	1	1	1	1	1
Knowledge of IFRS: SME managers/bankers/auditors/practitioners											
Insolvency risk											
Transition to IFRS		1									
Information needs of financial statement users											
Others											

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02 ISSUES ARISING FROM THE REVIEW

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→ There is a research gap in the literature on financial reporting of SMEs

Further research is needed on:

- > Micro entities
- > Information needs of external users of SME financial statements

little or no research is available on information needs of employees, venture capitalists, non-managing owners, etc.

Research on information needs of banks, owner-managers is only available for some countries

→ The comparability and generalisability of the results need to be improved

Major limitation of the review:

Only studies available in English are included

Thanks for your attention!