

## Assessing The Impact Of International Accounting Standards (IFRS) On The Quality Of Financial Reporting At FDI Enterprises In Hai Phong City

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### ABSTRACT

This study investigates the determinants influencing the adoption of International Financial Reporting Standards and its impact on the quality of financial reporting among foreign direct investment enterprises in Hai Phong City. Based on a quantitative approach using the structural equation modeling technique with 423 valid responses, the research model incorporates four factors, including perceived benefits, perceived ease of implementation, legal requirements, and government policy. The findings show that all factors significantly enhance the adoption of International Financial Reporting Standards, with institutional drivers-legal requirements and government policy-exerting the strongest effects. The adoption of International Financial Reporting Standards substantially improves financial reporting quality through increased relevance, accuracy, timeliness, understandability, and comparability of information. The study contributes empirical evidence on the role of institutional support and organizational capacity in shaping reporting outcomes. It also proposes practical implications for policymakers, enterprises, and professional organizations to strengthen the implementation of international reporting standards in the Vietnamese context..

**Keywords:** *international financial reporting standards; financial reporting quality; foreign direct investment enterprises; legal requirements; government policy*

## 1. INTRODUCTION

### Problem statement

The process of globalization and the expansion of international trade have reinforced the need for standardized financial reporting practices that ensure transparency, comparability, and reliability. In response to these demands, the International Financial Reporting Standards (IFRS) have emerged as a globally accepted framework to enhance the quality of financial reporting across jurisdictions. As foreign direct investment (FDI) has become increasingly significant in emerging economies, including Vietnam, the necessity of implementing IFRS in FDI enterprises becomes an urgent issue for academic research and policy intervention. Hai Phong is a major industrial and economic hub in northern Vietnam, hosting numerous FDI enterprises that contribute significantly to the local and national economy. However, concerns persist regarding the transparency, consistency, and reliability of financial

statements prepared by these entities. Despite the regulatory requirement and encouragement from Vietnamese authorities for IFRS adoption, the degree to which IFRS improves the quality of financial reporting in practice remains ambiguous. Several studies have explored the relationship between IFRS adoption and reporting quality in diverse contexts, yet limited empirical evidence exists for the specific case of Hai Phong-based FDI enterprises.

The quality of financial reporting plays a critical role in influencing investor confidence, guiding capital allocation decisions, and ensuring accountability within enterprises. As suggested by Johri (2024), the implementation of IFRS tends to enhance financial reporting quality by fostering comparability and reducing the opportunity for earnings management. Similarly, Eshonqulov (2024) highlights that international accounting standards improve the integrity of financial statements by standardizing presentation and disclosure practices. However, these benefits may be contingent

upon the local institutional environment, capacity of human resources, and the commitment of enterprises to compliance. Therefore, it is imperative to assess whether the implementation of IFRS in Hai Phong FDI enterprises results in actual improvements in financial reporting quality or if it merely leads to formal compliance without substantive change.

Previous research has established a connection between IFRS adoption and increased transparency, which contributes to reducing information asymmetry between stakeholders. According to Abed et al. (2022), the integration of transparency and disclosure serves as a mechanism to mitigate creative accounting practices and foster high-quality reporting. Nonetheless, the extent to which FDI enterprises in Hai Phong achieve such outcomes remains unclear. In addition, the challenges in transitioning from local Vietnamese Accounting Standards (VAS) to IFRS include language barriers, lack of technical expertise, insufficient training, and the absence of robust enforcement mechanisms. These limitations may inhibit the full realization of IFRS benefits and create discrepancies between the intended and actual impact of IFRS on reporting quality. In the context of FDI, reliable financial information is crucial for investors, regulators, and international stakeholders. Gu and Prah (2020) indicate that the adoption of IFRS can enhance the credibility of financial statements and serve as a catalyst for attracting more FDI inflows. However, this effect is not automatic and depends on the implementation fidelity and the quality of institutions. In Hai Phong, where many FDI enterprises are joint ventures or subsidiaries of multinational corporations, the pressure to comply with international norms exists, but so do local adaptations that may dilute the standards' effectiveness. The problem thus lies in determining whether IFRS adoption in these enterprises has materially improved financial reporting quality, especially in terms of accuracy, relevance, and comprehensiveness.

Another dimension of the problem is related to the managerial and organizational implications of IFRS adoption. Alshamsi and Ahmad (2024) argue that adopting IFRS demands structural changes in internal accounting processes, management information systems, and human capital development. Enterprises that fail to align internal operations with the IFRS framework may struggle to produce financial reports that reflect economic reality. This gap between formal adoption and practical implementation poses a challenge for Vietnamese authorities and enterprise managers alike. The assessment of reporting quality in such an environment requires robust empirical investigation to capture both qualitative and quantitative aspects.

Moreover, the problem is further compounded by the broader dynamics of financial regulation and institutional quality. Tsegba and Semberfan (2020) emphasize that institutional qualities such as legal enforcement, regulatory capacity, and professional ethics influence the success of IFRS implementation. In Vietnam, where accounting regulations are evolving and institutional maturity is still developing, the external environment may not be fully conducive to achieving IFRS-aligned financial reporting standards. Consequently, assessing the impact of IFRS adoption in Hai Phong's FDI enterprises

necessitates a context-specific approach that considers both the internal readiness of enterprises and the external enabling conditions. Akpomi and Nnadi (2017) observe that IFRS adoption contributes to improving financial transparency and can facilitate the inflow of FDI when properly enforced. However, this outcome may not be uniformly realized across regions or sectors. Nejad, Ahmad, and Rahim (2018) present evidence that while ASEAN countries have broadly benefited from IFRS adoption, disparities in implementation outcomes persist due to institutional differences. Applying this insight to Hai Phong suggests that generalizations from other contexts may not adequately capture local realities, and specific empirical analysis is required to address the problem.

The primary research problem addressed in this study centers on the extent to which IFRS adoption has improved the quality of financial reporting among FDI enterprises in Hai Phong City. This includes evaluating whether IFRS leads to enhanced transparency, reduced manipulation of financial data, better comparability across entities, and improved decision-usefulness of financial statements. It also involves assessing whether existing institutional and organizational factors facilitate or hinder these outcomes. By investigating this problem, the study aims to provide evidence-based insights that inform policy formulation, regulatory reforms, and strategic decision-making for enterprise managers, regulators, and investors involved in the FDI sector in Vietnam.

## 2. LITERATURE REVIEW

### 2.1. *International Financial Reporting Standards (IFRS)*

International Financial Reporting Standards (IFRS) are a globally recognized accounting framework designed to enhance the comparability, consistency, and transparency of financial information across jurisdictions. IFRS provides a principles-based approach that emphasizes fair value measurement, enhanced disclosures, and improved recognition and classification of financial transactions. According to Johri (2024), IFRS adoption is particularly significant for multinational enterprises because it improves the quality of reported information and facilitates cross-border investment decisions. IFRS also reduces discrepancies in accounting treatments among countries, thereby enabling a more harmonized global reporting environment.

For emerging economies such as Vietnam, the transition from national accounting standards to IFRS represents a strategic requirement for global integration. A number of studies have shown that IFRS adoption can contribute to increased financial reporting quality, reduced information asymmetry, and improved investor confidence (Johri, 2024; Eshonqulov, 2024). However, effective implementation depends on organizational readiness, regulatory alignment, and the availability of skilled human resources.

### 2.2. *Financial Reporting Quality at FDI Enterprises*

Financial reporting quality (FRQ) reflects the extent to which financial statements provide useful, accurate, timely, understandable, and comparable information for

stakeholders. Abed et al. (2022) emphasize that financial reporting quality is determined not only by accounting standards but also by the transparency and integrity of disclosure practices. For FDI enterprises, high-quality financial reporting plays a critical role in maintaining credibility with foreign investors, ensuring efficient capital allocation, and supporting long-term business sustainability.

The literature identifies five core dimensions often used to evaluate FRQ: Relevancy, Accuracy, Understandability, Comparability, and Timeliness. These components reflect international definitions of useful financial information and are widely adopted in empirical studies. Prior research indicates that IFRS can improve these five dimensions by standardizing recognition principles, enhancing disclosure requirements, and encouraging stronger internal controls (Gu & Prah, 2020; Okpala, 2012).

### **2.3. Factors Influencing IFRS Adoption**

#### **2.3.1. Perceived Benefits (PB)**

Perceived Benefits refer to the extent to which enterprises believe IFRS adoption will generate advantages such as increased transparency, enhanced credibility, improved access to global capital, and reduced cost of capital. Johri (2024) shows that enterprises with stronger perceptions of the benefits of IFRS are more willing to implement the standards. IFRS enhances comparability and reliability, which is especially beneficial for multinational enterprises and foreign-invested firms.

#### **2.3.2. Perceived Ease of Implementation (PE)**

Perceived Ease of Implementation reflects an enterprise's assessment of its internal capability to adopt IFRS, including workforce competence, availability of IT infrastructure, and training resources. Alshamsi and Ahmad (2024) highlight that even when firms acknowledge the benefits of IFRS, implementation may be hindered by high transition costs, language barriers, and limited technical expertise. In many developing economies, difficulties in applying IFRS are common and can slow down or weaken the quality of adoption.

#### **2.3.3. Legal Requirements (LR)**

The legal environment is a fundamental determinant of IFRS adoption. Countries with strong regulatory frameworks and clear accounting laws tend to achieve more effective IFRS implementation. Tsegba and Semberfan (2020) stress that regulatory enforcement, monitoring mechanisms, and compliance pressure significantly shape the willingness of enterprises to adopt IFRS. In Vietnam, government-issued circulars and strategic roadmaps for IFRS adoption play a crucial role in guiding enterprises, particularly FDI firms.

#### **2.3.4. Government Policy (GP)**

Government support is a key enabling factor in IFRS transition. Nejad et al. (2018) argue that supportive public policies-such as training programs, official guidelines, and tax policy harmonization-facilitate smoother IFRS implementation. Alshamsi and Ahmad (2024) further highlight that government-backed initiatives contribute to reducing the administrative and technical burdens faced by enterprises, thereby increasing the likelihood of IFRS adoption.

### **2.4. IFRS Adoption and Financial Reporting Quality**

A large body of empirical research provides evidence that IFRS adoption can significantly enhance financial reporting quality. Johri (2024) demonstrates that IFRS adoption reduces earnings management and improves the decision-usefulness of financial statements in multinational firms. Abed et al. (2022) show that IFRS-aligned transparency and disclosure frameworks reduce creative accounting, thereby strengthening the reliability of reported financial information. Similarly, Eshonqulov (2024) and Gu & Prah (2020) confirm that IFRS adoption leads to greater accuracy, comparability, and timeliness of financial reporting, particularly in international business contexts.

For FDI enterprises, which often operate in complex cross-border environments, IFRS adoption is essential for maintaining investor trust and meeting the expectations of global stakeholders. IFRS also supports FDI inflows by reducing financial statement opacity and by enhancing consistency across multinational subsidiaries (Akpomi & Nnadi, 2017; Okpala, 2012). As Vietnam continues to attract foreign investment, improving financial reporting quality through IFRS becomes critical.

#### **2.5. Proposed Research Model**

Drawing on the theoretical foundations and empirical evidence summarized above, the research conceptualizes IFRS adoption as an outcome influenced by four groups of factors: Perceived Benefits, Perceived Ease of Implementation, Legal Requirements, and Government Policy. This approach is grounded in the findings of Johri (2024), who emphasizes the role of organizational perceptions and institutional environment, and Alshamsi & Ahmad (2024), who propose that IFRS adoption is shaped simultaneously by internal readiness and external regulatory support.

Furthermore, consistent with prior studies (Johri, 2024; Abed et al., 2022; Gu & Prah, 2020), the model posits that IFRS adoption has a direct positive effect on Financial Reporting Quality, reflected through the five dimensions of Relevancy, Accuracy, Timeliness, Understandability, and Comparability.

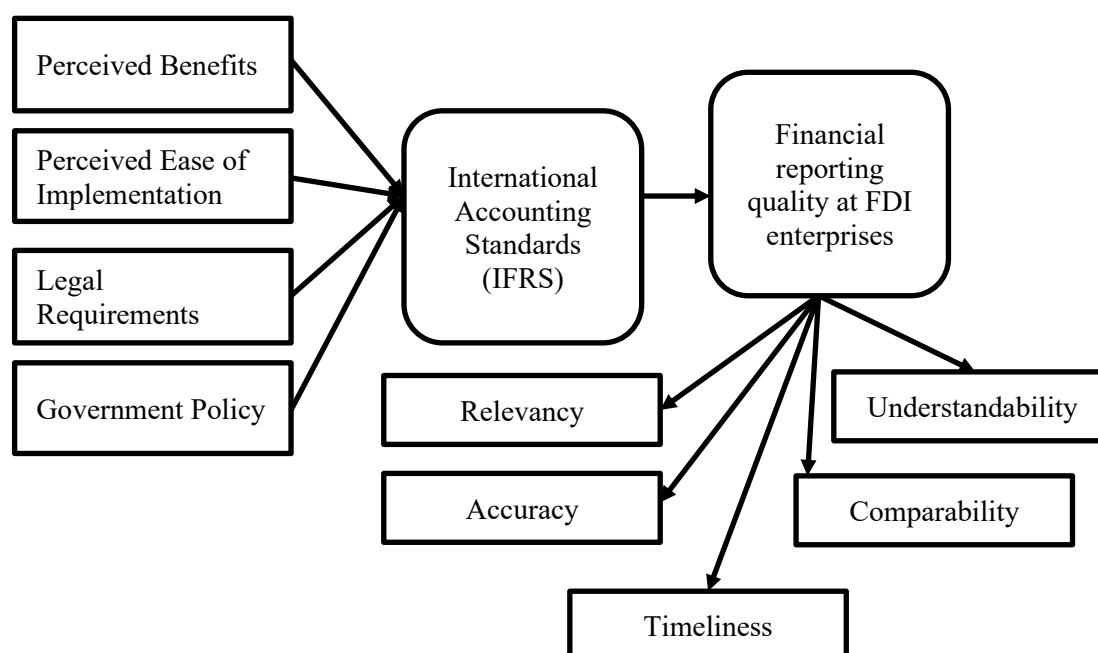


Figure 1: Proposed research model

Based on these theoretical arguments, the author proposes the following research model:

### 3. DATA AND RESEARCH METHODS

#### 3.1. Research Design

This study employs a quantitative research design to examine the impact of International Financial Reporting Standards (IFRS) adoption on the financial reporting quality of FDI enterprises in Hai Phong City. The research model is developed based on prior studies by Johri (2024), Alshamsi and Ahmad (2024), Abed et al. (2022), and Gu and Prah (2020), incorporating four independent variables-Perceived Benefits (PB), Perceived Ease of Implementation (PE), Legal Requirements (LR), and Government Policy (GP)-and one mediating variable, IFRS Adoption (AD). Financial Reporting Quality (FR) serves as the dependent variable and is conceptualized as a second-order construct comprising five dimensions: Relevancy, Accuracy, Timeliness, Understandability, and Comparability.

A structured survey questionnaire was used to collect data from employees involved in accounting and financial reporting at FDI enterprises. The research follows the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, which is appropriate for complex models, hierarchical constructs, exploratory analysis, and prediction-oriented studies.

#### 3.2. Data Collection and Sampling Method

##### 3.2.1. Target Population

The target population includes managers, accountants, chief accountants, finance officers, and board-level personnel working in FDI enterprises operating within Hai Phong City. These individuals are directly involved in financial reporting processes and therefore possess sufficient knowledge to evaluate IFRS adoption and its outcomes.

##### 3.2.2. Sampling Technique

A non-probability sampling method combining purposive

and convenience sampling was adopted, consistent with prior studies on accounting standards and enterprise-level financial reporting. FDI enterprises that have fully adopted IFRS were purposefully targeted to ensure the relevance of responses.

##### 3.2.3. Sample Size

Out of 450 distributed questionnaires, 423 valid responses were collected (response rate 94%). This sample size satisfies the minimum requirement for PLS-SEM, based on both the “10-times rule” and statistical power analysis for models with multiple predictors.

#### 3.3. Measurement Scales

All measurement items were adapted from validated scales in previous international studies and adjusted to fit the Vietnamese context. Responses were recorded using a 5-point Likert scale (1 = Strongly disagree; 5 = Strongly agree). The constructs include:

Perceived Benefits (PB) adapted from Johri (2024), measuring perceived advantages of IFRS.

Perceived Ease of Implementation (PE) based on Alshamsi and Ahmad (2024), assessing organizational capability for IFRS transition.

Legal Requirements (LR) developed from Tsegba and Semberfan (2020), evaluating regulatory pressure and compatibility.

Government Policy (GP) adapted from Nejad et al. (2018), measuring state support and policy stability.

IFRS Adoption (AD) reflecting the level of implementation in accounting policies, disclosures, and practices.

Financial Reporting Quality (FR) a second-order construct with five components (Relevancy, Accuracy, Timeliness, Understandability, Comparability), adopted from Abed et al. (2022) and Gu & Prah (2020).

All 40 indicator items used in the study are presented in the Appendix.

#### 3.4. Data Analysis Methods



Data were processed and analyzed using SmartPLS 4 with the following procedures:

#### 3.4.1. Preliminary Data Screening

Before model testing, the dataset was examined for:

Missing values and outliers

Minimum–maximum values

Standard deviations and distribution patterns

All indicators met required conditions for SEM analysis.

#### 3.4.2. Measurement Model Assessment

The reliability and validity of the constructs were evaluated using:

Cronbach's Alpha and Composite Reliability (CR) for internal consistency

Average Variance Extracted (AVE) for convergent validity

Fornell–Larcker criterion and HTMT ratio for discriminant validity

VIF indicators for multicollinearity testing

#### 3.4.3. Structural Model Assessment

The structural model was tested using:

Path coefficients ( $\beta$ )

t-values and p-values from Bootstrap (5,000 subsamples)

Coefficient of determination ( $R^2$ )

Effect size ( $f^2$ )

Predictive relevance ( $Q^2$ )

Model fit indices (SRMR,  $d\_ULS$ ,  $d\_G$ , NFI)

This comprehensive approach ensures the robustness and predictive strength of the proposed model.

## 4. FINDINGS AND DISCUSSION

### 4.1. Descriptive statistics

#### 4.1.1. Characteristics of the scales

The study uses a 5-point Likert scale to measure the observed variables, in which 1 = Totally disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Totally agree. Descriptive statistical results for 40 observed variables are presented in Table 1.

**Table 1. Descriptive statistics of observed variables**

Variable	N	Minimum	Maximum	Mean	Standard deviation
<b>Perceived Benefits (PB)</b>					
PB1	423	2	5	4.00	0.692
PB2	423	2	5	4.01	0.722
PB3	423	2	5	4.02	0.754
PB4	423	2	5	3.98	0.804
<b>Perceived Ease of Implementation (PE)</b>					
PE1	423	1	5	3.27	0.753
PE2	423	1	5	3.26	0.768
PE3	423	1	5	3.20	0.722
PE4	423	1	5	3.34	0.858
PE5	423	1	5	3.34	0.911
<b>Legal Requirements (LR)</b>					
LR1	423	2	5	3.50	0.702
LR2	423	2	5	3.67	0.715
LR3	423	2	5	3.62	0.867
LR4	423	1	5	3.59	0.876
<b>Government Policy (GP)</b>					
GP1	423	1	5	3.51	0.728
GP2	423	1	5	3.53	0.793
GP3	423	1	5	3.57	0.820
GP4	423	1	5	3.51	0.808
<b>Application of IFRS (AD)</b>					
AD1	423	1	5	4.01	0.612
AD2	423	1	5	4.09	0.680
AD3	423	1	5	4.04	0.609
AD4	423	1	5	4.02	0.645
AD5	423	1	5	4.04	0.694
<b>Relevancy (RL)</b>					
RL1	423	2	5	4.13	0.809
RL2	423	2	5	4.01	0.809
RL3	423	2	5	3.99	0.814
<b>Accuracy (AC)</b>					
AC1	423	2	5	3.94	0.844
AC2	423	2	5	3.83	0.832
AC3	423	2	5	3.82	0.825
AC4	423	2	5	3.79	0.850

<b>Timeliness (TM)</b>					
TM1	423	1	5	3.65	0.808
TM2	423	1	5	3.64	0.825
TM3	423	1	5	3.74	0.845
<b>Understandability (UD)</b>					
UD1	423	1	5	3.53	0.817
UD2	423	1	5	3.52	0.900
UD3	423	1	5	3.56	0.885
UD4	423	1	5	3.69	0.858
<b>Comparability (CP)</b>					
CP1	423	2	5	3.89	0.732
CP2	423	2	5	3.82	0.735
CP3	423	2	5	3.86	0.678
CP4	423	2	5	3.80	0.695

(Source: Survey data analysis results, 2025)

Results from Table 1 show that the observed variables have mean values ranging from 3.20 to 4.13, corresponding to levels from neutral to agree on the scale. The group of variables measuring perceived benefits from IFRS has the highest average values, with PB1, PB2, PB3, and PB4 reaching 4.00, 4.01, 4.02, and 3.98, respectively. This reflects that survey respondents highly appreciate the role of IFRS in enhancing the truthfulness, fairness, and transparency of financial statements as well as the ability to access international capital sources.

The group of variables related to the application of IFRS also records high average values, with AD2 reaching 4.09, followed by AD3 (4.04), AD5 (4.04), AD4 (4.02), and AD1 (4.01). This result shows that FDI enterprises in Hai Phong have consistently updated accounting policies and applied IFRS principles in their financial reporting. Among the components measuring financial reporting quality, Relevancy is rated highest, with RL1 reaching 4.13, showing that financial statements provide useful information for decision-making and meet stakeholder needs.

Conversely, the group of variables measuring the Perceived Ease of Implementation of IFRS has lower mean values compared to other groups. Variable PE3

records only 3.20, the lowest among all 40 observed variables, followed by PE2 (3.26), PE1 (3.27), PE4 (3.34), and PE5 (3.34). This result reflects that enterprises still face difficulties during the IFRS transition process, especially issues related to human resources and the ability to learn and apply new standards. Standard deviations of the variables range from 0.609 to 0.911, indicating an acceptable level of dispersion and not too large differences in respondents' answers.

Regarding minimum and maximum values, most variables have a minimum value of 2, corresponding to disagree; only some variables in groups PE, LR, GP, AD, TM, and UD have a minimum value of 1 (totally disagree). All variables have a maximum value of 5, indicating that some respondents totally agree with the survey statements. This distribution suggests that the collected data reflects diverse perspectives among survey participants.

#### 4.1.2. Demographic characteristics

The survey sample includes 423 individuals working at FDI enterprises in Hai Phong city. The demographic characteristics of the sample are summarized in Table 2.

**Table 2. Characteristics of the research sample**

Characteristics	Classification	Quantity	Percentage (%)
<b>Gender</b>	Male	194	45.9
	Female	229	54.1
<b>Age</b>	<25	36	8.5
	25-34	170	40.2
	35-44	124	29.3
	≥45	93	22.0
<b>Job position</b>	Accountant	172	40.7
	Chief Accountant	103	24.3
	Chief Financial Officer	71	16.8
	Board of Directors	64	15.1
	Others	13	3.1
<b>Work experience</b>	<1 year	20	4.7
	1-3 years	100	23.6
	4-7 years	148	35.0
	>7 years	155	36.6
<b>Business sector</b>	Manufacturing	216	51.1
	Trading	74	17.5
	Services	91	21.5
	Construction	23	5.4
	Others	19	4.5

<b>Enterprise size</b>	<50 employees	41	9.7
	50–199 employees	140	33.1
	200–499 employees	169	40.0
	≥500 employees	73	17.3
<b>IFRS adoption status</b>	Fully adopted	423	100.0

(Source: Survey data analysis results, 2025)

Regarding gender, the research sample consists of 229 females, accounting for 54.1%, and 194 males, accounting for 45.9%. This ratio indicates that the participation of women in the field of financial accounting at FDI enterprises is slightly higher than that of men. Regarding age, the group aged 25 to 34 accounts for the highest proportion with 170 individuals (40.2%), followed by the group aged 35 to 44 with 124 individuals (29.3%), the group aged 45 and above with 93 individuals (22.0%), and the group under 25 with only 36 individuals (8.5%). This age structure reflects that the workforce mainly consists of individuals with experience and accumulated knowledge in financial accounting.

Regarding job position, accountants make up the largest proportion with 172 individuals (40.7%), followed by chief accountants with 103 individuals (24.3%), chief financial officers with 71 individuals (16.8%), members of the board of directors with 64 individuals (15.1%), and other positions with 13 individuals (3.1%). This distribution indicates that the research sample includes individuals working at various levels within the finance–accounting department, from operational staff to management, thereby providing multidimensional perspectives on IFRS adoption. Regarding work experience, the group with more than 7 years of experience accounts for 36.6% with 155 individuals, the group with 4 to 7 years accounts for 35.0% with 148 individuals, the group with 1 to 3 years accounts for 23.6% with 100 individuals, and the group with less than 1 year accounts for only 4.7% with 20 individuals. These data show that most survey participants have at least 4 years of work experience, totaling 71.6%, which helps ensure that respondents clearly understand the accounting process and can assess the impact of IFRS.

Regarding business sector, manufacturing enterprises account for the highest proportion with 216 enterprises (51.1%), followed by service enterprises with 91 enterprises (21.5%), trading enterprises with 74 enterprises (17.5%), construction enterprises with 23 enterprises (5.4%), and other sectors with 19 enterprises (4.5%). The concentration in the manufacturing sector aligns with the characteristics of the Hai Phong region as a major industrial center with multiple industrial zones attracting FDI. Regarding enterprise size, the group with 200 to 499 employees accounts for the highest proportion

with 169 enterprises (40.0%), followed by the group with 50 to 199 employees with 140 enterprises (33.1%), the group with 500 or more employees with 73 enterprises (17.3%), and the group with fewer than 50 employees with only 41 enterprises (9.7%). This distribution indicates that the research sample mainly consists of medium and large enterprises, which are groups that possess financial capability and resources to adopt IFRS. Notably, all 423 enterprises in the sample (100%) have fully adopted IFRS in their financial reporting. This result shows that the selection of the research sample ensured the correct target group-FDI enterprises that have implemented International Accounting Standards-thereby allowing the assessment of the actual impact of IFRS on financial reporting quality. The absence of enterprises that have not yet adopted or are preparing to adopt IFRS helps eliminate confounding factors in the analysis and increases the reliability of the research results.

#### 4.2. Assessment of the measurement scale

The study uses the PLS-SEM method to evaluate the measurement model and the structural model. Since the variable Financial reporting quality at FDI enterprises (FR) is a second-order construct formed from five first-order components-Relevancy (RL), Accuracy (AC), Timeliness (TM), Understandability (UD), and Comparability (CP)-the study conducts the analysis in two separate steps. The first step evaluates the overall measurement model, including all first-order variables and the second-order variable FR with its constituent components. The second step evaluates the structural model after calculating the latent variable scores for FR and retaining only the independent variables that influence AD and the effect of FR on AD.

##### 4.2.1. Step 1: Evaluation of the measurement model with the second-order variable

###### 4.2.1.1. Reliability and convergent validity

The first step of the analysis assesses the reliability and convergent validity of all measurement scales in the model, including the second-order variable FR and its first-order components. Reliability is evaluated through Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). The results are presented in Table 3.

**Table 3. Results of reliability and convergent validity assessment – Step 1**

Latent variable	Number of variables	observed	Cronbach's Alpha	CR (rho_a)	CR (rho_c)	AVE
PB	4		0.817	0.843	0.880	0.649
PE	5		0.882	0.884	0.914	0.680
LR	4		0.864	0.870	0.908	0.711
GP	4		0.871	0.877	0.912	0.721
AD	5		0.851	0.852	0.894	0.627
RL	3		0.925	0.928	0.953	0.870
AC	4		0.915	0.932	0.940	0.797

TM	3	0.777	0.812	0.869	0.689
UD	4	0.775	0.805	0.855	0.597
CP	4	0.822	0.852	0.881	0.649
FR	5	0.931	0.940	0.940	0.471

(Source: Results processed from SmartPLS, 2025)

The results show that all independent variables have Cronbach's Alpha coefficients greater than 0.7, ranging from 0.817 to 0.882, meeting the reliability requirement. The variable PE has the highest reliability with a Cronbach's Alpha of 0.882, followed by GP (0.871), LR (0.864), AD (0.851), and PB (0.817). The Composite Reliability (rho\_c) of the independent variables ranges from 0.880 to 0.914, all exceeding the threshold of 0.7 recommended by Hair et al. (2017). The AVE values of the independent variables range from 0.627 to 0.721, all greater than 0.5, indicating that the observed variables explain more than 50% of the variance of their respective latent constructs.

For the first-order components of Financial reporting quality at FDI enterprises, the variable RL has the highest reliability with a Cronbach's Alpha of 0.925, CR of 0.953, and AVE of 0.870, showing that the Relevancy scale has excellent internal consistency. The variable AC also reaches a high Cronbach's Alpha of 0.915 with an AVE of 0.797. The variables CP, TM, and UD have Cronbach's Alpha coefficients of 0.822, 0.777, and 0.775,

respectively-all meeting the acceptable threshold. However, TM and UD have AVE values of 0.689 and 0.597, respectively, which are lower than the other components but still exceed the 0.5 threshold.

The second-order variable FR in this analysis step has a Cronbach's Alpha of 0.931 and a CR of 0.940, indicating very high reliability. However, the AVE value of FR is only 0.471, lower than the 0.5 threshold. This is reasonable because FR is a second-order construct formed from five first-order components of different characteristics (RL, AC, TM, UD, CP); therefore, the variance explained by these components will not be as high as that of first-order constructs. According to Fornell and Larcker (1981), for higher-order constructs in hierarchical component models, an AVE lower than 0.5 may still be acceptable if the CR exceeds 0.7.

#### 4.2.1.2. Discriminant Validity

Discriminant validity is assessed through two criteria: the Heterotrait-Monotrait Ratio (HTMT) and the Fornell-Larcker criterion. The results are presented in Tables 4 and 5.

**Table 4. HTMT Matrix – Step 1**

	PB	PE	LR	GP	AD	RL	AC	TM	UD	CP	FR
PB											
PE	0.073										
LR	0.156	0.104									
GP	0.050	0.062	0.049								
AD	0.407	0.465	0.519	0.540							
RL	0.039	0.042	0.044	0.037	0.416						
AC	0.033	0.040	0.069	0.061	0.465	0.552					
TM	0.057	0.051	0.050	0.051	0.510	0.577	0.638				
UD	0.143	0.054	0.119	0.060	0.637	0.619	0.742	0.859			
CP	0.054	0.058	0.101	0.061	0.536	0.432	0.706	0.755	0.734		
FR	0.076	0.058	0.092	0.065	0.606	0.766	0.910	0.944	0.998	0.917	

(Source: Results processed from SmartPLS, 2025)

According to the HTMT criterion, values below 0.85 indicate good discriminant validity, while values below 0.90 are still acceptable according to Henseler et al. (2015). The results show that the independent variables (PB, PE, LR, GP) have very low HTMT values with each other, ranging from 0.049 to 0.156, indicating clear discriminant validity. The HTMT values between the independent variables and AD are also within acceptable levels, ranging from 0.407 to 0.540, showing no serious conceptual overlap.

The HTMT values among the first-order components of

FR (RL, AC, TM, UD, CP) range from 0.432 to 0.859, in which the pair TM–UD has the highest value of 0.859 but still falls within the acceptable threshold. This indicates that although the components measuring financial reporting quality are related, they remain distinguishable. The HTMT values between FR and its first-order components are very high, ranging from 0.766 to 0.998, with FR–UD reaching 0.998, FR–TM reaching 0.944, FR–CP reaching 0.917, and FR–AC reaching 0.910. This is reasonable because FR is directly formed from these components and therefore is strongly related to them.

**Table 5. Fornell-Larcker Criterion – Step 1**

	PB	PE	LR	GP	AD	RL	AC	TM	UD	CP	FR
PB	0.806										
PE	-0.062	0.825									
LR	-0.120	0.092	0.843								
GP	0.030	0.040	0.031	0.849							
AD	0.344	0.404	0.446	0.467	0.792						
RL	0.026	-0.010	0.039	0.000	0.371	0.933					



AC	-0.003	-0.030	0.051	-0.013	0.419	0.514	0.893				
TM	-0.025	0.003	0.033	0.033	0.424	0.497	0.571	0.830			
UD	0.101	0.017	0.094	0.010	0.520	0.532	0.651	0.718	0.772		
CP	0.012	-0.011	0.076	0.040	0.460	0.392	0.652	0.655	0.631	0.806	
FR	0.028	-0.009	0.073	0.015	0.537	0.703	0.857	0.826	0.864	0.822	0.686

(Source: Results processed from SmartPLS, 2025)

According to the Fornell-Larcker criterion, the square root of AVE (values on the diagonal) must be greater than the correlations of that variable with other variables in the model. The results show that the diagonal values range from 0.686 to 0.933. For the independent variables, the square root of AVE for PB is 0.806, PE is 0.825, LR is 0.843, GP is 0.849, and AD is 0.792, all higher than their correlations with other variables. The highest correlation among the independent variables is 0.467 between GP and AD, which is much lower than the square root of AVE for both variables.

For the first-order components of FR, the square root of AVE for RL is 0.933, for AC is 0.893, for TM is 0.830, for UD is 0.772, and for CP is 0.806. The correlations among these components range from 0.392 to 0.718, all lower than the corresponding square root of AVE, indicating discriminant validity among the components. The correlations between FR and its first-order components are very high, ranging from 0.703 to 0.864, with FR–UD having the highest correlation of 0.864, followed by FR–AC (0.857), FR–TM (0.826), and FR–CP (0.822). This reflects the strong relationship between the second-order construct and its compositional components.

#### 4.2.1.3. Multicollinearity

Multicollinearity is assessed through the Variance Inflation Factor (VIF) of the inner model. The results are presented in Table 6.

**Table 6. VIF of the Inner Model – Step 1**

Relationship	VIF
PB → AD	1.019
PE → AD	1.013
LR → AD	1.023
GP → AD	1.004
AD → FR	1.000
FR → RL	1.000
FR → AC	1.000
FR → TM	1.000
FR → UD	1.000
FR → CP	1.000

(Source: Results processed from SmartPLS, 2025)

The results show that all VIF values are below 5, ranging from 1.000 to 1.023, indicating no serious multicollinearity among the variables in the model. The independent variables affecting AD have very low VIF values, with the highest being LR (1.023), followed by PB (1.019), PE (1.013), and GP (1.004). The relationships from AD to FR and from FR to the first-order components all have VIF values of 1.000, indicating no overlap among these variables in the measurement model.

#### 4.2.1.4. Model Fit

The model fit in Step 1 is assessed through SRMR, d\_ ULS, and d\_ G. The results are presented in Table 7.

**Table 7. Model Fit Indices – Step 1**

Index	Saturated Model	Estimated Model
SRMR	0.095	0.120
d_ ULS	15.338	24.550
d_ G	n/a	n/a
Chi-square	infinite	infinite
NFI	n/a	n/a

(Source: Results processed from SmartPLS, 2025)

The SRMR value of the estimated model is 0.120, exceeding the recommended threshold of 0.08, indicating that the model does not exhibit good fit in this analysis step. The d\_ ULS value of the estimated model is 24.550, higher than that of the saturated model (15.338), reflecting differences between the predicted covariance matrix and the observed covariance matrix. The Chi-square and NFI indices do not provide values in this step due to the presence of a complex second-order construct in the model. These results indicate the need to proceed to Step 2 with a simplified model to improve model fit.

#### 4.2.2. Step 2: Evaluation of the Structural Model after Computing the Second-Order Construct

After completing Step 1 and confirming that the measurement scales have acceptable reliability and convergent validity, the study proceeds to compute the latent variable scores for FR from the five first-order components (RL, AC, TM, UD, CP). The FR variable is then used as a first-order latent construct in the final structural model. Step 2 evaluates the structural model in which the independent variables (PB, PE, LR, GP) affect AD, and AD affects FR.

##### 4.2.2.1. Reliability and Convergent Validity

The results of reliability and convergent validity assessment in Step 2 are presented in Table 8.

**Table 8. Results of Reliability and Convergent Validity Assessment – Step 2**

Latent Variable	Number of Indicators	Cronbach's Alpha	CR (rho_a)	CR (rho_c)	AVE
PB	4	0.817	0.843	0.880	0.649
PE	5	0.882	0.884	0.914	0.680
LR	4	0.864	0.870	0.908	0.711
GP	4	0.871	0.877	0.912	0.721
AD	5	0.851	0.852	0.894	0.627
FR	-	0.874	0.886	0.909	0.668

Note: FR is an aggregated variable formed from the first-order components, thus it does not have its own individual indicators.

(Source: Results processed from SmartPLS, 2025)

The results show that the independent variables maintain

the same level of reliability as in Step 1, with Cronbach's Alpha ranging from 0.817 to 0.882. The mediating variable AD has a Cronbach's Alpha of 0.851, CR of 0.894, and AVE of 0.627, indicating good reliability and convergent validity. Notably, the dependent variable FR, after being computed from the first-order components, has a Cronbach's Alpha of 0.874, CR of 0.909, and AVE of 0.668, all exceeding acceptable thresholds. The AVE of FR increases from 0.471 in Step 1 to 0.668 in Step 2, showing that FR is measured more effectively after being aggregated from the first-order components.

#### 4.2.2.2. Discriminant Validity

Discriminant validity in Step 2 is assessed using the HTMT ratio and the Fornell-Larcker criterion. The results are presented in Tables 9 and 10.

**Table 9. HTMT Matrix – Step 2**

	PB	PE	LR	GP	AD	FR
PB						
PE	0.073					
LR	0.156	0.104				
GP	0.050	0.062	0.049			
AD	0.407	0.465	0.519	0.540		
FR	0.063	0.041	0.088	0.049	0.623	

(Source: Results processed from SmartPLS, 2025)

The results show that all HTMT values are below 0.85, and even below 0.70, indicating very strong discriminant validity. The HTMT values among the independent variables range from 0.049 to 0.156, which are very low, demonstrating no conceptual overlap. The HTMT values between the independent variables and AD range from 0.407 to 0.540, confirming that the independent variables are clearly distinct from the mediating variable. The highest HTMT value in the model is 0.623 between AD and FR, which is still below the threshold of 0.85, indicating acceptable discriminant validity even though these two variables are theoretically related.

**Table 10. Fornell-Larcker Criterion – Step 2**

	PB	PE	LR	GP	AD	FR
PB	0.80					
	6					
PE	-	0.82				
	0.06	5				
	2					
LR	-	0.09	0.84			
	0.12	2	3			
	0					
GP	0.03	0.04	0.03	0.84		
	0	0	1	9		
A	0.34	0.40	0.44	0.46	0.79	
D	4	4	6	7	2	
FR	0.03	-	0.07	0.01	0.54	0.81
	1	0.00	4	8	1	7
		6				

(Source: Results processed from SmartPLS, 2025)

According to the Fornell-Larcker criterion, the square root of AVE (values on the diagonal) must be greater than the correlations between the variable and other variables. The square roots of AVE for the variables range from 0.792 to 0.849 for the independent and mediating

variables, while FR has a square root of AVE of 0.817. The correlations between FR and the independent variables are very low, ranging from -0.006 to 0.074, indicating clear discriminant validity for FR. The correlation between AD and FR is 0.541, lower than the square root of AVE for both AD (0.792) and FR (0.817), confirming discriminant validity between these two variables. These results show that the structural model in Step 2 has strong discriminant validity among the latent variables.

#### 4.2.2.3. Multicollinearity Phenomenon

The VIF index of the inner model in Step 2 is presented in Table 11.

**Table 11. VIF Index of the Inner Model – Step 2**

Relationship	VIF
PB → AD	1.019
PE → AD	1.013
LR → AD	1.023
GP → AD	1.004
AD → FR	1.000

(Source: Results processed from SmartPLS, 2025)

The results show that all VIF values are less than 5, ranging from 1.000 to 1.023, indicating that there is no multicollinearity phenomenon in the structural model. The independent variables have very low VIF values when influencing AD, in which the highest is Legal Requirements (1.023), followed by Perceived Benefits (1.019), Perceived Ease of Implementation (1.013), and the lowest is Government Policy (1.004). The relationship from AD to Financial reporting quality at FDI enterprises has a VIF of 1.000, showing no multicollinearity issues in estimating the impact of AD on Financial reporting quality at FDI enterprises.

#### 4.2.2.4. Model Fit

The model fit of the structural model in Step 2 is assessed through SRMR, d\_ULS, d\_G, Chi-square, and NFI indices. The results are presented in Table 12.

**Table 12. Model Fit Indices – Step 2**

Index	Saturated Model	Estimated Model
SRMR	0.048	0.081
d_ULS	0.881	2.499
d_G	0.549	0.831
Chi-square	1183.462	1483.500
NFI	0.829	0.785

(Source: Results processed from SmartPLS, 2025)

The SRMR index of the estimated model in Step 2 is 0.081, significantly reduced from 0.120 in Step 1, indicating a better model fit. Although the value 0.081 is still slightly higher than the recommended threshold of 0.08, it is considered acceptable in exploratory research. The d\_ULS index decreases sharply from 24.550 to 2.499, showing a substantial improvement in model fit. The d\_G index reaches 0.831, reflecting an acceptable level of discrepancy between the predicted correlation matrix and the observed correlation matrix.

The NFI index of the estimated model reaches 0.785, although lower than the recommended threshold of 0.9, it is still considered acceptable in exploratory research with a complex model. The Chi-square value of the estimated

model is 1483.500, higher than the saturated model (1183.462); however, since Chi-square is highly sensitive to large sample sizes, this index is used for reference only. Overall, the fit indices in Step 2 show that the final structural model has an acceptable level of fit with the empirical data, allowing the testing of research hypotheses.

### 4.3. Testing the structural model and research hypotheses

#### 4.3.1. Assessment of the Structural Model

After confirming that the measurement scales have acceptable reliability and convergent and discriminant validity, the study proceeds to assess the structural model to test the relationships among the variables. The assessment of the structural model is conducted through the  $R^2$ ,  $f^2$ ,  $Q^2$  indices and the predictive ability of the model.

##### 4.3.1.1. Coefficient of Determination $R^2$

The coefficient of determination  $R^2$  measures the extent to which the variance of the dependent variable is explained by the independent variables in the model. The results are presented in Table 13.

**Table 13. Coefficient of Determination  $R^2$**

Dependent Variable	$R^2$	Adjusted $R^2$
AD	0.688	0.685
FR	0.293	0.291

(Source: Results processed from SmartPLS, 2025)

The results show that the independent variables including Perceived Benefits (PB), Perceived Ease of Implementation (PE), Legal Requirements (LR), and Government Policy (GP) explain 68.8% of the variance of the variable Adoption of International Accounting Standards (IFRS) (AD). The  $R^2$  value of 0.688 is assessed as fairly good according to Hair et al. (2017), indicating that the model has a good explanatory ability for the factors influencing the adoption of IFRS in FDI enterprises. The adjusted  $R^2$  value is 0.685, differing by only 0.003 from  $R^2$ , showing that the model is not significantly affected by the number of independent variables.

The variable Adoption of IFRS (AD) explains 29.3% of the variance of the variable Financial reporting quality at FDI enterprises (FR). The  $R^2$  value of 0.293 is assessed as weak according to Hair et al. (2017), indicating that many other factors beyond the adoption of IFRS may influence financial reporting quality but are not included in the model. The adjusted  $R^2$  value of 0.291 is nearly equal to  $R^2$ , showing that this estimate is fairly stable. Although the  $R^2$  value of FR is not high, it remains meaningful in exploratory research examining the impact of IFRS on financial reporting quality.

##### 4.3.1.2. Effect Size $f^2$

The  $f^2$  coefficient measures the extent of the impact of a specific independent variable on the dependent variable. According to Cohen (1988),  $f^2$  values from 0.02 to 0.15 indicate a small effect, from 0.15 to 0.35 indicate a medium effect, and above 0.35 indicate a large effect. The results are presented in Table 14.

**Table 14. Effect Size  $f^2$**

Relationship	$f^2$
GP → AD	0.581
LR → AD	0.628
PB → AD	0.524
PE → AD	0.436
AD → FR	0.414

(Source: Results processed from SmartPLS, 2025)

The results show that all independent variables have a large impact on their corresponding dependent variables, with  $f^2$  values all greater than 0.35. Among the factors influencing the adoption of IFRS, Legal Requirements (LR) has the strongest impact with  $f^2 = 0.628$ , followed by Government Policy (GP) with  $f^2 = 0.581$ , Perceived Benefits (PB) with  $f^2 = 0.524$ , and Perceived Ease of Implementation (PE), which has the lowest but still large effect with  $f^2 = 0.436$ . These results indicate that institutional factors such as legal requirements and government policy play a more important role than cognitive factors in promoting the adoption of IFRS.

The adoption of IFRS (AD) has a large impact on Financial reporting quality at FDI enterprises (FR), with  $f^2 = 0.414$ . This result shows that although the  $R^2$  of FR is only 0.293, AD remains a significantly influential factor on financial reporting quality, and removing AD from the model would substantially reduce the explanatory ability of the model.

##### 4.3.1.3. $Q^2$ Coefficient

The  $Q^2$  coefficient is used to assess the predictive relevance of the model through the blindfolding procedure. A  $Q^2$  value greater than 0 indicates that the model has predictive capability, in which values from 0.02 to 0.15 indicate small predictive relevance, from 0.15 to 0.35 indicate medium predictive relevance, and above 0.35 indicate large predictive relevance. The results are presented in Table 15.

**Table 15.  $Q^2$  Coefficient and Predictive Relevance**

Variable	SSO	SSE	$Q^2$
AD	2115.000	1216.074	0.425
FR	2115.000	1709.316	0.192
PB	1692.000	1692.000	-
PE	2115.000	2115.000	-
LR	1692.000	1692.000	-
GP	1692.000	1692.000	-

(Source: Results processed from SmartPLS, 2025)

The results show that the model exhibits good predictive relevance for the variable Adoption of International Accounting Standards (IFRS) (AD) with  $Q^2 = 0.425$ , exceeding the threshold of 0.35, which is evaluated as a large predictive relevance. This indicates that the independent variables in the model have strong predictive capability regarding the level of IFRS adoption in FDI enterprises. For the variable Financial reporting quality at FDI enterprises (FR),  $Q^2$  reaches 0.192, falling within the range from 0.15 to 0.35, and is evaluated as medium predictive relevance. This result shows that the model can predict part of the variance in financial reporting quality through the adoption of IFRS.

The independent variables PB, PE, LR, and GP do not have  $Q^2$  values because they are exogenous variables in



the model and are not predicted by other variables. The Q<sup>2</sup>predict analysis shows that AD has very good predictive capability with Q<sup>2</sup>predict = 0.675, RMSE = 0.575, and MAE = 0.408. In contrast, FR has a negative Q<sup>2</sup>predict (-0.157), high RMSE (1.083), and high MAE (0.814), indicating that the out-of-sample predictive capability of the model for FR remains limited.

#### 4.3.2. Testing the Research Hypotheses

The research hypotheses are tested using the bootstrapping method with 5,000 subsamples. The hypothesis testing results include path coefficients, t-statistic values, and p-values. According to Hair et al. (2017), a t-statistic value greater than 1.96 (at the 5% significance level) or a p-value less than 0.05 indicates that the relationship is statistically significant. The results of the direct effect tests are presented in Table 16.

**Table 16.** Results of Direct Effect Testing

Hypot hesis	Relatio nship	$\beta$ Coeffi cient	Stand ard Devia tion	t- val ue	p- val ue
H1	PB → AD	0.408	0.030	13.4 23	0.0 00
H2	PE → AD	0.371	0.036	10.2 64	0.0 00
H3	LR → AD	0.447	0.032	14.1 22	0.0 00
H4	GP → AD	0.426	0.031	13.7 12	0.0 00
H5	AD → FR	0.541	0.037	14.7 67	0.0 00

(Source: Results processed from SmartPLS, 2025)

Hypothesis H1: Perceived Benefits has a positive effect on the adoption of IFRS

The results show that Perceived Benefits (PB) has a positive and statistically significant effect on the adoption of IFRS (AD), with  $\beta = 0.408$ ,  $t = 13.423$ , and  $p\text{-value} = 0.000$ . The positive  $\beta$  coefficient indicates that when enterprises perceive more benefits from adopting IFRS, such as enhanced transparency, improved access to international capital, and increased financial credibility, they are more motivated to adopt the standards. This result is consistent with the studies of Johri (2024) and Alshamsi & Ahmad (2024), which argue that perceived benefits are a key driver of IFRS adoption. Therefore, hypothesis H1 is accepted.

Hypothesis H2: Perceived Ease of Implementation has a positive effect on the adoption of IFRS

The results indicate that Perceived Ease of Implementation (PE) has a positive and statistically significant effect on IFRS adoption (AD), with  $\beta = 0.371$ ,  $t = 10.264$ , and  $p\text{-value} = 0.000$ . The positive  $\beta$  coefficient shows that when enterprises have sufficient resources, staff capability to study and apply IFRS, and well-organized transition processes, IFRS adoption is more effective. Although PE has the lowest effect among the independent variables (0.371), it still exhibits strong statistical significance. This result suggests that FDI enterprises in Hai Phong still face certain challenges in implementing IFRS, consistent with descriptive statistics showing that PE variables have the lowest mean values. Therefore, hypothesis H2 is accepted.

Hypothesis H3: Legal Requirements have a positive

effect on the adoption of IFRS

The results demonstrate that Legal Requirements (LR) have a positive and statistically significant effect on IFRS adoption (AD), with  $\beta = 0.447$ ,  $t = 14.122$ , and  $p\text{-value} = 0.000$ . The  $\beta$  coefficient of 0.447, the highest among the independent variables, indicates that legal factors play the most important role in promoting IFRS adoption. This reflects that when legal regulations are supportive, aligned with IFRS, and provide clear direction and encouragement, enterprises are more strongly motivated to adopt the standards. This result aligns with the study of Tsegba and Semberfan (2020) on the role of legal institutions in promoting IFRS adoption. Therefore, hypothesis H3 is accepted.

Hypothesis H4: Government Policy has a positive effect on the adoption of IFRS

The results show that Government Policy (GP) has a positive and statistically significant effect on IFRS adoption (AD), with  $\beta = 0.426$ ,  $t = 13.712$ , and  $p\text{-value} = 0.000$ . The  $\beta$  coefficient of 0.426, slightly lower than LR, indicates that government policy plays an essential role in supporting enterprises in adopting IFRS. When the government provides specific support policies, delivers training and guidance, maintains stability in tax and accounting regulations, and creates a favorable legal environment, enterprises have better conditions to adopt IFRS. This result is consistent with the study of Nejad et al. (2018) regarding the role of public policy in promoting the adoption of international accounting standards. Therefore, hypothesis H4 is accepted.

Hypothesis H5: Adoption of IFRS has a positive effect on financial reporting quality

The results show that the adoption of IFRS (AD) has a positive and statistically significant effect on Financial reporting quality at FDI enterprises (FR), with  $\beta = 0.541$ ,  $t = 14.767$ , and  $p\text{-value} = 0.000$ . The  $\beta$  coefficient of 0.541 is high and statistically significant, indicating that IFRS adoption significantly improves financial reporting quality through enhanced Relevancy, Accuracy, Timeliness, Understandability, and Comparability of financial information. This result is consistent with previous studies by Johri (2024), Eshonqulov (2024), and Abed et al. (2022), which conclude that IFRS contributes positively to financial reporting quality. Therefore, hypothesis H5 is accepted.

#### 4.3.3. Testing the Indirect Effects

In addition to the direct effects, the study also examines the indirect effects of the independent variables on the Financial reporting quality at FDI enterprises through the mediating variable International Accounting Standards (IFRS) adoption. The results are presented in Table 17.

**Table 17.** Results of Indirect Effects Testing

Relationsh ip	$\beta$ Coefficie nt	Standar d Deviation	t- value	p- valu e
PB → AD → FR	0.221	0.025	8.858	0.00 0
PE → AD → FR	0.201	0.023	8.800	0.00 0
LR → AD → FR	0.242	0.023	10.53 6	0.00 0
GP → AD	0.231	0.022	10.45	0.00



→ FR 3 0

(Source: Processed results from SmartPLS, 2025)

The results show that all independent variables have statistically significant indirect effects on the Financial reporting quality at FDI enterprises through the International Accounting Standards (IFRS) adoption. Legal Requirements have the largest indirect effect with  $\beta = 0.242$  ( $t = 10.536$ ,  $p = 0.000$ ), followed by Government Policy with  $\beta = 0.231$  ( $t = 10.453$ ,  $p = 0.000$ ), Perceived Benefits with  $\beta = 0.221$  ( $t = 8.858$ ,  $p = 0.000$ ), and Perceived Ease of Implementation having the lowest indirect effect with  $\beta = 0.201$  ( $t = 8.800$ ,  $p = 0.000$ ).

These results indicate that the factors promoting the International Accounting Standards (IFRS) adoption not only directly affect the adoption itself but also indirectly influence the Financial reporting quality at FDI enterprises through the level of IFRS adoption. Specifically, when factors such as Legal Requirements, Government Policy, Perceived Benefits, and Perceived Ease of Implementation improve, they encourage firms to adopt IFRS more effectively, thereby contributing to the enhancement of financial reporting quality. The mediating role of AD in this relationship is confirmed with high statistical significance.

4.3.4. Summary of Hypothesis Testing Results

Table 18 summarizes the testing results of all hypotheses in the research model.

Table 18. Summary of Hypothesis Testing Results

Hypothesis	Content	$\beta$ Coefficient	t-value	p-value
H1	Perceived Benefits → International Accounting Standards (IFRS) adoption	0.408	13.423	0.000
H2	Perceived Ease of Implementation → International Accounting Standards (IFRS) adoption	0.371	10.264	0.000
H3	Legal Requirements → International Accounting Standards (IFRS) adoption	0.447	14.122	0.000
H4	Government Policy → International Accounting Standards (IFRS) adoption	0.426	13.712	0.000
H5	International Accounting Standards (IFRS) adoption	0.541	14.7	0.000

Accounting Standards (IFRS) adoption → Financial reporting quality at FDI enterprises

67 0

(Source: Processed results from SmartPLS, 2025)

The results show that all five hypotheses in the research model are accepted with high statistical significance ( $p < 0.001$ ). The factors Legal Requirements ( $\beta = 0.447$ ), Government Policy ( $\beta = 0.426$ ), Perceived Benefits ( $\beta = 0.408$ ), and Perceived Ease of Implementation ( $\beta = 0.371$ ) all have positive effects on the International Accounting Standards (IFRS) adoption at FDI enterprises in Hai Phong. Among these, institutional factors such as Legal Requirements and Government Policy have stronger effects than individual perception factors. The International Accounting Standards (IFRS) adoption has a strong positive effect on the Financial reporting quality at FDI enterprises ( $\beta = 0.541$ ), confirming the role of IFRS in enhancing the quality of financial information in FDI enterprises.

4.4 Discussion

The findings reveal that the adoption of IFRS among FDI enterprises in Hai Phong is relatively high, as reflected by the mean values of the AD indicators (around 4.0) and the strong positive effect of IFRS adoption on financial reporting quality ( $\beta = 0.541$ ,  $p < 0.001$ ). This confirms that IFRS substantially enhances the quality of financial reports, supporting previous studies by Johri (2024) and Eshonqulov (2024), who argue that IFRS improves transparency, integrity, and comparability of financial information. The results also align with Abed et al. (2022), suggesting that adherence to international standards reduces creative accounting practices and strengthens disclosure quality.

First, institutional factors-Legal Requirements and Government Policy-are the strongest drivers of IFRS adoption. Legal Requirements ( $\beta = 0.447$ ) and Government Policy ( $\beta = 0.426$ ) show greater influence than perception-based factors. This indicates that IFRS adoption in Vietnam is largely promoted through a top-down approach, where regulatory orientation and policy interventions play a decisive role. The results are consistent with Tsegba and Semberfan (2020), who highlight the critical role of institutional quality in ensuring effective IFRS implementation in developing economies. They also corroborate the conclusions of Nejad, Ahmad, and Rahim (2018), which emphasize that public policy coherence and regulatory alignment are essential prerequisites for IFRS expansion in ASEAN countries.

Second, perception factors-Perceived Benefits and Perceived Ease of Implementation-also significantly influence IFRS adoption but to a lesser extent. Perceived Benefits ( $\beta = 0.408$ ) show that enterprises recognize the major advantages of IFRS, such as enhanced transparency and improved access to global capital markets. However, Perceived Ease of Implementation ( $\beta = 0.371$ ) remains the weakest factor, consistent with descriptive statistics

showing that PE has the lowest mean values among all constructs. This indicates that FDI enterprises still face challenges related to human resources, technical knowledge, and IT infrastructure. These findings align with Alshamsi and Ahmad (2024), who state that IFRS implementation becomes burdensome when organizations lack adequate training, expertise, and system readiness. They also reflect the observations of Ahmad et al. (2024), which emphasize that accounting technology capabilities and organizational preparedness directly influence financial reporting outcomes.

Third, the significant effect of IFRS adoption on financial reporting quality reaffirms the role of IFRS as a key driver of improved reporting practices in FDI enterprises. The ability of IFRS to enhance accuracy, relevancy, understandability, comparability, and timeliness of financial information is consistent with the findings of Gu and Prah (2020) and Okpala (2012), which demonstrate that IFRS promotes higher-quality financial information and supports FDI attractiveness by reducing information asymmetry. Given that Hai Phong is a major hub for FDI activities, this positive influence is highly relevant for strengthening investor confidence and promoting an efficient investment environment.

Fourth, the indirect effects demonstrate that IFRS adoption serves as a critical mediating mechanism linking institutional and perceptual factors to financial reporting quality. All indirect effects are statistically significant ( $p < 0.001$ ), with Legal Requirements ( $\beta = 0.242$ ) and Government Policy ( $\beta = 0.231$ ) having the strongest mediated impacts. This reinforces the argument by Adams and Abhayawansa (2022) that harmonization of reporting practices yields meaningful improvements only when regulatory and policy frameworks effectively support implementation.

Finally, although IFRS adoption significantly enhances financial reporting quality, the  $R^2$  value for FR (0.293) indicates that IFRS alone does not fully determine reporting quality. This finding is aligned with Chi et al. (2022), who argue that reporting quality is influenced not only by accounting standards but also by audit quality, governance practices, and ethical behavior. The results suggest that other organizational factors—such as corporate culture, internal control systems, and the competencies of accounting personnel—may also play important roles but were not included in the model.

IFRS adoption generates substantial improvements in financial reporting quality for FDI enterprises in Hai Phong, but its success depends heavily on the strength of institutional support and the organizational capacity to implement the standards effectively. This study contributes to the literature by confirming the dominant role of institutional factors and illustrating how IFRS acts as a bridge between policy environments and financial reporting outcomes in developing economies.

## **5. Conclusion and policy implications**

### **5.1. Conclusion**

This study investigates the determinants of IFRS adoption and its impacts on the financial reporting quality of FDI enterprises in Hai Phong City. Using PLS-SEM with data from 423 valid observations, the findings confirm that all four factors—Perceived Benefits, Perceived Ease of Implementation, Legal Requirements, and Government

Policy—significantly and positively influence IFRS adoption. Among them, institutional drivers, particularly Legal Requirements and Government Policy, play the strongest roles, emphasizing the importance of regulatory enforcement and governmental support in the Vietnamese context.

The results further demonstrate that IFRS adoption has a substantial positive effect on financial reporting quality, improving the relevance, accuracy, timeliness, understandability, and comparability of financial information. IFRS also mediates the indirect effects of institutional and perceptual factors on reporting quality, confirming its central role in strengthening transparency and enhancing the credibility of financial statements in FDI enterprises.

The research provides empirical evidence that IFRS adoption contributes meaningfully to improving financial reporting quality; however, its effectiveness still depends on institutional readiness, enterprise capacity, and the broader regulatory environment.

### **5.2. Policy Implications**

For policymakers and regulators: Vietnam should continue to strengthen the legal framework related to IFRS adoption, ensuring consistency between accounting, auditing, tax, and financial regulations. Clear implementation guidelines, regular updates, and strict enforcement mechanisms are necessary to maintain compliance. The government should expand nationwide IFRS training programs, develop standardized bilingual guidance, and improve coordination among regulatory agencies.

For FDI enterprises: Enterprises should invest in human resource development, including specialized IFRS training, certification programs, and continuous professional development for accounting and finance personnel. Upgrading IT systems, integrating accounting software compatible with IFRS, and strengthening internal control mechanisms are essential to support a smooth and effective transition.

For professional associations and academic institutions: Accounting associations and universities should collaborate to design IFRS-focused curricula, practical workshops, and knowledge-sharing forums. Professional bodies can play a pivotal role in providing technical support, disseminating best practices, and promoting ethical standards to enhance reporting quality.

For foreign investors and auditors: Auditors and investors should encourage enterprises to adopt full IFRS, demand transparent disclosures, and advocate for higher reporting standards. Audit firms can support the transition by offering tailored consulting services and assisting enterprises in aligning reporting practices with global requirements.

### **5.3 Limitations and Future Research Directions**

This study has several limitations. First, the cross-sectional design captures IFRS adoption at only one point in time, preventing observation of long-term changes. Future studies should use longitudinal data to assess the sustainability of IFRS impacts. Second, the sample is limited to FDI enterprises in Hai Phong, which may reduce generalizability; broader samples across regions or comparative studies are recommended.

Third, the use of self-reported survey data may create subjectivity and response bias. Future research should incorporate objective indicators such as audited financial statements or disclosure scores. Fourth, the model includes only four determinants of IFRS adoption, while other relevant factors-such as governance quality, audit characteristics, and internal controls-were not examined. These variables should be integrated in future

frameworks.

Finally, future studies may apply qualitative or mixed-methods approaches to gain deeper insights into practical challenges and contextual barriers related to IFRS implementation

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