

Financial Reporting Quality in Small Businesses: Empirical Evidence from Bangladesh

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Abstract

Research purpose: This study aims to explore the quality of financial reporting among small businesses in Bangladesh, focusing on identifying key challenges and the factors influencing current reporting practices.

Design/methodology/approach: A mixed-method approach was employed, utilizing both structured surveys and in-depth interviews. Primary data were collected from 200 respondents, including 120 small business owners and 80 accountants/financial managers.

Findings: The study found that the overall quality of financial reporting among small businesses is low, primarily due to manual bookkeeping, lack of proper financial records, low adoption of accounting tools, and limited financial literacy, where 50% of respondents exhibited only moderate knowledge. Other key challenges include the absence of accounting systems, complex regulations, and a shortage of skilled manpower. However, maintaining proper records, enhancing financial literacy, and adopting accounting tools have been shown to significantly improve reporting quality and access to finance.

Value: This study provides current and context-specific insights into the financial reporting practices of small businesses in Bangladesh, a relatively under-researched area, offering empirical evidence to support future reforms.

Practical implications: Recommendations include promoting financial education, encouraging the use of accounting software, providing government incentives for better reporting, and simplifying regulatory frameworks. Support programs should be designed to reward businesses that maintain transparent records.

Research limitations: The study is based on a sample of 200 participants and focuses on selected areas within Bangladesh. Future studies with more diverse samples could provide a broader perspective.

Keywords: Financial reporting quality, Small businesses, Financial literacy, Accounting practices, Reporting accuracy

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1. Introduction

Adopting accounting tools presents varied barriers across sectors due to differences in operational complexity, regulatory demands, and resource availability. Common challenges include high implementation costs, resistance to change, data migration issues, integration difficulties, and cyber security concerns. In healthcare, strict compliance like HIPAA and fragmented systems hinder adoption, while manufacturing faces operational intricacies and the need for custom job costing. Nonprofits struggle with limited budgets and require fund accounting features, whereas retail must manage high transaction volumes and omnichannel integration. Financial services face legacy system constraints and strict regulations, making modernization risky. Agriculture deals with low digitization and seasonal cash flows, needing mobile and offline solutions, while tech startups encounter scalability issues and unconventional revenue models. Small and medium enterprises (SMEs) often lack the financial and human resources to implement sophisticated tools, face greater skill gaps, and are more risk-averse, which delays digital transformation despite its potential benefits. Each sector, including SMEs, demands tailored strategies—sector-specific software, phased rollouts, hybrid deployments, and targeted training—to overcome these barriers and ensure successful tool integration. In Bangladesh, small businesses operate across a diverse range of industries, including Retail & Trade (e.g., grocery stores, clothing shops), Food & Beverage (e.g., restaurants, bakeries), Manufacturing & Production (e.g., garment factories, handicrafts), Technology & IT (e.g., e-commerce businesses, software startups), Service Sector (e.g., beauty salons, coaching centers), and Agriculture & Livestock (e.g., poultry farms, fisheries). These businesses form the backbone of the economy and contribute significantly to employment, industrial activity, and GDP. According to the Planning Division, Bangladesh, small and medium enterprises (SMEs) make up 90% of industrial units, employ 80% of the industrial workforce, and contribute approximately 45% to the manufacturing value added. Moreover, the Bangladesh Bureau of Statistics (BBS) estimates that SMEs contribute approximately 25% to the country's overall GDP. However, Abedin (2017) contends that this figure largely reflects the manufacturing sector's contributions alone, and the actual GDP contribution could be as high as 56.34% if the service sector's SME activities were also accounted for.

Despite their critical role in the economy, small businesses in Bangladesh face significant challenges related to financial reporting. Many of these enterprises struggle with maintaining accurate, transparent, and consistent financial records due to limited financial literacy, lack of access to accounting tools, and gaps in regulatory support. High-quality financial reporting is essential for ensuring transparency, attracting investment, securing loans, complying with tax regulations, improving decision-making, and achieving long-term business sustainability. However, the lack of formal financial reporting practices often leads to adverse consequences, such as business failure, fund mismanagement, and difficulties in accessing financial support from banks and other institutions. While small businesses play a vital role in employment generation, income distribution, and overall economic

development, there is a noticeable lack of empirical research that focuses on their financial reporting quality, particularly through the use of primary data. Most existing studies primarily emphasize large corporations, leaving the financial reporting practices of small businesses underexplored. This study seeks to bridge this gap by evaluating the financial reporting practices of small businesses across various industries in Bangladesh. It will analyze factors such as financial literacy, the use of accounting software, and compliance challenges to identify the barriers faced by these businesses. By providing evidence-based insights, the study aims to enhance the understanding of financial reporting practices in the small business sector and offer practical recommendations to improve transparency, decision-making, and long-term sustainability. These findings will be valuable for small business owners, policymakers, and financial institutions, enabling them to support the growth and financial sustainability of small enterprises more effectively.

2. Review of Related Literature

Financial reporting quality in small businesses is influenced by several interrelated factors, among which financial literacy, record-keeping practices, and the use of accounting software are most prominent. These elements directly affect the accuracy, reliability, and transparency of financial information. Existing literature from both developing and developed contexts highlights how deficiencies in these areas often lead to poor reporting practices, while improvements can significantly enhance financial decision-making, compliance, and access to finance. Several studies have explored the quality and impact of financial reporting in small and medium enterprises (SMEs), especially in developing countries. Brookes (2025) explores the financial reporting challenges faced by small- and mid-cap companies listed on the Johannesburg Stock Exchange.

Based on interviews with auditors, academics, preparers, and regulators, the research identifies key obstacles such as limited resources, difficulties in attracting skilled staff, low auditor interest, and perceptions of irrelevance in financial statements. These factors contribute to a compliance-focused, “tick-box” approach to reporting. However, the simpler operations of these companies and stronger staff involvement can partly mitigate these challenges. The findings offer valuable insights for regulators and standard setters, highlighting the need to consider the specific reporting burdens of smaller firms—an area previously underexplored despite its economic significance. Budianto (2024) showed that in Indonesia, the use of technology and financial reporting standards improved the quality of reports in restaurant SMEs, though financial literacy had little effect. Denich Ervin (2022) analyzes whether quality criteria and assessment methods used for large firms are relevant and applicable to SMEs, thereby expanding the limited research in this area and contributing to the understanding of financial reporting quality in smaller enterprises. Hasan, Abdullah, and Hossain (2014) found that users in Bangladesh viewed corporate financial reporting as poor, with low transparency and weak disclosures. They recommended better corporate governance to improve reporting quality. Similarly, Bukenya (2014) emphasized that accurate, relevant, reliable, and timely accounting information leads to better financial performance in Uganda’s public sector.

In Nigeria, Ezeagba (2017) highlighted key challenges SMEs face, including poor accounting records and lack of skilled personnel. He suggested that professional bodies offer free services to support SMEs. Mkasiwa (2014) noted that earlier studies focused on the reasons for introducing IFRS for SMEs, and more recent research looks at how well it's being adopted, especially in developing countries. Anuolam (2024) found that in Nigeria, many SMEs do not use financial reports for decision-making due to lack of knowledge. He recommended training SME managers to improve their understanding and use of financial reports. In Sri Lanka, Ramajeyam (2023) found a significant positive relationship between financial reporting practices and SME performance in the Jaffna district. Similarly, Muhindo, Mzuza, and Zhou (2014) found that small businesses in Uganda that used Accounting Information Systems (AIS) performed better financially. They suggested government support to encourage AIS adoption. Lastly, Sandaruwandi, Panditharathna, and Rathnayake (2023) identified that financial management techniques like fixed asset and working capital management, along with financial reporting, play a major role in improving SME performance. Overall, these studies highlight the importance of accurate financial reporting and the need for training, technology adoption, and supportive policies to help SMEs grow and succeed.

3. Problem Statement

Despite their economic significance, small businesses in Bangladesh struggle with poor financial reporting due to limited literacy, inadequate tools, and weak regulatory support. This hinders transparency, financing, and compliance, while research on improving their reporting quality remains scarce.

3.1 Research Question

This study aims to explore the following primary research question:

What is the impact of financial literacy, record-keeping practices, and the use of accounting tools/software on the perceived quality of financial reporting in small businesses in Bangladesh?

3.2 Objectives of the Study

Based on the above question, the specific objectives of the study are:

- i. To assess the perceived quality of financial reporting in small businesses in Bangladesh.
- ii. To evaluate the level of financial literacy, record-keeping practices, and use of accounting tools among small business stakeholders.
- iii. To examine the effect of financial literacy on financial reporting quality.
- iv. To investigate how record-keeping practices influence financial reporting quality.
- v. To evaluate the impact of using accounting tools/software on financial reporting quality.
- vi. To suggest solutions for improving financial reporting among small businesses.

3.3 Hypotheses of the Study

To examine the underlying factors influencing financial reporting quality in small businesses, this study focuses on three critical variables identified through both literature and field data: financial literacy, record-keeping practices, and the use of accounting tools/software. These variables reflect essential internal resources that directly affect the accuracy, transparency, and reliability of financial reports. Prior research suggests that limited financial knowledge undermines the ability to understand and apply sound financial practices, while inadequate documentation weakens the integrity and traceability of financial information. Studies by Ezeagba (2017), Hasan et al. (2014), and Anuolam et al. (2024) emphasize the detrimental effects of weak financial literacy on reporting quality. Similarly, Muhindo et al. (2014) and Sandaruwandi et al. (2023) highlight the importance of maintaining proper financial records as a foundation for credible reporting. In addition to these human and procedural aspects, the adoption of digital accounting tools plays an increasingly vital role in enhancing reporting standards. The use of accounting software improves accuracy, reduces manual errors, supports timely reporting, and enhances access to financial information – especially among resource-constrained small businesses. Empirical evidence from Budianto et al. (2024) and Muhindo et al. (2014) supports this technological dimension, linking software adoption with improved financial performance and reporting outcomes. These three factors—knowledge, practice, and technology—also align with the Resource-Based View (RBV), which posits that internal capabilities such as skills, systems, and tools form the basis for achieving organizational effectiveness. Accordingly, this study formulates and tests three hypotheses to assess the individual and combined effects of financial literacy, record-keeping, and use of accounting tools on the perceived quality of financial reporting in the context of small businesses in Bangladesh.

Hypothesis 1:

H₀: Maintaining proper records has no effect on perceived financial reporting quality.

H₁: Maintaining proper records significantly improves perceived financial reporting quality.

Hypothesis 2:

H₀: Financial literacy does not affect perceived financial reporting quality.

H₁: Financial literacy has a significant positive effect on perceived financial reporting quality.

Hypothesis 3:

H₀: The use of accounting tools/software has no significant effect on perceived financial reporting quality.

H₁: The use of accounting tools/software significantly improves perceived financial reporting quality.

4. Methodology of the Study

This study employs a mixed-method approach, combining both quantitative and qualitative techniques to examine financial reporting practices among small businesses. Primary data were collected through structured questionnaires and semi-structured interviews.

4.1 Population and Sampling

The target respondents include small business owners, accountants, and financial managers, who are directly involved in preparing or managing financial reports. A purposive sampling method was used to ensure representation across roles and sectors. The total sample size is 200 respondents, consisting of 120 small business owners (60%) and 80 accountants or financial managers (40%), selected based on accessibility and relevance.

4.2 Data Collection

Data were gathered using structured questionnaires, which included closed-ended questions for statistical analysis and open-ended questions for deeper qualitative insights. All 200 questionnaires were successfully completed and returned – 120 from business owners and 80 from financial/accounting professionals.

4.3 Data Analysis

Collected data were analyzed using descriptive statistics to summarize business characteristics and reporting practices, while multiple linear regression analysis was employed to test the relationship between three independent variables – financial literacy, record-keeping practices, and use of accounting tools/software – and the dependent variable, perceived financial reporting quality. The selection of these variables was informed by both a comprehensive review of the literature and preliminary field observations. Prior studies, such as those by Ezeagba (2017), Hasan et al. (2014), and Anuolam et al. (2024), identified financial literacy and record-keeping as key determinants of reporting quality in small enterprises. Additionally, evidence from Budianto et al. (2024) and Muhindo et al. (2014) supports the positive role of accounting software in enhancing reporting outcomes. To ensure the reliability of the regression model, the Variance Inflation Factor (VIF) was calculated for each independent variable, with all values indicating no multicollinearity. Furthermore, qualitative analysis was conducted using responses from open-ended survey questions and semi-structured interviews with purposively selected participants, including small business owners and financial managers, to enrich the quantitative findings and provide deeper contextual insights.

5. Discussions and Findings

Based on primary data and related statistical analysis, the summaries of the findings of the study are presented below:

Table 1: Respondents' profile by category

Category	Frequency (N=200)	Percentage (%)
Small Business Owners	120	60%
Accountants/Financial Managers	80	40%
Total	200	100%

Source: Self-constructed table based on the distribution and retrieval of the questionnaires

Table 1 presents the distribution of study participants by professional category. Out of the total 200 respondents, 60% were small business owners ($n = 120$), while the remaining 40% were accountants or financial managers ($n = 80$), who are directly responsible for financial reporting practices. This distribution is intentionally designed to capture perspectives from both business operators and financial professionals, thereby ensuring a balanced representation of stakeholders relevant to the study's objectives.

Table 2: Industry-wise distribution of respondents

Business sector	Frequency (N=200)	Percentage (%)
Retail & Trade	50	25%
Food & Beverage	40	20%
Manufacturing & Production	30	15%
Technology & IT	20	10%
Service Sector	40	20%
Agriculture & Livestock	20	10%
Total	200	100%

Source: Opinion survey

Table 2 summarizes the industry-wise representation of respondents within the small business sector, confirming its diverse presence in Bangladesh. By including a range of industries, the study captures sector-specific perspectives, including financial reporting behaviors, tools used, and challenges encountered. This distribution not only supports a stratified sampling approach but also helps identify patterns that may vary across industries in terms of reporting practices and challenges.

Table 3: Level of financial literacy

Literacy Level	Frequency (N=200)	Percentage (%)
3= High	40	20%
2= Moderate	100	50%
1= Low	60	30%
Total	200	100%

Source: Opinion survey

The distribution of respondents by their literacy level is presented in Table 3. As shown in the table, the majority of respondents demonstrated moderate financial literacy, accounting for 50% of the sample. While 20% possessed advanced financial knowledge, another 30% had a low level of financial literacy. The inclusion of participants across varying literacy levels allows the study to examine how financial literacy influences reporting behaviors, the adoption of financial tools, and the challenges encountered. This

diversity also adds analytical depth by highlighting potential disparities in decision-making and information-processing abilities linked to literacy. Furthermore, the findings reveal a significant knowledge gap that may impact the overall quality of financial reporting among small businesses.

Table 4: Use of accounting tools/software

Response	Frequency (N=200)	Percentage (%)
1= Yes	70	35%
0= No	130	65%
Total	200	100%

Source: Opinion survey

Table 4 presents the respondents' use of accounting tools or software in managing their business finances. The results reveal that a significant proportion (65%) of small business owners do not utilize formal accounting tools or software, relying instead on manual or informal systems. This finding may have implications for the accuracy, consistency, and efficiency of their financial reporting practices. The relatively low adoption rate (35%) suggests potential barriers such as limited digital literacy, cost concerns, or a lack of awareness about available tools, as reported by some respondents. These insights help contextualize the technological readiness of small businesses in relation to financial management and reporting.

Table 5: Maintenance of proper records

Response	Frequency (N=200)	Percentage (%)
1= Yes	120	60%
0= No	80	40%
Total	200	100%

Source: Opinion survey

Table 5 presents data on whether respondents maintain proper financial records for their businesses. As shown in the table, while a majority of small businesses (60%) recognize the importance of adequate record-keeping, a substantial portion (40%) still operates without a formal system – often due to a lack of training, awareness, or access to appropriate tools. The absence of proper financial documentation among this segment may hinder effective decision-making, reduce transparency, and compromise compliance with regulatory or tax-related requirements. This finding also highlights the relationship between record-keeping practices and the quality of financial reporting.

Table 6: Perceived financial reporting quality

Literacy Level	Frequency (N=200)	Percentage (%)
3= Good	60	30%
2= Average	100	50%
1= Poor	40	20%
Total	200	100%

Source: Opinion survey

Table 6 illustrates the respondents' perceptions of the quality of their financial reporting. As shown in the table, while half of the respondents consider their financial reporting to be of average quality, only a minority perceive it as good. The 20% who rated their reporting as poor may reflect underlying issues such as inadequate record-keeping, low adoption of digital tools, or limited financial literacy – factors that may serve as valuable dependent variables for regression analysis.

Table 7: Access to finance based on financial reporting practices

Access Level	Frequency (N=200)	Percentage (%)
Easy Access	50	25%
Moderate Access	80	40%
Difficult Access	70	35%
Total	200	100%

Source: Opinion survey

As shown in Table 7, while a majority of small businesses report moderate ease in accessing finance, only a quarter experience easy access, suggesting that reliable financial reporting may play a role in securing funding. The 35% who face difficulties in obtaining financial resources may be disadvantaged by weak financial reporting practices, lack of transparency, or insufficient documentation – factors commonly scrutinized by lenders. These findings highlight a potential link between the quality of financial reporting and access to finance, reinforcing the argument that improved reporting practices can enhance creditworthiness and promote financial inclusion for small businesses.

Table 8: Challenges in financial reporting

Challenges	Frequency (N=Multiple Response)
Lack of Financial Knowledge	110
Absence of Accounting System	90
Lack of Skilled Manpower	80
Regulatory Complexity	70
<i>Note: This table allows multiple responses, so the total number of responses is > 200.</i>	

Source: Opinion survey

Table 8 identifies key challenges faced by small business owners in financial reporting. As shown in the table, the most commonly reported challenge is a lack of financial knowledge (110 responses), emphasizing the need for capacity-building initiatives. This is followed by the absence of a formal accounting system (90 responses), which suggests underinvestment in essential accounting tools. Lack of skilled manpower (80 responses) and regulatory complexity (70 responses) are also cited as significant barriers. While the former highlights a skills gap in financial management, the latter points to potential confusion or inaccessibility of existing regulations. These challenges align with

the Resource-Based View (RBV), which argues that the absence of critical internal resources – such as knowledge, skills, and systems – can hinder organizational performance.

Regression Model

Dependent Variable:

- i. Perceived Financial Reporting Quality (1 = Poor, 2 = Average, 3 = Good)

Independent Variables:

- i. Record Keeping (0 = No, 1 = Yes)
- ii. Financial Literacy (1 = Low, 2 = Moderate, 3 = High)
- iii. Use of Accounting Tools (0 = No, 1 = Yes)

Table 9: Regression output

Variable	Coefficient (β)	Std. Error	t-stat.	p-value	95% Confidence Interval
Intercept	1.005	0.095	10.58	0.000	[0.818, 1.192]
Record Keeping	0.442	0.060	7.37	0.000	[0.324, 0.560]
Financial Literacy	0.369	0.045	8.20	0.000	[0.281, 0.457]
Accounting Tools	0.295	0.058	5.09	0.000	[0.181, 0.409]

R-squared (R ²) 0.547	Adjusted R-squared 0.540	F-statistic 78.96	Prob (F-statistic) <0.001	No. of Observations 200
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Table 10: Multicollinearity diagnostics

Variable	Variance Inflation Factor (VIF)
Record Keeping	1.10
Financial Literacy	1.12
Accounting Tools	1.08

Source: Data analysis

Interpretation: The regression analysis reveals that all three variables – record-keeping practices, financial literacy, and use of accounting tools/software – have positive and statistically significant effects ($p < 0.05$) on the perceived quality of financial reporting among small businesses. Accordingly, all three null hypotheses are rejected. Specifically, the findings indicate that (i) maintaining proper financial records significantly improves reporting accuracy and transparency, (ii) higher levels of financial literacy among small business owners and financial managers enhance their ability to produce reliable reports, and (iii) the adoption of formal accounting tools or software contributes meaningfully to improved reporting quality. These results highlight the combined importance of knowledge, practices, and technology in promoting high-quality financial reporting in small business environments.

To assess potential multicollinearity between the independent variables – financial literacy, record-keeping practices, and use of accounting tools/software – the Variance Inflation Factor (VIF) was computed. The VIF values for all three variables ranged from 1.00 to 1.12, indicating no multicollinearity. This confirms the reliability and interpretability of the regression coefficients in the expanded model. While multiple linear regression identifies significant associations between predictors and the dependent variable, it does not imply causality. Therefore, future research could employ Structural Equation Modeling (SEM) or experimental designs to better capture causal pathways and further validate these relationships in broader or longitudinal samples.

6. Conclusion and Recommendations

This study highlights the present status of financial reporting among small businesses in Bangladesh, revealing several critical insights. Despite their vital contribution to the national economy, many small businesses continue to struggle with ensuring quality in their financial reporting. The findings indicate that while some progress has been made, such as moderate financial literacy and fair levels of record-keeping, significant gaps remain. The majority of respondents do not use accounting software, and a considerable number lack the necessary financial knowledge or skilled personnel to maintain accurate financial records. These challenges directly impact their access to finance and compliance with financial regulations. Furthermore, the variation across industries suggests that financial reporting quality is not uniform, and sector-specific needs must be addressed. Overall, the study confirms that improving financial reporting quality among small businesses requires a multifaceted approach that includes strengthening financial literacy, promoting proper record-keeping, and encouraging the adoption of accounting tools and software.

i) Enhance Financial Literacy Through Structured Training

Recommendation: Organize regular training programs on accounting, record-keeping, and financial reporting targeted at small business owners and managers.

Practical Implementation: Government agencies (e.g., SME Foundation), NGOs, and chambers of commerce can deliver low-cost or subsidized workshops across districts.

Contribution: Improved financial literacy will enhance business decision-making, promote transparency, and increase loan eligibility, supporting long-term sustainability.

ii) Promote Affordable Accounting Software Adoption

Recommendation: Encourage the use of simple, low-cost accounting software among small businesses.

Practical Implementation: Develop public-private partnerships with local tech firms to offer customized accounting tools in Bangla, along with training support.

Contribution: Enhances record accuracy, saves time, reduces tax errors, and improves the credibility of financial reports for investors and lenders.

iii) Develop Sector-Specific Financial Reporting Guidelines

Recommendation: Create simplified, sector-specific reporting templates for industries like retail, agriculture, and services.

Practical Implementation: NBR can collaborate with industry associations to publish practical toolkits or guidelines.

Contribution: Tailored reporting frameworks will make compliance easier and reduce confusion, especially for micro and informal enterprises.

iv) Strengthen the Financial Workforce Pipeline

Recommendation: Integrate SME-focused financial training into TVET and business school curricula.

Practical Implementation: National University and BTEB can introduce specialized modules in diploma and degree programs.

Contribution: Produces skilled professionals ready to support small businesses in maintaining high-quality records and compliance.

v) Simplify Regulatory Requirements for Small Enterprises

Recommendation: Reform and simplify tax filing and reporting processes for small businesses.

Practical Implementation: NBR can introduce simplified tax forms and mobile-based filing systems for SMEs with annual revenue below a set threshold.

Contribution: Reduces compliance costs, encourages formalization, and increases tax participation without overwhelming small firms.

vi) Link Access to Finance with Transparent Reporting

Recommendation: Financial institutions should design SME loan products that reward transparent financial reporting. Practical Implementation: Banks and MFIs can offer lower interest rates or expedited processing for businesses that use formal accounting systems.

Contribution: Motivates businesses to maintain accurate records, improving financial discipline and creditworthiness.

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