Effective Working Capital Management in Small and Medium Enterprises in Vietnam

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MBA FINANCE

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<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>CF</td>
<td>Cash Flows</td>
</tr>
<tr>
<td>CUR</td>
<td>Current Ratio</td>
</tr>
<tr>
<td>EOQ</td>
<td>Economic Order Quantity</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Products</td>
</tr>
<tr>
<td>VCCI</td>
<td>Vietnam Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>VN</td>
<td>Vietnam</td>
</tr>
<tr>
<td>VND</td>
<td>Vietnam dong</td>
</tr>
<tr>
<td>WTO</td>
<td>Word Trade Organization</td>
</tr>
<tr>
<td>WCM</td>
<td>Working Capital Management</td>
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</tbody>
</table>
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ABSTRACT

After few decade of reforming policy, building and developing the multi-sector market economy, Small and Medium Enterprises (SMEs) in Vietnam have developed strongly and contributed to create jobs, high growth GDP, and increase the nation’s volume of international trade. However, SMEs have faced difficulties on the way to development because of lack of business and financial management experience and financial resources, and due to uncertainty of government policies and business environment. As a result, SMEs often faced obstacles during their operations. This research examines the working capital management practices of SMEs and its consequences to determine effective working capital management for SMEs in Vietnam.

Objectives of the research are to analyze the system of working capital management in SMEs, to establish the causes of any poor working capital management and to find out an effective working capital management for SMEs in Viet Nam.

In terms of structure, the dissertation has seven chapters. The research begins by defining the research problem and questions, and providing a justification for the research study. Chapter one also reviews the research background, and presents definitions of terms, significance and scope of the study. Chapter two presents the economic background, business structure and the development of SMEs in Vietnam. This chapter also reviews previous research related to financial management for SMEs in Vietnam to identify the practices of financial management and working capital management for SMEs in Vietnam.

Chapter three talks about the different studies of working capital management practices of SMEs in Vietnam and all over the world. This review emphasizes the theory of managing of working capital and the impact of poor working capital management on the financial situation of SMEs. Objectives of this chapter are to review previous research related to the areas of financial management practices, working capital management.

Chapter four discusses aspects of the research methodology including research design, data collection and data analysis methods. Objectives of this chapter are: (1) to justify the research methodology of this study, (2) to explain research methodology used in the study, and (3) to demonstrate how research
design, and data collection and analysis can be utilized in this study to answer the research questions outlined in the chapter one.

Data analysis and findings are presented in chapter five. This chapter presents descriptive analysis of financial management, working capital management characteristics of two companies selected. Objectives of this chapter are to systematically present the descriptive findings of the research study, to interpret significance of these findings based on data analysis and to find out the effective working capital management for these SMEs. The research will continue with chapter six where recommendations will be suggested and applications of the research findings for the financial management practitioners. Chapter seven will be the self-reflection on learning and skill development during MBA and dissertation process.

The research provides descriptive findings of financial management characteristics and working capital management practices and demonstrates the simultaneous impact of poor working capital management on SME financial position. Financial ratios will be calculated including debt ratios, all other variables including current ratio, working capital management ratios and short-term planning practices, fixed asset management and long-term planning practices, and financial and accounting information systems related to working capital management practices

With the findings as presented above, this research study provides many implications for working capital management practices and contributes to knowledge of working capital management of SMEs. The recommendations of working capital management practices can be used as guidance for actions to improve the financial management of SMEs in Vietnam.
CHAPTER 1. INTRODUCTION

1.1. Research problem

Effective working capital management in small and medium enterprises (SME) in Viet Nam

In Vietnam, the difficult economy is forcing the company to manage for having enough cash. And it's time to take the time look at how alert and prudent working capital management. Many banks are limiting of credit for the small and medium companies because they are considered risky. The current number of small and medium enterprises that are going bankrupt is increasing significantly.

The needs to main effective working capital management within small and medium enterprises remain pivotal to solvency and liquidity of SMEs. These companies often do not understand about their working capital position. Many of them do not have standard credit policy or have only little regard for the company working capital management. Small and medium companies have generally a simple management. They may focus only on running business, on cash receipt and what their bank account position is. Many of them do not really understand about the company’s financial position. (Sunday, 2011)

The small and medium business remains the most dynamic force and agent of economic growth and development in Viet Nam. The fact that only small capital is required to start a SME makes it the most popular term of business. However, several SMEs in Viet Nam fail in a little time after they are started. Many of them fail du to poor financial management especially the working capital. Many SMEs cannot survive in the third year. Most SMEs don’t engage their working capital in such a way as to genera maximum profit. SME don’t have enough resource and experience in cash management, debtors” management, and account payable and stock management (Nguyen, 2001)

This research will evaluate various working capital management strategies and their effective application by SMEs. Many of SMEs don’t manage their short-term fund effectively. The net working capital are often, hence they run into insolvency (Sunday, 2011). The need to evolve a proper working capital management is necessary for good solvency and liquidity of the company.
1.1.1. Research questions

This research is to answer the following research question:
1) How the SMEs in Viet Nam establish their working capital management policy system?

2) What are the consequences of any poor working capital management?

3) How the effective working capital management is value to the survival and solvency of the SMEs?

1.1.2. Research objectives

In order to find out answers to the research question, the following research objectives were derived:
- To analyze the system of working capital management in SMEs
- To analyze the consequence of any poor working capital management
- To find out an effective working capital management for SMEs in Viet Nam

1.1.3. Recipients of research:

The main recipients for this research will be the companies that provide the information used in this research. Other recipients are the SMEs that have troubles in working capital management or in similar financial difficulties. Academic institutions can also use this dissertation for consulting or further research. The dissertation supervisor will be also the recipient of this research.

1.1.4. Suitability of Researcher for the Research

As a graduate in MBA Finance, working capital management has always been a great zeal of interest. Moreover, having worked with some companies in construction sector, the researcher has a clear vision to the research area. His personal experience within the same also helped me to understand the research problem in a better manner. The researcher tries to find out the reason behind the poor managing of working capital in many Small and Medium Enterprises (SMEs) in Viet Nam.

The researcher wants to make his career in finance area because he has a better knowledge and understanding of this area. This research will help him to develop the skills. The skills and knowledge
learnt during the coursework of MBA international has also proved to be of great in developing this research.
CHAPTER TWO: THE ECONOMIC STRUCTURE AND SMEs IN VIETNAM

2.1. The Vietnam economy

Vietnam is a country suffering from many years of war and economic mismanagement, stands on the threshold of a new era – an era of international relations and economic development. After few decade of strong efforts, the economy and finance have been substantially reformed, and intergrated into the world economy. Vietnam has made substantial progress in rearranging its foreign devbt and benefit from financial assistance and foreign direct investment (FDI) since the end of 1980s. Although challenges remain, Vietnam’s achievements over the past years was a important success. The researcher provides in this chapter an overview of Vietnam’s economy and performance of small and medium enterprises (SMEs) in Vietnam. Objectives of the chapter are firstly to provide a review of the national economy, business structure and the development of SMEs in Vietnam, and secondly to identify gaps in financial management for SMEs in Vietnam compared with financial management for SMEs worldwide. (Nguyen, 2001)

Vietnam is a densely populated developing country that has been transitioning from the rigidities of a centrally planned economy since 1986. Vietnamese government has reaffirmed their commitment to economic modernization in recent years. This country joined the World Trade Organization in January 2007, which has promoted more competitive, export-driven industries. Vietnam became an official negotiating partner in the Trans-Pacific Partnership trade agreement in 2010. Agriculture's share of economic output has continued to shrink from about 25% in 2000 to less than 22% in 2012, while industry's share increased from 36% to nearly 41% in the same period. State-owned enterprises account for roughly 40% of GDP. Poverty has declined significantly, and Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one million people every year.

The global recession hurt Vietnam's export-oriented economy, with GDP in 2009-12 growing less than the 7% per annum average achieved during the previous decade. In 2012, volume of exports increased by more than 12%, year-on-year; several administrative actions brought the trade deficit back into balance. Between 2008 and 2011, Vietnam's managed currency, Vietnam Dong, was devalued in excess of 20%, but its value remained stable in 2012. Foreign direct investment inflows have fallen 4.5% to $10.5 billion in 2012. Foreign donors have pledged $6.5 billion in new development assistance for 2013.
Hanoi has oscillated between promoting growth and emphasizing macroeconomic stability in recent years. In February 2011, the Government shifted policy away from policies aimed at achieving a high rate of economic growth, which had stoked inflation, to those aimed at stabilizing the economy, through tighter monetary and fiscal control. In early 2012 Vietnam unveiled a broad, "three pillar" economic reform program, proposing the restructuring of public investment, state-owned enterprises, and the banking sector. Vietnam's economy continues to face challenges from an undercapitalized banking sector. Non-performing loans weigh heavily on banks and businesses. In September 2012, the official bad debt ratio climbed to 8.8%, though some financial analysts believe it could be as high as 15%. (Index mundi, 2013)

### Tables 2.1: Main indicators of Vietnam Economy (Index mundi, 2013)

| GDP (purchasing power parity) | $320.5 billion (2012 est.)  
|                             | $304.9 billion (2011 est.)  
|                             | $287.9 billion (2010 est.)  
|                             | note: data are in 2012 US dollars |
| GDP (official exchange rate) | $137.7 billion (2012 est.) |
| GDP - real growth rate       | 5.1% (2012 est.)  
|                             | 5.9% (2011 est.)  
|                             | 6.8% (2010 est.)  
| GDP - per capita (PPP)       | $3,500 (2012 est.)  
|                             | $3,400 (2011 est.)  
|                             | $3,300 (2010 est.)  
|                             | note: data are in 2012 US dollars |
| GDP - composition by sector  | agriculture: 21.5%  
|                             | industry: 40.7%  
|                             | services: 37.7% (2012 est.)  
| Population below poverty line | 14.5% (2010 est.) |
| Labor force                  | 49.18 million (2012 est.) |
| Labor force - by occupation  | agriculture: 48% |
2.2. Vietnam business structure

<table>
<thead>
<tr>
<th></th>
<th>Industry: 22.4%</th>
<th>Services: 29.6% (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>4.3% (2012 est.)</td>
<td>3.6% (2011 est.)</td>
</tr>
<tr>
<td><strong>Investment (gross fixed)</strong></td>
<td>28.2% of GDP (2012 est.)</td>
<td></td>
</tr>
<tr>
<td><strong>Budget</strong></td>
<td>Revenues: $42.14 billion</td>
<td>Expenditures: $47.57 billion (2012 est.)</td>
</tr>
<tr>
<td><strong>Taxes and other revenues</strong></td>
<td>30.6% of GDP (2012 est.)</td>
<td></td>
</tr>
<tr>
<td><strong>Public debt</strong></td>
<td>48.2% of GDP (2012 est.)</td>
<td>48.3% of GDP (2011 est.)</td>
</tr>
<tr>
<td><strong>Inflation rate (consumer prices)</strong></td>
<td>9.2% (2012 est.)</td>
<td>18.7% (2011 est.)</td>
</tr>
<tr>
<td><strong>Central bank discount rate</strong></td>
<td>13% (31 December 2011)</td>
<td>7% (31 December 2010)</td>
</tr>
<tr>
<td><strong>Industrial production growth rate</strong></td>
<td>6% (2011 est.)</td>
<td></td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>$109.4 billion (2012 est.)</td>
<td>$96.91 billion (2011 est.)</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>$109.6 billion (2012 est.)</td>
<td>$97.36 billion (2011 est.)</td>
</tr>
<tr>
<td><strong>Exchange rates</strong></td>
<td>Dong (VND) per US dollar</td>
<td>20,858.3 (2012 est.)</td>
</tr>
</tbody>
</table>
The previous sections provided an overview of the Vietnam economy with a special focus on economic changing. This section will explain business structure in Vietnam with types of business, development of SMEs and the government policy to support for SMEs.

2.2.1. **Types of business in Vietnam**

With the policy of developing a multi-sector economy and attracting foreign investment, the Vietnam business structure has currently diversified consisting of many different economic sectors. The business structure in Vietnam can be classified into many different types depending upon the breakdown basis.

Based on form of ownership, the business structure in Vietnam includes two main sectors: domestic and foreign-invested. The domestic sector can be further divided into the state and non-state sectors. There are five types of business in non-state sector: private enterprises, limited liability companies, joint stock companies, collectives or co-operatives and individual households. (Nguyen, 2001)

A second way to breakdown the business structure in Vietnam is based on size of the businesses. Based on size of the businesses, the business structure in Vietnam can be classified into three types: small, medium and large enterprises. This study only focuses on examining small and medium enterprises whereas the large enterprises are beyond the scope of this study. Small enterprise was defined as business having less than 50 employees and/or a total capital of less than VND 1 billion. Medium enterprise was defined as business having from 51 to 200 employees and/or a total capital ranging from 1 to VND 5 billion. Large enterprise was defined as enterprise with more than 200 employees and/or a total capital of more than VND 5 billion in capital. (Nguyen, 2001)
Breakdown of business by size:

A third way to break-down the business structure in Vietnam is based on industry. Based on the characteristics of industry, the business structure in Vietnam can be classified into businesses operated in the following major industries: agriculture and forestry, fishery, mining, manufacturing, electricity, construction, trade and services, hotels, and finance and banking.

2.2.2. Overview of enterprises in Vietnam

Non-state business is the fastest growing in the number of businesses and create new jobs for workers.

As of 01/01/2009, the non-state business activity is actually 196 779 enterprises, accounting for 95.7% of the total number of enterprises, 5.6 times in 2000, the number of sales growth annual average is now 24.1%. This area has 4.72 million workers with regular jobs, accounting for 57.1% of total employment of the business sector, the average annual increase of 8.7% of the workforce. (Vietnam Enterprises General Statistics 2009)
Effective Working Management in Small and Medium Enterprises in Vietnam

This area also is attracting significant investment to 42.3% of total business sector, including fixed assets accounted for 36.4% and 57.5% of the total generated revenue in 2008 of entire enterprise. In terms of business efficiency, but this area of the dominant proportion of business, labor, capital and business income targets but the profit before tax and contributions to the state budget in 2008 have low density, with only 16.6% and 30.8%. (Vietnam Enterprises General Statistics 2009)

Clearly, in 2000-2008, non-state enterprises are mainly growing in width, solves many jobs and contribute significantly to poverty alleviation, social security for the country. However, production results also showed that most of the non-state enterprises are small and medium enterprises, small business also, efficiency is low. (Vietnam Enterprises General Statistics 2009)

Foreign direct investment business (FDI) have a small number but rapid growth of investment scale and particularly the highest efficiency of business.

As of 01/01/2009, the actual FDI are 5,625 active enterprises, only 2.7% of the total number of enterprises, growing 5.3 times the number in 2000. The number of enterprises grows with an average annual rate of 23.5%. FDI enterprises attract 1.83 million workers, accounting for 22.2% of total employment in the country, growing 4.5 times comparing with the year of 2000. By average, each year FDI attracts more 20.7% of the workforce.

In 2008, despite investment accounted for 16.9%, revenue accounted for 19.5% of total business in Vietnam, but FDI is the most effective area with high business profit after taxes accounted for 48.1% of total business in Vietnam. FDI enterprises contribute 40.4% of total business to Vietnam state budget. Compared to 2000, profit is more than 4.9 times and the contribution to the state budget is more than 5 times.

State-owned enterprise sector is reducing and restructuring

At 01/01/2009, the number of state enterprises are only 3,328 businesses, the lowest proportion in three business areas. The number of state enterprise has reduced 55% by comparing with the year of 2000. This area attracts about 1.71 million workers, accounting for 20.7% of total employees.
In 2008, in terms of the contributions to the state budget in proportion to the investment sector. Area state-owned enterprises accounted for 40.8% of the capital investment, contributing 28.8% to the state budget.

Clearly, in the period 2000-2008, the state enterprises was reorganized and IPO to become more competitive and profitable.

2.2.3. Overview of small and medium enterprises in Vietnam

In this subsection, the researcher will give a review of the background, role, current status, difficulties and problems of SMEs in Vietnam in recent years. Its objective is to address the current status and problems that SMEs might face.

In recent years, promotion of small and medium enterprises (SMEs) has been given more attention. Many laws such as company law, private enterprises law, co-operative law, home investment promotion law, civil law, and commercial law had been passed to create a favourable environment for the development of small and medium enterprises. As a result, SMEs in Vietnam have developed, not only in term of quantity but also in terms of structure and quality of performance. Once the government commenced programs of promotion for SME development, the studies on SMEs have attracted many researchers.

SMEs play a very important role in developing the economy and solving social problems at the present stage when the economy is transiting into the market economy.

Small and medium enterprises in Vietnam faced with many problems irrespective of their process of development, Ebashi, Sakai and Takada (1997) :

- Funding rising: many SME owners saw financial shortfalls as one of the biggest problems. They needed funds primarily to finance plant and equipment investment and for securing working capital to cover expenses involved in exporting their products until they could receive payments from exporters.
Business administration: many SME managers were deeply aware of the importance of acquiring more sophisticated management skills. Many owners have recently attended seminars and training sessions for managers.

Other problems such as human resource development, quality control, smuggle effect were less serious than the two problems listed above.

Implementing the party and state’s policies on the development of multi-element economy and international integration, over the past years the number of Vietnamese small and medium enterprises (SMEs) have increased rapidly in both rural and urban areas, operating in almost all of fields and filling the gap and shortage which big firms have not yet covered. The SMEs have been exploiting and mobilizing social sources at localities, creating jobs for a majority of laborers and contributing to set up a sound competition market.

Today, Vietnam has had more than 500,000 small and medium enterprises, accounting for more than 97 per cent of total businesses, using over 30 per cent of total investments, employing over 50 per cent of laborers and producing over 40 per cent of consumer goods and exports. The SMEs contribute 47 per cent GDP and nearly 40 per cent of the state budget, playing an important role in the country’s socio-economic development. (VCCI news)

2.3. Small and medium enterprise finance in Vietnam

This section reviews aspects of finance and financial management of SMEs in Vietnam. The objective of this section is to examine the current state of small and medium enterprise financial management in Vietnam, including type of finance, use of finance, financial management practices and problems of financial management. While there is a large number of articles and books on financial management for SMEs around the world, there is very little research and literature on finance and financial management for SMEs in Vietnam.

2.3.1. Overview of financial management for SMEs

2.3.1.1. Source of finance
Different types of finance available in Vietnam for SME owners as sources of finance for their operations include owners’ equity, family loans, friends’ loans, bank loans, share capital, supplier advances, buyer advances, leasing, hire purchasing, and factoring.

However, the owners’ equity remains the first choice of SMEs because it has advantages of making the business owner independent of third parties. But the owners’ equity is generally not sufficient to allow for further business growth. For growth, the businesses need an external source of finance.

The traditional debt financing sources such as bank loans, loans from family or friends, supplier or buyer advances are popular types of debt finance. Other recent types of finance such as leasing, hire purchasing and factoring were only introduced on the financial market in Vietnam (SMENET Online, 1999). Moreover, some SMEs have used sources of financing from the private equity. Its investments are based on project needs and anticipated returns.

Other financial products are credit and equity lines, venture capital, and leasing. They are investing in credit lines and private equity funds to make longer-term finance available to SMEs as they seek to enhance their competitiveness in more open economies around the world. Credit lines to developing country banks help redress the limited availability of term funding that constrains the ability of these banks to provide working capital and investment financing for their corporate customers. Leasing is often essential to the development of SMEs, which typically lease costly capital equipment. Leasing plays a critical role in financial sector development in countries with small economies or low per capita incomes (SMENET Online, 1999).

Regarding financing during the establishment, SMEs were classified in two groups: those who had obtained bank loans and those who had used alternative financing. Generally they use capital from their relatives, friends or from their owner saving. Bank loan is not an easy choice for every SME because they are lack of assets for using as collateral.

Regarding financing after the establishment, some companies use bank loan to finance their operations. Other SMEs finance their business by using profits, long supplier credits, customer payment in advance and networks of friends and relatives. The main reason SMEs cannot use bank loans because lack of
Financial management in general and financial management for SMEs in particular has only become popular in Vietnam when the economy moved into a market economy. To date, there is little research related to financial management for SMEs. Vuong Quan Hoang (1998) found that the current ratio and quick ratio are extremely important for SMEs in Vietnam because they usually have little permanent working capital.

2.3.2. Problems in working capital management

As mentioned in the previous section, there is almost no significant research regarding financial management for SMEs in Vietnam. Based on the exploratory research conducted by Kack and Lindgren (1999) and findings of Vuong Quan Hoang (1998), the following gaps are found in SME in financial management, especially working capital management practices in Vietnam:

- Small in Vietnam use equity as the major source of finance. Sometimes, equity ratios are up to 90 percent.
- Due to difficulties in obtaining long-term loans, SMEs in Vietnam are willing to use short-term loans to finance non-current assets.
- SMEs in Vietnam seem likely to maintain very high current ratios.

In the difficult economic situation, SMEs in Vietnam cannot bear high interest rate of bank loan. They also bear the high cost of inventory. Some companies are using short-term loans to finance long-term investment.
CHAPTER THREE: WORKING CAPITAL MANAGEMENT THEORIES

3.1. Concept of small and medium business

3.1.1. Concept of small and medium business in Europe

Sara Carter and Dylan Jones-Evans (2006) said that there wasn’t any simple or single definition of what constitutes a small enterprise. The earliest definition was provided by the Bolton report. He suggested that a SME enterprise should meet three criteria:

- Independent (not part of a larger enterprise)
- Managed in a personalized manner (simple management structure)
- Relatively small share of the market

One factor that distinguishes SME from their larger counterpart is the nature of the uncertainty they face. Generally, smaller enterprises are often reliant upon a limited number of customers and have a limited product portfolio (Cosh Hugh, 2000); they tend to be exposed greater levels of uncertainty in their market.

In The new SME definition (2012), European commission introduces the definition of three different categories of enterprises. In general, most SMEs are autonomous since they are either completely independent or have one or more minority partnerships (each less than 25%) with other enterprises. Europa commission also defines three criteria to classify enterprises: staff headcount, annual turnover, and annual balance sheet.

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Headcount: annual Work Unit (AWU)</th>
<th>Annual turnover</th>
<th>Annual balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium sized</td>
<td>&lt;250</td>
<td>&lt;=€50 million</td>
<td>&lt;=€43 million</td>
</tr>
<tr>
<td>Small</td>
<td>&lt;50</td>
<td>&lt;=€10 million</td>
<td>&lt;=€10 million</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt;10</td>
<td>&lt;=€2 million</td>
<td>&lt;=€2 million</td>
</tr>
</tbody>
</table>
3.1.2. Concept of small and medium business in Vietnam

Before 1998, there are not an official definition of size of SME. Some provinces had defined their own SME criteria including: number of regular laborers of less than 500; or fixed assets of less than VND10 billion; or mobilized capital or monthly revenue of less than VND 20 billion. (Le, 2005)

In June 1998, the Government issued Public Letter 681/CP-KCN on the policy and strategic directions in developing SMEs. As a result, SMEs are defined as establishments with a registered capital of less than VND 5 billion or regular workforce of less than 200 laborers. This legal document had laid an initial legal ground for implementing supporting measures to SMEs” development. (Le, 2005)

Recognizing that the SME grouping by Decree 90/2001/ND-CP is too general to provide useful data for policy formulation, therefore, in June 2005, the Agency for SME Development (ASMED) introduced a further size segmentation in its SME Development Plan for 2006-2010 period. According to the new segmentation, SME is categorized into micro enterprises (less than 10 persons), small enterprises (10 to 49 persons) and medium-sized enterprises (50 to 299 persons)

3.2. Financial concept for small and medium business

Robin Jarvis (2006) explained the distinct different between the financing of large quoted companies and small companies. Most of literature, however, relating to finance focuses on large firms.

From a financial-economic perspective, the main difference lies in the lack of availability of capital markets where small firm can raise funds compared with their larger counterparts who can obtain fund from stock market. In the case of small firms, the owner normally represents the enterprise in the capacity of both the owner and manager.

There are different types of finance employed by small business but only limited information is available on the extent to which each type is actually used. This is because not all the information related to the finance of small firms in the public domain. By contrast, information source of finance of big firm publicly available from variety of sources including annual report
3.3 Working capital

3.3.1. Definition

Working capital is the net investment by a company in operating current assets (such as trade receivable, inventories, bank and cash) and operating current liabilities (such as trade payables and overdraft) (Ward, 2010)

Definition by Deloitte:
Working capital is the excess of current assets over liabilities, comprising of accounts receivable, inventory minus accounts payable, represents the liquidity a business requires for day-to-day operations

3.3.2. Managing working capital

Ward (2010) highlighted the potential impact of working capital on decision-making in other areas within a company. There is a relationship between investment in working capital, cash availability and other uses and sources of cash. If the company invests too much cash in working capital, the amount of cash available in other business decision is reduced. This may have an impact on the future profit because the company doesn’t have enough money to invest in long-term assets that can generate higher return.

Cash can be sourced from capital issues, debt or the sale of current assets. These sources are usually costly for the company. The best way is that using the cash generated from operating activities to finance the working capital needed. This can ensure optimum levels of cash are available to meet taxation and dividend demands. Other sources of cash can be used for long-term investments that generate higher more profit. The key of this theory is to ensure the profitability have net cash inflows with a minimum cost. (Van Horne, 2001)

Deloitte (2009) reaffirm the importance of working capital management that is one of the key successes in the recession period. When times are rough, companies must do everything they can to free up cash.
Working capital is one of the few remaining areas which can deliver significant cash to the business in a relatively short period of time without a large restructuring program.

Desk research shows that there is a significant potential of untapped capital lying idle – up to € 500 billion in European companies alone according to some estimates.

In an economy coming out of recession, financing the upturn also requires tight cash control. With inventories at bare minimum, companies are faced with the challenge of increasing output whilst keeping working capital under control.

Focus shift from the P&L to Balance Sheet

*Figure 3.1: Shareholder Value and Working Capital Management*
3.3.3. Industry influence

Ward (2010) studied about the industry influence for working capital management. The characteristic of industry within with the company operates influence the type and level of working capital. A retailing company has one type of inventory: finished goods. These companies usually buy product on credit however most of their sales are for cash. Inventory level of finished goods is generally high. Some retailers have a just-in-time relationship with their suppliers that permit them to reduce the cost of holding inventory. A manufacturing company has four types of inventory: raw material, work in progress, finished goods and consumables. The cost of holding inventory is generally high. These companies usually buy and sell on credit. Manufacturing companies usually operate with high level of trade receivables and trade credits from suppliers. Each particular industry has different credit period and normal trading term.

3.3.4. The level of working capital
An **aggressive policy** with regard to the level of investment in working capital means that a company chooses to operate with lower levels of inventory, trade receivables and cash for a given level of activity or sales. An aggressive policy will increase profitability since less cash will be tied up in current assets. The risk will also increase since the possibility of cash shortages or running out of inventory is increased. A **conservative and more flexible working capital policy** for a given level of turnover would be associated with maintaining a larger cash balance, perhaps even investing in short-term securities, offering more generous credit terms to customers and holding higher levels of inventory. Such a policy will give rise to a lower risk of financial problems or inventory problems, but at the expense of reducing profitability. A **moderate policy** would tread a middle path between the aggressive and conservative approaches. (Afza, 2007)

It should be noted that the working capital policies of a company could be characterized as aggressive, moderate or conservative only by comparing them with the working capital policies of similar companies. There are no absolute benchmarks of what may be regarded as aggressive or otherwise, but these characterizations are useful for analyzing the ways in which individual companies approach the operational problem of working capital management.

### 3.3.5. Financing working capital

The trade-off between risk and return which occurs in policy decisions regarding the level of investment in current assets is also significant in the policy decision on the relative amounts of finance of different maturities in the balance sheet, i.e. on the choice between short- and long-term funds to finance working capital. To assist in the analysis of policy decisions on the financing of working capital, we can divide a company’s assets into three different types: non-current assets, permanent current assets and fluctuating current assets (Cheatham 1989). Non-current assets are long-term assets from which a company expects to derive benefit over several periods, for example factory buildings and production machinery. Permanent current assets represent the core level of investment needed to sustain normal levels of operating business or trading activity, such as investment in inventories and investment in the average level of a company’s trade receivables. Fluctuating current assets correspond to the variations in the level of current assets arising from normal business activity.
A reasonable funding policy is one which finances fluctuating current assets with short-term funds and permanent current assets and non-current assets with long-term funds. The maturity of the funds roughly matches the maturity of the different types of assets. A conservative funding policy uses long-term funds to finance not only non-current assets and permanent current assets, but some fluctuating current assets as well. As there is less reliance on short-term funding, the risk of conservative working capital management is lower, but the higher cost of long-term finance means that profitability is also reduced. An aggressive funding policy uses short-term funds to finance not only fluctuating current assets, but some permanent current assets as well. This policy presents the greatest risk to solvency, but also offers the higher profitability and increases shareholder value.

### 3.3.6. Barriers for optimizing working capital

Deloitte (2009) analyzed all barriers for optimizing working capital:

| Customer & Competition | Fear of jeopardizing relationships and sales by too aggressively chasing customers for payment. Risk of loosing customers to competitors
| Fear of a fall in customer service levels unless holding high levels of inventory
| Customers are given payment discounts even when not paying within terms
| Competition is giving longer payment terms

| Suppliers | Concern over the likely response of suppliers and risk to supply following a unilateral decision to extend payment terms
| Impact on the organization’s reputation from negative publicity if extending payment times, particularly for smaller suppliers |
Control & Responsibility | Individual”s or organizational performance metrics do not reflect the importance of cash
Unclear responsibility for working capital. It spans a number of functional areas – no one individual can be given responsibility

Benefits

| Are there benefits available? If we restrict liquidity we impact our ability to operate the business day-to-day
Are the benefits sustainable? We manage working capital levels down at the end of a financial year but they soon rise again afterwards

3.4. Financial cost of working capital

Ward (2010) said that working capital had a finance cost. This cost is the opportunities cost of not utilizing the fund in an alternative project that can generate profit for the company. The opportunities cost depend on the company’s situation. If the company needs to seek fund for working capital, the cost is the interest that is incurred on the financing.

3.5. Working capital and overtrading
3.5.1. Small and medium enterprise with overtrading

Ward (2010) highlighted that over-trading is one of the problem that cause financial troubles for many companies, especially small and medium enterprises. Over-trading occurs when a company grows too quickly with insufficient long-term finance to support the increased level of assets that should be held, given the higher level of operational level. When a company’s sales grow, the amount of working capital increases also. In the absence of this extra finance to pay for that, the company may apply pressure to...
debtor and creditor. The company could be late on payment to creditors, or pressure on existing debtors for early payment.

The increase in inventories and trade receivables outweighs the increase in trade payables resulting in a resource requirement that needs to be financed. If no steps are taken to manage this, the company’s overdraft will increased, causing liquidity problems. Over-trading was arguably one of the reasons for the collapse of Sock Shop in 1990 after American expansion plans failed. This was also seen in the case of Next, the clothes retailer, which embarked on rapid expansion of outlets during the late 80’s

In reality, the researcher can see many profitable or growing companies may have to go into liquidation, due to cash shortage. Even established companies trying to expand rapidly can face the problems inherent in over-trading. Indeed, any companies that are planning to expand should take the requirement long-term investment in working capital into account in the initial decision-making process. The manager needs to be able to predict their future working capital needs. In the situation when a small company realize a large order with a major player in a market. Indeed, the company needs to buy new equipment, more raw materials and hire more staff. For the needed fund, the company may ask the bank for overdraft or leasing equipment. (Ward, 2010)

The small supplier may find it impossible to put pressure on the buyer to make early buyer to make early payments or even pay within a reasonable amount of time. The power in the business relationship often lies with the large firms. In trading overseas, this problem becomes more seriously. Over-trading can be a problem for many companies when economy moves out of a recession. When the demand rises, the company may increase the level of inventory. This can be the basic of a situation where the over-trading exists. The companies wish to take advantage of improving demand by seeking to fill all the orders but they miss the finance capacity.

3.5.2. Reducing impact of overtrading

Ward (2010) suggested also some steps in order to reduce the impact of over-trading. The company should continue with the growth policy and take steps to obtain the correct type of long term financing. For the non-current assets that cannot generate sufficient income and are not critical to the business, the
company can sell for cash to finance working capital. The working capital policy should be examined with a view of reducing the trade receivables and inventory holding period and also increasing the trade payable period without harming the relationship with the prices/discounts agreed with the suppliers. The company needs to review the growth plan. If the company is growing too fast with a limited financial capacity, it can get financial troubles. A new growth plan should be established.

3.6. **The influence of efficient working capital management on profitability**

Mathuva (2010) indicated that working capital management which deals with the management of current assets and current liabilities, is very important in corporate because it directly affects the liquidity and profitability of the company. The current assets of a typical manufacturing or distribution company are more than half of the total assets.

Profitability is the rate of return on firm’s investment. The purpose of working capital management is to manage the current accounts so as to attain a desired balance between profitability and risk. Efficient working capital management is an integral component of the overall corporate strategy towards creating shareholder value. Efficient working capital management involves planning and controlling the current assets and current liabilities in a manner that eliminates the risk of inability of a firm to meet due short-term obligations and to avoid excessive investment in these assets. (Mathuva, 2010)

3.7. **Inventory management**

The company should try to balance the cost of holding inventory with the opportunity cost of loosing sales. The goal is to reduce the total cost of the company. This can be achieved when there are strong communication channel between marketing and sales department, production department and purchasing department with store managers. Indeed, the company should choose the appropriate inventory management systems for its type of industry and characteristics of products, (Ward, 2010).

3.7.1. **Potential consequences of stock-out**
Van Horn (2001) explained that the economic impact on the company of a stock-out would influence the level of inventory that a company holds. Holding inventory is a good investment but also a finance cost for the company. Without this holding cost, the company can generate profit by interest saving in the bank or investing in higher return investment. That’s why the company’s ability to finance the additional investment will influence the cost of financing inventory. The company can anticipate the inventory level if the demand for the company’s product is known with reasonable certainty or a predictable pattern is available. When the company has a close relationship with its suppliers and the supplier’s distribution channel is effective, it can lower the inventory holding to reduce cost because the company can receive the product quickly.

For sale function, consequences of stock-out are important. When a company runs out of inventory, it may result in a lost sale, directly costing the company the contribution that could have been earned from sales. If the company’s product is specialized, the customer may be patient for the product; this problem could be less serious. If the company’s products are homogenous, the customer can find the product elsewhere easily, the company may lose the customers for its competitors. The lost of sales can be easily replaced by another sales when demand is higher than supply. However, when the economy is in recession, it may be hard to find another customer and hence has greater economic impact for the company. For production function, if the company is a manufacturing entity; a stock out of raw materials will affect production. This would result in idle time and overheads not being absorbed into product.

3.7.2. Finance cost

Holding inventory is a good investment but also a finance cost for the company. Without this holding cost, the company can generate profit by interest saving in the bank or investing in higher return investment. That’s why the company’s ability to finance the additional investment will influence the cost of financing inventory. The opportunity cost of holding expensive items is greater than low cost items. The nature of the item being store also affects the level and length of time an item can remain in store.

3.7.3. System and procedures in place
A good system and procedure can help the company keep track of inventory, highlight potential stock-outs and action replenishment quickly; hence the company doesn’t need to hold high level of stock. Small and medium companies don’t generally have enough experience and investment to improve the inventory system. (Ward, 2010)

3.7.4. The economic order quantity

This classical inventory management model calculates an optimum order size by balancing the costs of holding inventory against the costs of ordering fresh supplies. This optimum order size is the basis of a minimum cost procurement policy. The economic order quantity model assumes that, for the period under consideration (usually one year), costs and demand are constant and known with certainty. It is also called a deterministic model because it makes these steady-state assumptions. It makes no allowance for the existence of buffer inventory. If we assume a constant demand for inventory, holding costs will increase as average inventory levels and order quantity increase, while ordering costs will decrease as order quantity increases and the number of orders falls. The total cost is the sum of the annual holding cost and the annual ordering cost. The total cost equation is therefore: (Ward, 2010)

\[
\text{Total annual cost} = \frac{Q \times H}{2} + \frac{S \times F}{Q}
\]

Where:
- \(Q\) = order quantity in units
- \(H\) = holding cost per unit per year
- \(S\) = annual demand in units per year
- \(F\) = ordering cost per order

3.7.5. Just-in-time inventory policies

Many companies in recent years have reduced inventory costs by minimizing inventory levels. The main purpose of a just-in-time (JIT) purchasing policy is to minimize or eliminate the time, which elapses between the delivery and use of inventory. Such policies have been applied in a wide range of commercial operations and call for a close relationship between the supplier and the purchaser of both
raw materials and bought components. The purchaser requires guarantees on both quality and reliability of delivery from the supplier in order to avoid disruptions to production. In return for these commitments, the supplier can benefit from long-term purchase agreements since a company adopting JIT purchasing methods will concentrate on dealing with suppliers who are able to offer goods of the required quality at the required time. The purchaser will benefit from a reduction in the costs of holding, ordering and handling inventory since materials will move directly from reception to the production line.

The main purpose of a JIT manufacturing policy is to minimize inventory acting as a buffer between different stages of production. Apart from developing closer relationships with suppliers, this can also be achieved by changing factory layout in order to reduce queues of work-in-progress and by reducing the size of production batches. Good production planning is also essential if a JIT manufacturing policy is to be successful. (Ward, 2010)

3.8. Cash management

3.8.1. Trade-off

Myers (2003) said that the trade-off between the benefits and costs of liquidity is one is one essential part of cash management. The other part is making sure that the collection and disbursement of cash are as efficient as possible.

Cash management should maximize equity holder return. Maximizing profit can be obtained from investing cash with the cost associated with not keeping an appropriate level of liquidity (Ward, 2010). Cash is considered non-profitable assets, so the goal of cash management is to minimize the amount of cash holdings, while ensuring a balance between import and export funds fund normally takes place. Therefore, the demand set for financial managers is to determine the reasonable level of assets paid for daily business operations such as payroll, dividend payment, prepaid taxes and other expenses…The company can profit by spending cash slowly to have extra cash for profitable investment. Instead of make early payment for the purchase invoices, financial managers can delay the payment but they have to keep the credit status and minimize the financial cost or penalties of delay payment. (R.A. and Myers, 2003)
3.8.2. Influence

Anne Marie Ward (2010) explained the internal and external influence of cash balance:

<table>
<thead>
<tr>
<th>Internal influence</th>
<th>External influence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of business:</strong></td>
<td><strong>The economy:</strong></td>
</tr>
<tr>
<td>Some companies have constant demand for their</td>
<td>The economic situation has an indirect on</td>
</tr>
<tr>
<td>products through a year but some companies have</td>
<td>the level of cash holding of a company.</td>
</tr>
<tr>
<td>varying levels of demand and many companies</td>
<td>When an economy is not strong, the company</td>
</tr>
<tr>
<td>have seasonable and cyclical sales. Companies</td>
<td>may have difficulties to obtain the cash</td>
</tr>
<tr>
<td>with cyclical/seasonable cash flow require strong cash management</td>
<td>needed, the cash-out problem will become</td>
</tr>
<tr>
<td></td>
<td>seriously. In economy boom, this problem</td>
</tr>
<tr>
<td></td>
<td>may be acceptable and not very risky car</td>
</tr>
<tr>
<td></td>
<td>many fund provider may ready to help</td>
</tr>
<tr>
<td><strong>Profitability:</strong></td>
<td><strong>Inflation:</strong></td>
</tr>
<tr>
<td>Companies with cash surplus need to maximize the</td>
<td>In high inflation period, the working</td>
</tr>
<tr>
<td>return of cash investment.</td>
<td>capital requirement will increase. This is</td>
</tr>
<tr>
<td>In a loss making company the focus of cash</td>
<td>even when a company is profitable, as the</td>
</tr>
<tr>
<td>management is to balance liquidity.</td>
<td>replacement cost of capital, expenses and</td>
</tr>
<tr>
<td>A loss making company doesn’t have to have</td>
<td>assets may outstrip the income that is</td>
</tr>
<tr>
<td>liquidity troubles until the cash flows are</td>
<td>profitable obtained from sale of older</td>
</tr>
<tr>
<td>positive. Liquidity problem will arise when</td>
<td>items</td>
</tr>
<tr>
<td>losses are prolonged</td>
<td></td>
</tr>
<tr>
<td><strong>Strategy:</strong></td>
<td></td>
</tr>
<tr>
<td>A growing company always requires capital</td>
<td></td>
</tr>
<tr>
<td>investment. Capital require funding, hence has</td>
<td></td>
</tr>
<tr>
<td>cash flow implication. When growth is not</td>
<td></td>
</tr>
<tr>
<td>financed appropriately and liquidity is a real</td>
<td></td>
</tr>
<tr>
<td>risk, then the company is regarded as over-</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
trading
The type of capital structure will also have cash implication. Debt requires interest payable and capital redemption payment. The pattern of capital repayment depends on the type of debt. Equity share doesn’t require payment but the company generally pays dividend.
3.9. Trade receivables/ payables management

3.9.1. Credit Management

Many companies use trade credit policy to attract more sales. When a company chooses not to provide trade credit, the demand or the company’s goods and service may decrease significantly. The customers may go to its competitor for the goods or service, (Ward, 2010)

Richard A. Brealey (2003) did research about credit management of the firm. Not all of sales involve credit. Indeed, each industry seems to have its own particular usage with regard to payment terms. In order to induce customers to pay before the final day, it is common to offer cash discount for prompt settlement.

A company’s credit management policy needs to maximize expected profits. The company needs to take into account its current and desired cash position, and its ability to cover expected demand. To put the credit management policy into effect successfully, the financial service may need training or new staff may need to be recruited.

Key variables affecting the level of receivables will be the terms of sale prevailing in a company’s area of business and the ability of the company to match and service comparable terms of sale. There is also a relationship between the level of receivables and a company’s pricing policy. The company may choose to keep selling prices relatively high while offering attractive terms for early payment. The effectiveness of trade receivables follow-up procedures used will also influence the overall level of receivables and the likelihood of bad debts arising.

**Effective trade credit management**

Three stages of trade receivable management, (Ward,2010):

![Credit policy → Credit monitoring → Credit collection](image)
3.9.2. **Influence**

Anne Marie Ward (2010) explain how the trade receivables/payables management policies influence the company’s activities:

<table>
<thead>
<tr>
<th><strong>Marketing strategy and strategic growth</strong></th>
<th><strong>Industry influence</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Where a company’s products are specialized and there is high demand, then the marketing strategy can focus on these features.</td>
<td>Generally, companies always try to conform to an industry norm. A company that allows longer credit terms than the industry norm can usually charge higher prices.</td>
</tr>
<tr>
<td>In a market where the product is homogenous, term of sale becomes important and discount, credit period are considered as important marketing tools.</td>
<td>If the company were to reduce its credit period below the industry average, it may lose sale or need to reduce price. The additional costs in discount or benefits in reducing finance costs would need to be evaluated</td>
</tr>
<tr>
<td>Trade credit costs and risks increase when long credit periods are offered. The company will balance this with the benefits achieved from more profitable sales. Allowing long credit periods will also help the company get rid of slow moving inventory or inventory that is subject to obsolescence.</td>
<td></td>
</tr>
</tbody>
</table>

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Effective Working Management in Small and Medium Enterprises in Vietnam

MBA Finance 2012-2013. Student number: 1715692. Supervisor: ENDA MURPHY
3.9.3. Credit management system

3.9.3.1. Credit Analysis System

To make a sensible decision about whether to trade with a company or not, information about the business is needed. The risk of bad debts can be minimized if the creditworthiness of new customers is carefully assessed before credit is granted and if the creditworthiness of existing customers is reviewed on a regular basis. Relevant information can be obtained from a variety of sources. New customers can be asked to provide bank references to confirm their financial standing, and trade references to indicate satisfactory conduct of business affairs. Published information, such as the audited annual report and accounts of a prospective customer, may also provide a useful indication of creditworthiness. A company’s own experience of similar companies will also be useful in forming a view on creditworthiness, as will the experience of other companies within a group (Van Horn, 2009).

For a fee, a report may be obtained from a credit reference agency, such as Experian, Equifax or Callcredit. A credit report may include a company profile, recent accounts, financial ratios and industry comparisons, analysis of trading history, payment trends, and types of borrowing, previous financial problems and a credit limit.

Bearing in mind the cost of assessing creditworthiness, the magnitude of likely regular sales could be used as a guide to determine the depth of the credit analysis.

3.9.3.2. Credit control system

Once creditworthiness has been assessed and a credit limit agreed, the company should take steps to ensure the customer keeps to the credit limit and the terms of trade. Customer accounts should be kept within the agreed credit limit and credit granted should be reviewed periodically to ensure that it remains appropriate. In order to encourage prompt payment, invoices and statements should be carefully checked for accuracy and dispatched promptly. Under no circumstances should customers who have exceeded their credit limits be able to obtain goods. (Van Horn, 2009)

3.9.3.3. Trade receivables collection system
Since the purpose of offering credit is to maximise profitability, the costs of debt collection should not be allowed to exceed the amounts recovered. A company should prepare regularly an aged trade receivables analysis and take steps to chase late payers. It is helpful to establish clear procedures for chasing late payers, to set out the circumstances under which credit control staff should send out reminders and initiate legal proceedings. Some thought could also be given to charging interest on overdue accounts to encourage timely payment, depending on the likely response of customers. (Van Horn, 2009)

3.9.4. Protection against bad debt

The trade receivables management policy formulated by senior managers should also take into account the administrative costs of debt collection, the ways in which the policy could be implemented effectively, and the costs and effects of easing credit. It should balance the benefits to be gained from offering credit to customers against the costs of doing so. Longer credit terms may increase turnover, but will also increase the risk of bad debts. The cost of increased bad debts and the cost of any additional working capital required should be less than the increased profits generated by the higher turnover. In order to operate its trade receivables policy, a company needs to set up a credit analysis system, a credit control system and a trade receivables collection system. Many small businesses have failed as a result of late payment problems. A strong credit management can reduce company’s exposure to bad debts.

Insurance against the risk of bad debts is available and can be arranged through brokers or intermediaries. Whole turnover insurance will cover any debt below an agreed amount against the risk of non-payment. Specific account insurance will allow a company to insure key accounts against default and may be used for major customers.

Cash discounts may encourage early payment, but the cost of such discounts must be less than the total financing savings resulting from lower trade receivables balances, any administrative or financing savings arising from shorter trade receivables collection periods, and any benefits from lower bad debts.
3.10. Effective working capital management for SMEs

Many SMEs’ owners and managers manage their business by experience. SMEs managers often focus about innovation and sales, but they are less rigorous when it comes to managing finance, especially working capital. They think the most important is making profit but it is not always the true. SMEs can run out of cash that’s needed to finance operating activities such as payroll, rent, and payable account especially during the growth phase. Martin Mitchell, the head of operation at financial training firm suggest the ways that SMEs can establish the processes and practices to manage working capital effectively. Patrick Buchmann and Udo Jung have written an article about techniques for Optimizing Inventories, Receivables, and Payables.

Get paid quickly

Ensuring the business invoices customers when good or services are sold, on a daily basis if possible. The company needs to follow up actively each invoice, check immediately the customer agrees and asks for payment as soon as possible. Debtors often use disputes or excuses to delay payment and they will not pay you on time if you do not put pressure on them. (Martin Mitchell, 2010)

Selling the receivables to a third party is also a solution because the cost of chasing payments is not always an affordable expense for many SMEs. This solution guarantees the company a proportion of monies owed, but the company may lose control of its debt recovery and incur the costs of the factoring agency.

Another solution is to involve more people within the business itself. Salespeople can use their relationship with the customer to follow up on the initial invoice, ensure there are no disputes, and help to chase payment when it falls due. Moreover, an administrative assistant with good “completer/finisher” skills can undertake the calls and emails required to ask for payment and make sure that all communications are logged carefully. (Martin Michell, 2010)

Renegotiating payment terms is also a good practice. The first step is often a harmonization and reduction of available conditions to decrease discretionary application. When preparing negotiations,
companies need to analyze the customers’ bargaining power and their preferences to determine improvement potential in the terms and conditions for payments. (Patrick Buchmann and Udo Jung, 2008)

**Discount with care**

Be careful with the policies of offering discounts or extending credit terms to customers. The company should not over negotiate in order to close a sale by giving a long term of payment or discount. The discounting tends to have hidden costs that aren’t immediately apparent. (Martin Michell, 2010)

**Reduce inventory**

Controlling stock effectively has a significant positive impact on working capital. Focus on overall stock levels to identify lines that aren’t selling rather than just ensuring popular stock lines are replenished, then lead the sales and marketing team in rationalizing the number of lines the company offer and focusing on the most profitable ones. Sourcing is also important. The company can deal with its supplier that the good will be stocked in the warehouse but doesn’t need to be paid for until the company sells it on. This policy lowers the costs while maximizing revenues, as will properly planning and managing stock levels to accommodate peaks and troughs in demand. (Martin Michell, 2010)

More detail, the company can minimize the inventory throughout the value chain: (Patrick Buchmann and Udo Jung, 2008)

- Enhanced forecast accuracy and demand planning: Improved forecast accuracy and regular updates of customer demand lead to a much more reliable planning process. This policy will help companies reduce their inventory and improve the ability to deliver.

- Improved delivery and logistics concepts: To keep inventories at lowest levels as possible, many companies use advanced and demand-driven logistics concepts with their suppliers, for example, vendor-managed inventory, just in time (JIT) or just in sequence (JIS), and work with their suppliers in terms of a holistic supply chain management with mutual benefits.
• Optimized production processes: One of the ways to reduce work-in-progress inventory is the redesign of production processes for reducing non-value-adding time and excessive inventory between production steps.

• Variance management: Reducing product complexity and carefully tracking demand of product variants in order to determine low-turning products is one way to reorganize and tighten the assortment and concentrate on the most selling products. Customization of products should take place as late in the process as possible.

**Secure good credit terms**

The company needs to deal carefully with its customers and its suppliers about credit term. Before offering any credit terms, the status of customer needs to be identified and examined carefully by Finance department, Sale and Marketing teams. This policy secures the debt will be paid on time and the relationship with customers and the turnover will not be affected. Beside, the company needs to negotiate carefully the term of payment with its suppliers to make sure it gets maximum term of payment without damage on the relationship with suppliers. (Martin Michelle, 2010)

Avoidance of early payments: The companies should not make any payments before the due date. Payments should be accomplished with the next payment run after the due date (ex post). Switching from ex ante to ex post payments is common practice and entails an easily implemented lever for increasing payables. (Patrick Buchmann and Udo Jung, 2008)

Payment conditions: Renegotiating payment conditions with suppliers is a good technique. Best-practice approach here is to first get an overview of all payment terms in use and to define a clear set of payment terms for the future. Renegotiations with suppliers are based on these new standard terms by taking into the situation of suppliers. For suppliers with liquidity constraints the focus should lay on prices, while for suppliers with high liquidity the payment term can often be extended. (Patrick Buchmann and Udo Jung, 2008)
Back-to-back agreements: Balancing the due dates of receivables accounts and payables accounts may help to avoid excessive pre-financing of suppliers and can help companies to have a positive cash balance. (Patrick Buchmann and Udo Jung, 2008)
CHAPTER FOUR. RESEARCH METHODOLOGY

In this section, the researcher needs to highlight the methodology that will be used for the research project. This section of the proposal explains how the researcher will realize the project.

The research methodology provides and assists the researcher in addressing and facilitating the answering of the research questions by selecting important information and appropriate design. There are many ways of realization of research.

4.1. Research philosophy

![Figure 4.1: Research philosophy](image-url)
Research Onion relates to the development of knowledge and the nature of that knowledge. It contains important assumptions about the way in which the researcher views the world. The approaches are epistemology, ontology and axiology.

Epistemology concerns what constitutes acceptable knowledge in a field of study. Ontology is focused on the nature of reality and looks at what the researcher can really know while axiology looks at the values about judgments (Saunders, et al, 2011)

**Positivism:**

This research philosophy is a structured approach that helps the researcher use existing theory to develop hypotheses. The researcher may develop a theory and then subjects it to testing in the form of measurable hypotheses. Frequently, the positivist researcher uses a highly structure methodology in order to facilitate replication. The emphasis will be on quantifiable observations that lend themselves to statistical analysis (Saunders, et al, 2011).

**Interpretivism:**

For this philosophy, the researcher needs to understand the difference between humans in our role as social actors. That’s the difference between the research about people rather than objects. For these reasons, the interpretivism perspective is highly appropriate in the case of business and management research, especially in the fields of marketing or human resource management. (Saunders, et al, 2011)

**Realism:**

Realism philosophy is another epistemological position, which relates to scientific enquiry. The theory of realism is that there is a reality quite independent of the human mind. This assumption underpins the collection of data, understanding and interpretation of those data. Saunders et al (2011) explains two types of realism philosophy: direct realism and critical realism.
The purpose of this research focuses on the working capital management of small and medium enterprises. That’s why the researcher needs to choose the research philosophy that can reflect the business and management. The researcher needs to analyze and generate many conclusions about the situation. Therefore, interpretivism is chosen for this dissertation research.

For this research, the researcher needs to understand the relation between the working capital management in small and medium businesses. In this research philosophy, the researcher will collect all financial information and interview the managers of selected companies to analyze and interpret. Afterwards, the researcher will generate many conclusions about the companies’ situation.

The researcher will find different aspects of the relation of working capital management. Understanding this relation, the researcher can find an effective working capital management system that can help SMEs create profit or become solvency.

4.2. Research approaches

The researchers need to choose their research approaches for the research project. There are two types of approach: induction and deduction.

**Induction:**

This approach is used to develop theory from observations and empirical evidence and it’s more flexible. Traditionally, the researchers will use the qualitative data. They use variable methods to collect these data in order to have different view of phenomena (Saunders, et al, 2011).

**Deduction:**

This approach refers to the development of a research hypothesis which tests theory. Generally, the researcher will collect quantitative data to test this hypothesis. It’s also necessary to select samples of sufficient numerical size to be able to generalize statistically about regularities in human social behavior (Saunders, et al, 2011).
For this research, inductive approach is employed. This type of approach is flexible and appropriate for small number of subjects. The researcher will focus on two SME in Viet Nam to collect the qualitative data.

In this research, the researcher will generate conclusions from the procedure of analyzing and interpreting the raw data that will be collected from the selected SMEs. Qualitative data is appropriate for this approach.

Inductive approach will help the researcher develop an effective working capital management system from observations and empirical evidences in the small and medium business. The researcher will have different views in cash management, credit/debt management, inventory management, short time financial planning and also different aspects of poor working capital management. The number of companies studied is not very important because the research is focusing on specific issues.

Deduction cannot be used for this research because this approach requires a large number of subjects and quantitative data.

4.3. Research strategy

The researcher needs to determine a plan of answering the research question. The strategy is based on clear and well honed research objectives and is based on a detailed review of relevant literature. The appropriate strategy will help researchers to understand their time limitation and manage successfully their dissertation.

There are many strategies that can be used: experiments, surveys, case study, action research, ethnography and archival research.

For this research, case study is chosen for research strategy. This research will focus totally on two particular SME in Viet Nam. This strategy can help researcher understand the relevant data and manage effectively the dissertation.

4.4. Research choice
The research choice of this study is qualitative multi-method. The researcher will do interviews and collect financial information of SMEs. Working capital management is a complex topic. This cannot be answered yes or no. In business and finance sector, there are many theories that talk about this research topic. The financial data can be analyzed and interpreted in different ways and dependent on the analyst.

Mixed-methods may take too much time to realize this dissertation. If the researcher chooses mixed-methods, he may need to do a survey and interview many small and medium businesses. Moreover, the data collected may be required a complex procedure of analysis. Mono-methods are not the best choice to carry out this complex research.

The maximum time allocated for this research is three months. Therefore, multi-method is useful because the research subject is really complex and there is no best answer.

4.5. Time horizon
There are two types of time horizons to choose for planning a research project: cross-sectional studies and longitudinal studies.

Cross-sectional studies are often referred as a snapshot because the research is realized at a specific point of time. This time horizon is generally for research projects that have limit time. The longitudinal time horizon observes people and events time.

For this research, the time horizon applied will be the cross-sectional horizon. The main reason is the time limit only three months. The dissertation must be submitted in April 2012. Therefore, the companies’ working capital management will not be studies over a period of time and this study is a snapshot

4.6 Data collection and analysis

4.6.1. Data collection

Saunders et al., (2009) indicated that the research question would have an influence on the choice of study. The type of study will serve as a plan of how the researchers proceed to answer the research question. The type of study depends on the purpose of the research and there are three different types of that: exploratory, descriptive and explanatory.

The exploratory study is used if the purpose of the research is to seek new insights and to understand the nature of the problem (Saunders et al., 2009). This type of study is flexible and often changes directions as new data appears. The descriptive research describes data and characteristics about the population or phenomenon being studied. The explanatory study is used when the aim is to study a situation or a problem in order to explain the relationship between variables.

Exploratory research often relies on secondary research such as reviewing available literature and data, or qualitative approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, projective methods, case studies or pilot studies.
This research will evaluate various working capital management strategies and their effective application by SME. Therefore, the explanatory study will be employed.

The research problem and research methodology determine the type of data that should be use for the study. There are two sources of data: primary data and secondary data.

Secondary data:

Saunders et al. (2009) indicated that secondary sources are data that has already collected. There are three types of secondary data used in research: documentary, survey and multiple sources. The researchers should look for information from a variety of sources.

Documentary sources are available at organization websites, journals, newspapers, diaries, and administrative and public record. Survey source include government survey, academic survey and organization survey. Multiple sources are generally available at government publications, industry statistics and report.

Primary data:

The primary data is collected from observations or interview. Collection primary data can be accomplished by realizing questionnaires or different types of interview. The primary data addresses specific issues as the researcher controls the research design to fit their needs.

For this research, primary data will be collected through interviews with the managers and the owners of two SME in Viet Nam. All the important financial files will be analyzed carefully. However, documentary secondary data such as books, articles and research papers will also provide a useful source.

Semi-structured interview:
The structure interview can be used in this research but it is very rigid. In this method, each interview is presented with exactly the same questions in the same order. This research will focus on qualitative data.

For this research, the method of semi-structured interview is chosen rather than structured interview for collecting primary because it is flexible, allowing new questions to be brought up during the interview as the result of what interviewee says. There is also a framework of themes to be explored to conduct semi-structured interview.

The semi-structured interview presents the advantages for this research. Working capital management is a complex topic that doesn”t have the fixed questions or answers. The researcher can develop new idea while conducting the interviews. He may add more themes for his research.

**4.6.2. Data analysis**

Qualitative approach is chosen for this research. Qualitative methods produce information only on the particular cases studied, and any more general conclusions are only proposition.

For evaluating and using data sources, the researchers will need to investigate what data sources exist as well as where they can find them. The researchers need to find out the way they I can get data from the sources and what limitations may be imposed by the nature of data source or the method. There are actually many methods to collect information: interviews, observation, the generation and the use of documents and visual methods.

**Grounded theory method:**

This research will use grounded theory method to analyze qualitative data. The researcher will start collecting data from variety sources, such as journals, other researches, interview and companies” documents that study working capital management in general business and in small and medium business. From the data collected, the key points are marked with a series of codes. The codes will be grouped in themes or categories.
4.6.3. Data editing and coding

Analyzing qualitative data involves reading through the interview or focus group transcript and other data, developing codes, coding the data and drawing connections between discrete pieces of data.

This research will employ the qualitative approach and semi-structure interview; therefore the researcher should follow these steps for editing the data collection:

**Reviewing data:**

After beginning data collection, the researchers need to start analyzing data. Moreover, writing analytic memos to capture initial thinking and tentative ideas about the data is important.

**Organizing the data for analysis:**

The way that the researcher organizes data for analysis depends on whether the data are grouped question-by-question and are woven throughout an interview. If the data question-by-question cannot be separated easily, the researcher needs to analyze the whole interview for common themes, categories.

To make it easier for data analysis, the researcher need to develop the codes, code the data, find themes, patterns and relationships and summarize the data. For this research, the possible categories will be management, inventory management, credit management and short time financial planning.

**Coding the data:**

Coding helps the researchers understand the inquiry issuer and how respondents perceive the issue under review, and the nature and the type of relationship involved. The data will be reduced in smaller groups and more manageable.

**Summarizing data:**
The researcher needs to write a summary after coding data, such as transcripts of interview and summarize questionnaires question by question to illustrate key themes in each question.

4.7. Ethical issues

Ethical issues are present in any kind of research. The research process creates tension between the aims of research to make generalizations for the good of others, and the rights of participant to maintain privacy. Ethics pertains to doing good and avoiding harm. The protection of participant in the research study is imperative.

For this research, the companies’ information will be protected. For a company, the financial information is important and cannot be diffused. The researcher needs to inform clearly the purpose and the content of this research to all participants. The companies need to approve the diffusion of data with Dublin Business School and other parties. The participant in the interview must be fully protected.

4.8. Population and sample

Population:

Population is the total collection of elements about which the researchers want to make some inferences.

The target population of the research was the small and medium companies that are currently in difficult financial situation, especially with working capital. These companies need to be operating in Viet Nam.

Sampling methods:

This study leads the researcher to target particular companies. In this case, selective methods are chosen to collection information.

In selective methods, the researcher will choose purposive sample. This research will study only small and medium businesses that are having currently financial difficulties. With purposive sampling method, this research will be more specific and easier to realize.
Sampling frame:

Basically, a sampling frame is a complete list of all the members of the population that the researchers wish to study. The sampling frame defines a set of elements from which the researchers can select a sample of the target population.

In this study, the researcher can’t access all the companies of interest in his science research. This research will only apply on the selected companies or other companies facing the similar situation.

Limitations:

There are a few limitations in this study car the primary data will be collected from only two companies in construction sector. Since the sample size is small, the analysis can be held on that particular segment. This narrowed the research to only particular companies and not all companies. Moreover, this research is limited to SME in construction sector. Since the research has been undertaken considering problems within these companies, it cannot be applicable to any other types of organization unless they face similar problems.

4.9. Personal biases, difficulties and practical efforts

Practical effort

To obtain the primary data, the researcher needs to interview the directors or the owners of the selected companies. Generally, they are always busy. The researcher needs to show that his research is interesting and useful for financial management of these companies, especially improving working capital management.

In conducting the interview, the researcher needs to make the interviewee feel comfortable to share the company information. The quality of the answers and primary data will depend on how the researcher conducts the interview.
Difficulties and limitation

It may be difficult to collect information, especially financial information in SMEs. The researcher will choose two companies that he know and also have relation with their managers. However, the information is generally considered as a secret that cannot be provided to anyone outside the company because of the competition.

The selected companies are operating in Viet Nam; therefore the researcher needs to have translated all the necessary companies’ documents in English by an official translator. Moreover, because of the time limit and the sample size, this research cannot expand to other companies in different economic sector or in different financial situation.

Personal biases

The researcher is lack of skill in conducting interview. He needs to be confident in the interview. The researcher should show his professional attitude, strong motivation while discussing with the directors of selected companies.

Another biases are the researcher’s experience. The quality of this research is limited with his professional experience. Working capital management is a complicate topic. Without strong experiences in corporate finance, the researcher may have difficulties in analyzing and interpreting financial information and different aspects of working capital management.
4.10. Time, Cost and Project Management

Time allocation:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Start Date</th>
<th>Finish Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Searching for secondary data</td>
<td>01/09/12</td>
<td>14/09/12</td>
</tr>
<tr>
<td>Reading secondary data</td>
<td>15/09/12</td>
<td>20/10/12</td>
</tr>
<tr>
<td>Creating data collection instruments</td>
<td>15/02/13</td>
<td>24/02/13</td>
</tr>
<tr>
<td>Administrating data collection instruments</td>
<td>25/02/13</td>
<td>09/03/13</td>
</tr>
<tr>
<td>Analyzing primary data</td>
<td>10/03/13</td>
<td>20/03/13</td>
</tr>
<tr>
<td>Writing the early drafts</td>
<td>21/03/13</td>
<td>05/04/13</td>
</tr>
<tr>
<td>Analyzing comments on drafts by supervisor</td>
<td>06/04/13</td>
<td>20/04/13</td>
</tr>
<tr>
<td>Revisions of drafts</td>
<td>21/04/13</td>
<td>24/04/13</td>
</tr>
<tr>
<td>Printing, binding and sending</td>
<td>25/04/13</td>
<td>26/04/13</td>
</tr>
</tbody>
</table>

This dissertation needs to be submitted before 19 April 2012

Cost:

The data collection will be realized in Viet Nam. The researcher needs to print dissertation report and send it to Ireland. The cost is about 100 euros

4.11. New and Relevant Research

Working capital management is not a new topic for many students and professionals in finance sector. Managing working capital is always important for every company. Understanding and focusing on managing working capital will help the companies generate more profit and have good financial health.

This research focuses on working capital management of small and medium enterprises. Indeed, there are a difference between finance of big enterprises and small business. Most of the researches concentrate on finance management of big business. Many of researchers didn’t pay attention on
financial management of small and medium business. However, SME is considered the main growth of economy. They create generally more than 50% of employs of a nation (Nguyen, 2001)

The researcher realizes that there are not many information or researches relating to this topic while conducting secondary data collection. In Viet Nam, there aren’t currently any official researches realized by government organization or private organization. During the difficult time of economy, the poor working capital management is affecting strongly many small and medium businesses. From all the above reason, this research is new and relevant for finance sector.
CHAPTER FIVE: DATA ANALYSIS AND FINDINGS

5.1. Introduction

The previous chapter presented aspects of research methodology including research design, data collection and data analysis methods, and the recommendations on the finding analysis will be presented in chapter 6. Chapter 5 presents descriptive findings of working capital management, financial characteristics of SME and analysis of financial management situation of two selected companies for this research.

Objectives of this chapter are firstly to systematically present the descriptive findings of the research study, secondly to interpret significance of these findings as results of data analysis, the consequences of poor working capital management. Thirdly, finding how the effective working capital management is value to the survival and solvency of the SMEs.

Chapter 5 is structured into 5 main sections. Section 5.1 and 5.2 respectively introduce the chapter and links between research objectives and data analysis. Section 5.3 presents descriptive findings of business and financial situation. Section 5.4 presents the consequences of poor working capital management on SMEs in Vietnam. Section 5.5 explains how the effective working capital management is value to the survival and solvency of the SMEs. Figure 5.1 provides a visual picture of the chapter outline and the links among sections as indicated earlier.
5.2. Links between data analysis and research objectives and the research questions

As indicated in chapter 1, the objectives of this research study are to collect the descriptive evidence on financial management practices, financial characteristics and profitability of SMEs in Vietnam, and to ascertain the factors behind the poor working capital management, and finally to find out an effective working capital management for SMEs in Vietnam. Generally, this research study is designed to answer three main questions as follows:

1. How the SMEs in Viet Nam establish their working capital management policy system?
2. What are the consequences of poor working capital management on SMEs in Vietnam?
3. How the effective working capital management is value to the survival and solvency of the SMEs?

The results of data analysis and findings presented in this chapter are linked to the research questions and objectives as mentioned above. In the section 5.3, the researcher will analyze financial documents of two companies and also the interviews with the managers of two companies.
5.3. Analysis of business and financial documents

5.3.1. Company A: Construction and Commerce HUONG SON co. Ltd.

5.3.1.1 General presentation

Sector

- Construction of irrigation works
- Construction of civil works.
- Construction of industrial buildings.
- Constructions of street, bridge, ports, roads, water supply and drainage system.
- Manufacture and sales of fresh concrete and precast concrete products.
- Real estate

And other business trades under the business registration license of the company

Strategy

The company continues to focus, maintain and improve the quality of production, while looking for other customer, promoting its strength. The company focuses on construction activities. Real estate market is concentrating in Da Nang and investment is expected to expand to others central provinces.

Position

In the production, supply and construction of concrete, the company has the strength of the quality and time response. In the construction sector, the company has strengths in quality, technical capacity construction. Company's construction market has evolved over the central provinces.

In the company's revenue structure, construction activities accounted for the highest proportion on average 50% of the total net sales of the company over the years. In three years the revenue structure has clear navigation, real estate business activities increasing proportion of more than 70% in 2009, 83.31% in 2010. Therefore, real estate investment and construction still works contributed the most in the
structure of production and business activities of the company. The project company is currently involved are: The residential project SUONG BIEN.

Risk

The company is focusing on only some big customers. If they fail, the company’s activities will be affected significantly.

The impact of the world price or domestic inputs has increased, making it difficult to estimate the output price of the product.

High transportation costs is one of the major challenges when the company wants to expand the market to other cities.

5.3.1.3. Financial ratio analysis

This section assesses the company’s working capital management for the years ended 31\textsuperscript{st} December 2012.

Liquidity

Liquidity refers the company’s ability to meet its short-term obligations e.g. payments to creditors and loan repayments as they fall due. If the company is unable to meet such payments as they fall due the ultimate sanction would be for creditors to obtain a High Court order to liquidate your company
Effective Working Management in Small and Medium Enterprises in Vietnam

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>271,317,367</td>
<td>305,500,437</td>
<td>266,903,087</td>
<td>236,841,674</td>
<td>199,961,928</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>201,206,815</td>
<td>216,163,143</td>
<td>190,313,103</td>
<td>189,805,183</td>
<td>132,839,356</td>
</tr>
<tr>
<td>Inventory</td>
<td>119,683,997</td>
<td>177,972,476</td>
<td>93,975,786</td>
<td>80,383,070</td>
<td>73,859,811</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.35</td>
<td>1.41</td>
<td>1.40</td>
<td>1.25</td>
<td>1.51</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.75</td>
<td>0.59</td>
<td>0.91</td>
<td>0.82</td>
<td>0.95</td>
</tr>
</tbody>
</table>

Table 5.1: Liquidity ratios calculation A

(Currency: VND)

liquidity ratios

![Chart 5.1. Liquidity Ratio A](chart.png)
Current Ratio
The current ratio (= current assets: current liabilities) is a standard test of liquidity. The company’s current ratio has deteriorated from 1.41:1 in year ended 31st December 2011 to 1.35:1 in year ended 31st December 2012. This represents deterioration in liquidity but still above the generally accepted principle that the current ratio is still in excess of 1.

Quick Ratio
This is more testing measure liquidity as it excludes inventories in assessing your ability to meet short-term obligations. The company’s quick ratio has increased from 0.59:1 in year ended 31st December 2011 to .75:1 in year ended 31st December 2012, representing an improvement in liquidity. However, the quick ratio still falls below the recommended 1:1 ratio.

Working Capital Cycle
A company’s working capital cycle measures in days the average time cash is tied up in working capital. HUONG SON’s working capital cycle has decreased slightly during the year ended 31st December 2012 but increased significantly by comparing with the year of 2010 or 2009. Details are as follows:
## Construction and Commerce HUONG SON co. Ltd

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</tr>
</thead>
<tbody>
<tr>
<td>Days</td>
<td>471,206,838</td>
<td>437,224,291</td>
<td>422,409,293</td>
<td>386,612,642</td>
<td>146,426,484</td>
</tr>
<tr>
<td>Revenue</td>
<td>471,206,838</td>
<td>437,224,291</td>
<td>422,409,293</td>
<td>386,612,642</td>
<td>146,426,484</td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>375,225,461</td>
<td>342,297,890</td>
<td>323,519,878</td>
<td>295,559,719</td>
<td>115,163,907</td>
</tr>
<tr>
<td>Average inventory</td>
<td>148,828,237</td>
<td>135,974,131</td>
<td>87,179,428</td>
<td>77,121,441</td>
<td>36,929,906</td>
</tr>
<tr>
<td>Receivable</td>
<td>104,311,286</td>
<td>101,982,092</td>
<td>131,921,303</td>
<td>88,972,196</td>
<td>90,986,376</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>44,991,623</td>
<td>40,231,143</td>
<td>43,855,718</td>
<td>30,688,970</td>
<td>30,209,052</td>
</tr>
<tr>
<td>Inventory Days</td>
<td>144.77</td>
<td>144.99</td>
<td>98.36</td>
<td>95.24</td>
<td>117.05</td>
</tr>
<tr>
<td>Trade receivable Days</td>
<td>80.80</td>
<td>85.14</td>
<td>113.99</td>
<td>84.00</td>
<td>226.80</td>
</tr>
<tr>
<td>Payable Days</td>
<td>43.77</td>
<td>42.90</td>
<td>49.48</td>
<td>37.90</td>
<td>95.74</td>
</tr>
<tr>
<td>Operating Cycle</td>
<td>181.81</td>
<td>187.23</td>
<td>162.87</td>
<td>141.34</td>
<td>248.10</td>
</tr>
</tbody>
</table>

*Table 5.2: Operating Cycle Calculation A*
Chart 5.2: Operating Cycle A

This represents an increased investment in working capital.
Working Capital Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Current assets</th>
<th>Current liabilities</th>
<th>Working capital</th>
<th>WC/ Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>271,317,367</td>
<td>201,206,815</td>
<td>70,110,552</td>
<td>0.178</td>
</tr>
<tr>
<td>2011</td>
<td>305,500,437</td>
<td>216,163,143</td>
<td>89,337,294</td>
<td>0.20</td>
</tr>
<tr>
<td>2010</td>
<td>266,903,087</td>
<td>190,313,103</td>
<td>76,589,984</td>
<td>0.185</td>
</tr>
<tr>
<td>2009</td>
<td>236,841,674</td>
<td>189,805,183</td>
<td>47,036,491</td>
<td>0.123</td>
</tr>
<tr>
<td>2008</td>
<td>199,961,928</td>
<td>132,839,356</td>
<td>67,122,572</td>
<td>0.219</td>
</tr>
</tbody>
</table>

*Table 5.3: Working Capital Investment A*

In the above table, the working capital investment of HUONG SON Company had decreased comparing with the last two years.

Non-Current Asset Investment

Your company has decreased in non current assets investment during the year ended 31st December 2012 by comparing with 2011, 2010 and 2009. It was because of reducing in development strategy and difficulties in fund raising.

Long Term and Short Term Borrowings

During the year ended 31st December 2012 the company reduced significantly long term borrowings, but increased slightly short-term loans by comparing with previous years. This would indicate that the company’’s liquidity is being placed under strain, as short-term borrowings are being used to repay long-term debt and to fund the recurrent investment in non-current assets and working capital.
Growth rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>G.R. of Total Assets</td>
<td>-0.1198</td>
<td>0.079</td>
<td>0.1014</td>
<td>0.2247</td>
<td>0.5337</td>
</tr>
<tr>
<td>G.R. of Equity</td>
<td>-0.0201</td>
<td>0.1239</td>
<td>0.4392</td>
<td>0.1225</td>
<td>0.1263</td>
</tr>
<tr>
<td>G.R. Income before tax</td>
<td>-0.1341</td>
<td>-0.4966</td>
<td>0.0053</td>
<td>3.032</td>
<td>0.086</td>
</tr>
<tr>
<td>G.R. of Revenue</td>
<td>0.0791</td>
<td>0.0397</td>
<td>0.0845</td>
<td>1.6401</td>
<td>0.3448</td>
</tr>
</tbody>
</table>

*Table 5.4: Growth Rate A*
Chart 5.3. Growth Rates A

Profitability ratios

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>0.0443</td>
<td>0.0451</td>
<td>0.0966</td>
<td>0.1059</td>
<td>0.0322</td>
</tr>
<tr>
<td>ROE</td>
<td>0.1154</td>
<td>0.1306</td>
<td>0.2917</td>
<td>0.4175</td>
<td>0.1162</td>
</tr>
</tbody>
</table>

Table 5.5: Profitability Ratio Calculation A
5.3.1.4. Analysis of interview with director

After review the interview with the director of Construction HUONG SON Company limited, these analysis are generated:

- The company is focusing on construction and real estate sectors. The construction sector contributes about 70% of revenue. The company is the subcontractor of many construction project such as building street, bridge, water supply and drainage system of building. In construction sector, the profit margin is low and the cost is high.

- The company’s manager understands the role and the importance of working capital management. However, the company didn’t define working capital management policies. The chief of accountant is also the financial manager. However, the company’s owner still plays an
important role in financial management. The managers’ experiences play an essential role in managing working capital.

- In working capital management, the company had difficulties in cash management and short-term finance planning. The company was short of cash many times in a year. However, the situation is improved in 2012 with high cash flow from operating activity. In the previous years, the company had difficulties in obtaining short-term loan to finance the need of cash from the bank. The interest rate was very high in the previous year because of high inflation and other economic reasons.

- The difficult economy is affecting the company’s financial situation, and working capital management is not an exception. The term of receivable is longer than normal situation. There are a lot of delay on payment and bad debts.

5.3.1.5. Overview

Overview

It has been a successful year in terms of increased turnover and profits during this difficult economy. However, the inventory days and especially working cycle days were still very high and this situation required a high investment in working capital. As a result the company’s liquidity is threatened as evidenced by the deterioration in quick ratios and the increasing of short-term debt.

Recommendations to improve liquidity and working capital management

• Improve stock management in order to tie-up less cash in inventories
• Source long term finance to replace short term borrowings and to build up cash reserves
• Continue with a dividend policy that retains profits within the company
• Source long term finance to provide funds for both future capital asset investment and the increased recurrent working capital investment
5.3.2. Company B: Construction HA BINH PHUONG co. Ltd.

5.3.2.1 General presentation

**Business sector**

Consulting, design and construction of civil works
Trade of materials for the construction sector
Real estate
Other business trades in the company's business registration certificates.

**Development Strategies and Investment**

Focus on construction activities for telecommunication sector, and expand market access, especially in Da Nang City market and other central province, to generate more sales and income.

Develop the real estate business through projects to build small apartments, office building, rental shop.

Expand into new areas such as the projects of irrigation, hotel construction

**Capability Company**

Company's main business activity is the construction, design consultants, office leasing, outsourcing accessories for construction activities and renting business. In particular, construction activities account for the largest share of revenue. The local market sales accounted for nearly 40% of total revenue. The company has the advantage of human resources and equipment.

**Company Prospects**

In recent years the growth of the telecommunications industry has always been high, especially when Vietnam officially became a member of the WTO and made commitments to open the telecommunications market. The demand for construction of facilities and infrastructure of the sector is
increasing. Real estate and office leasing activity also have many opportunities as the demand is increasing.

**The main business risks**

Operation areas of the company is very large, many cities in the country, so the management of the company though has improved a lot but still can not cover all, so there are still many problems in finance and financial management occurs.

Along with the development of the telecommunications sector, the number of units providing telecommunications services as well as the number of construction units in the sector will also increase, so the risk from competition in the future will very high, requiring enterprises to actively improve competitiveness.

5.3.2.3. Financial ratio analysis

This section assesses the company’s working capital management for the years ended 31st December 2012.

**Liquidity**

Liquidity refers Jamie Limited’s ability to meet its short-term obligations e.g. payments to creditors and loan repayments as they fall due. If your company is unable to meet such payments as they fall due the ultimate sanction would be for creditors to obtain a High Court order to liquidate your company.

<table>
<thead>
<tr>
<th>Table 5.6: Liquidity Ratio B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
</tbody>
</table>
Inventory | 85492350 | 95955350 | 158787890 | 169473250 | 204447100
--|---|---|---|---|---
Current Ratio | 3.21 | 2.74 | 2.35 | 2.31 | 2.02
Quick ratio | 3.06 | 2.60 | 2.16 | 2.11 | 1.83

Chart 5.5: Liquidity Ratio B

**Current Ratio**

The current ratio (= current assets: current liabilities) is a standard test of liquidity. This company’s current ratio has improved from 2.35:1 in years ended 2010, 2.74:1 in year ended 31st December 2011...
to 3.21:1 in year ended 31st December 2007. This represents a significant improvement in liquidity and far above the generally accepted principle that the current ratio should be in excess of 1.

**Quick Ratio**
This is more testing measure liquidity as it excludes inventories in assessing your ability to meet short-term obligations. Following the current ratio, the quick ratio has improved from 2.60:1 in year ended 31st December 2011 to 3.06:1 in year ended 31st December 2012, representing high level in liquidity. This is a result of low level of inventory.

**Working Capital Cycle**
A company’s working capital cycle measures in days the average time cash is tied up in working capital. This company working capital cycle has decreased by 392 days to 147 days during the year ended 31st December 2012. Details are as follows:

*Table 5.7: Operating Cycle Calculation*

<table>
<thead>
<tr>
<th>Construction HA BINH PHUONG co. Ltd</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Days</td>
<td>Days</td>
<td>Days</td>
<td>Days</td>
<td>Days</td>
</tr>
<tr>
<td>Revenue</td>
<td>1278938840</td>
<td>577416640</td>
<td>817665500</td>
<td>846782330</td>
<td>1131557710</td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>1218812730</td>
<td>535215040</td>
<td>727616340</td>
<td>717122110</td>
<td>965099170</td>
</tr>
<tr>
<td>Average inventory</td>
<td>90723850</td>
<td>127371620</td>
<td>164130570</td>
<td>186960180</td>
<td>102223550</td>
</tr>
<tr>
<td>Receivable</td>
<td>510771170</td>
<td>629291780</td>
<td>844099500</td>
<td>833133320</td>
<td>768128670</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>84922270</td>
<td>135667130</td>
<td>124484870</td>
<td>179087240</td>
<td>168252470</td>
</tr>
<tr>
<td>Inventory Days</td>
<td>27.17</td>
<td>86.86</td>
<td>82.33</td>
<td>95.16</td>
<td>38.66</td>
</tr>
</tbody>
</table>
This represents a decreased investment in working capital.
Working Capital Investment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>1737616110</td>
<td>1817841620</td>
<td>1959940030</td>
<td>1980220140</td>
<td>2154409530</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>540578610</td>
<td>663479980</td>
<td>833711380</td>
<td>857980720</td>
<td>1067337240</td>
</tr>
<tr>
<td>Working capital</td>
<td>1197037500</td>
<td>1154361640</td>
<td>1126228650</td>
<td>1122239420</td>
<td>1087072290</td>
</tr>
<tr>
<td>Working capital/Total asset</td>
<td>0.581</td>
<td>0.538</td>
<td>0.476</td>
<td>0.466</td>
<td>0.409</td>
</tr>
</tbody>
</table>

*Table 5.8: Working Capital Investment B*

The working capital investment has increased regularly from 2008 to 2012. However, the current liabilities have decreased significantly in the year of 2012.

**Non-Current Asset Investment**

This company has reduced slightly investment in non current assets during the year ended 31st December 2012. By comparing with other previous years, the non-current asset decreased regularly from 2008.

**Short Term Borrowings**

During the last three years, the amount of short-term debt didn”t change. It means that this company didn”t borrow any cents to finance its working capital. They may use long-term debt to finance the need of working capital.
Growth rate

<table>
<thead>
<tr>
<th>Growth rate (G.R.) comparing with previous period</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>G.R. of Total Assets</td>
<td>-4.00%</td>
<td>-9.31%</td>
<td>-1.75%</td>
<td>-9.37%</td>
<td>-10.72%</td>
</tr>
<tr>
<td>G.R. of Equity</td>
<td>3.21%</td>
<td>-2.74%</td>
<td>-2.41%</td>
<td>-2.47%</td>
<td>2.80%</td>
</tr>
<tr>
<td>G.R. Income before tax</td>
<td>834.97%</td>
<td>-90.41%</td>
<td>-25.00%</td>
<td>-43.53%</td>
<td>-9.01%</td>
</tr>
<tr>
<td>G.R. of Revenue</td>
<td>121.49%</td>
<td>-29.38%</td>
<td>-3.44%</td>
<td>-25.17%</td>
<td>-25.57%</td>
</tr>
</tbody>
</table>

*Table 5.9: Growth Rate B*
5.3.2.4. Analysis of interview with director

After review the interview with the director of Construction HA BINH PHUONG Company limited, these analysis are generated:

- The company is focusing on construction and consulting sectors. The construction sector contributes about 80% of revenue, the consulting activity contribute 20% of revenue. The
company is the contractor or subcontractor of many construction projects such as building civil works, house for sale. However, the company will focus on consulting and design activities from this year.

- The company’s manager understands the role and the importance of working capital management. However, the company didn’t define working capital management policies. The company organize a financial department but only focusing on accountant task, debt collecting and investment analysis. The company’s owner still plays an important role in financial management. The managers’ experiences play an essential role in managing working capital.

- In working capital management, the company had difficulties in receivable management, inventory management and cash management. The company has difficulties in collecting debt from its customers. The receivable days are very high comparing with other companies in this sector.

- The difficult economy is affecting the company’s financial situation, and working capital management is not an exception. The term of receivable is much more longer than normal situation. There are a lot of delays on payment. The main job of financial service is deb collecting.

5.3.2.5. Overview

Overview
It has been a successful year in terms of increasing turnover and profits. The revenue has increased more than two times but the profit has increased more than nine times. The significant increasing of income after tax is also a result of income tax. The company is organizing its working capital management. However, the receivable account is still very high.

Recommendations to Improve Liquidity and Working Capital Management

- Improve stock management in order to tie-up less cash in inventories
5.4. Consequences of poor working capital management on Small and Medium Company

Management of current assets and liabilities is particularly important in the case of small and medium-sized companies. Efficient working capital management is necessary for achieving both liquidity and profitability of a company. A poor and inefficient working capital management leads to tying up funds in idle assets and reduces the liquidity and profitability of a company. Moreover, a company, which is in poor working capital management situation, may become insolvency. The poor working capital management can be divided in two aspects: excess working capital or insufficient working capital.

After analyzing different ratios related to financial positions, especially working capital management, these conclusions on the consequences of poor working capital management are generated:

**Dangers of excess working capital:**

- It results in unnecessary accumulation of inventories. Thus, chances of inventory mishandling, waste, theft and losses increase. The cost of inventory management is very high.

- It is an indication of defective credit policy and slack collection period. Consequently, higher incidence of bad debts results, which adversely affects profit. Debt collecting is a significant cost for SMEs. In the difficult economic, the risk of debt loss is higher.

- Excessive working capital makes management complacent, which degenerates into managerial inefficiency.

**Dangers of insufficient working capital:**
• Stagnant growth: It becomes difficult for the company to take advantage of new opportunities such as new construction project or develop new products or adapt to alteration of production techniques needed when new opportunities arise

• Loss of credit opportunity: The inadequacy of working capital funds makes SMEs unable to secure attractive credit opportunities. A company with working capital need not seek for credit opportunities because the firm will be able to finance large stock and can therefore place large orders with cheaper price.

• Loss of cash discount: Companies try to persuade their debtors to pay early by offering them a cash discount off the actual price. A company with inadequate working capital funds will not be able to enjoy this benefit

• Loss of good will: A company with good reputation can expect cooperation from the trade creditors at the time of financial difficulties. A firm will lose its reputation when it is not in position to honor its short-term obligations. As a result, SMEs may face tight credit terms from their suppliers an banks

• Organizational control by creditors: If the working capital of a business is grossly inadequate, it will be forced to finance its operations mere by short-term borrowing. Eventually, a point will be reached beyond which lenders are not willing to extend additional credit and this may jeopardize the existence of business as it depends on the actions of the creditors. It can also call for the liquidation of the company, even though the business is profitable

5.5. Effective working capital management is value to the survival and solvency of the SMEs

Based on the literature, this research chapter was seeking to provide an overview of the findings of working capital management practices, financial characteristics of SMEs. Effective working capital management is value for the survival and the solvency of two companies selected and for all SMEs in general.
In the analysis of financial position of two companies and the consequences of poor working capital management on SMEs, the researcher has detected a relationship between the working capital management practices and the financial positions of SMEs.

*Figure 5.1: Balancing Working Capital*

*Figure 5.2: Efficient WCM*
CHAPTER 6: CONCLUSION AND IMPLICATION

6.1. Introduction

Chapter 5 presented data analysis and findings of the research study including descriptive and associated findings in relation to the research questions and objectives. The research ends with chapter 6 where conclusions drawn from data analysis and implications of the research study will be respectively summarized and presented. The chapter 6’s objectives are firstly to summarize conclusions of working capital management practices, consequences of poor working capital management, secondly to indicate how the research study can be implemented by SMEs to improve working capital management, and thirdly to suggest further research in the future.

This chapter is structured into five sections. Section 6.1 introduces the objectives and structure of the chapter. Section 6.2 summarizes conclusions related to the research questions on working capital management of SMEs. Section 6.3 indicates how the research study can be applied to SMEs and knowledge of working capital management for SMEs in general. Section 6.4 indicates the limitations of the research study, and section 6.5 ends the chapter by giving implications and suggestions for further research.

6.2. Conclusions related to research questions

This section summarizes conclusions related to the research questions and testing the model analyzed and presented in chapter 5. Conclusions of working capital management practices, consequences of poor working capital management on SMEs are presented in subsections 6.2.1, 6.2.2.

6.2.1 Conclusions related to working capital management practices

As indicated in chapter 1, one of the objectives of the research was to collect empirical evidence of working capital management practices to describe behaviors of SMEs in practicing working capital management. This subsection summarizes these findings.

6.2.1.1. Financial reporting and analysis practices

In SMEs, the chief-accountants play an important role in carrying out all accounting whereas external
accountants have not been engaged any more by firms. When the activities expand, the external accountant has not been regularly. The chief accountant plays an important role in controlling financial of SMEs. In most SMEs, the chief accountant is also the financial manager. This is the economy choice and the traditional choice of SMEs.

SMEs have a strong regard for financial reporting practices and preparing financial statements is the obligations for SMEs. However, other financial statements such as cash flows statement or statement of funds are rarely prepared when compared with frequency of preparing balance sheets and income statements.

In term of types of financial analysis used, many SMEs use both trend analysis and ratio analysis. Ratio financial analysis was relatively popular as a tool for evaluating and controlling financial position of the firms. Especially, ratios of activity such as receivable turnover, inventory turnover, total asset are frequently used.

6.2.1.2. Working capital management practices

Following patterns of many previous researchers, investigations and reports of working capital management practices in this research include three areas: cash management, receivable management and inventory management practices. For cash management, the following conclusions are reported. SMEs always or often prepare cash budgets, and preparing and reviewing cash budgets are frequently based on monthly periods. Many owners or managers of SMEs have rarely been trained in skills of financial management. In SMEs, the owners decide the cash investment and other financial investment based on the owner’s experience. This suggests that experience is viewed as more important than theory in practicing cash management. During the current time of economy, many of SMEs often face cash shortages for expenditures.

Regarding receivable management, SMEs always sell their products or services on credit. In construction sector, the term of credit is longer in other sectors. Selling products or services on credit is a common trend for SMEs in Vietnam, especially under conditions of a strong competitive market. In consequence, receivable management practices have become extremely important and reviewing levels of receivables and bad debts need to be conducted frequently by SMEs. Therefore it was not surprising that most SMEs reported reviews of their levels of receivables and bad debts monthly. As a result, the percentage of bad debts was still controllable and maintained at an appropriate level. However, during
the difficult economy, the level of bad debt in construction sector is increasing.

In inventory management practices, based on the results of data analysis, conclusions suggest that inventory management practices of SMEs have not been understood by management. Although they review inventory levels and prepare inventory budgets frequently, the ability to apply theories of inventory management in inventory budgeting is very limited. The inventory level in construction is very high.

In summary, the researcher found that SMEs strongly supported all areas of working capital management practices. Cash and inventory budgets are frequently prepared. Levels of receivables and inventory are reviewed frequently. However, SME owners have a low level of management knowledge. Indeed, the owner’s experience has been seen to be more important than application of theories of financial management. Therefore training skills of financial management for the owners and managers is essential.

6.3. Implications of the research study

This section presents implications of the research study outcomes including the implications for working capital management practitioners, government, and training organizations and comments on the contribution to knowledge of this research into working capital management and financial management practices of SMEs.

Implication 1: Viewpoint of financial management role

Owners and managers of SMEs in Vietnam think that financial management plays only a role in protecting financial position of a business. However, this research study indicates that efficiency of financial management, efficiency of working capital management could lead to reduce cost and generate higher profit. In financial management, managing working capital is one of the most important tasks that keep running operating activities, avoid risk of insolvency, risk of overtrading, risk of sale lost…These conclusions suggest that SMEs should highly regard working capital management and view of working capital management as one of the tools to improve the financial position and generate for revenue.

Implication 2: Action to reinforce working capital management
The result of this research study indicates that SMEs’ financial health and activities depend on the efficiency of working capital management practices and financial characteristics of SMEs. Therefore any action that influences working capital management practices and financial characteristics should be carefully considered to determine whether they positively or negatively impact on SME financial position and operating activity.

The current ratio is often used as a tool defining and measuring liquidity. High current ratios tend to high liquidity and low profitability. However, this does not mean the current ratio should be continuously lowered to raising profitability because such actions will adversely affect liquidity. The trade-off between liquidity and profitability as indicated by Van Horne (1986) and demonstrated in this study should be flexibly applied depending on particular circumstances.

The credit term should be reasonable comparing with industry average and other companies in the same sector. In construction sector, the inventory level is relatively high, but it should be kept minimum possible.

**Implication 3: Raising the efficiency of financial management practices**

Raising the efficiency of working capital management is considered an effective tool for improving the financial positions and increasing the revenue and profitability of SMEs. The research shows that the companies need to develop efficient working capital management and short-term planning practices including cash management, receivable management, inventory management and short-term financial planning regarding working capital. In working capital management practices, the financial manager or owner should have to the effects of these components on the company’s activities and decisions should be reviewed to determine whether they affect the efficiency of financial management.

**Implication 4: Implications for training and teaching organizations**

Findings on working capital management practices and financial characteristics of SMEs help teaching and training organization personnel to understand the behavior of SMEs in the field of financial
management. The owners and managers of SMEs often manage their companies by experience rather than methodology. This research will be basis for developing more appropriately training programs for owners and managers of SMEs.

6.4. Limitations of the research study

Regardless of its high ambitions, this research is constrained by resource limitations, both financial and non-financial resources. Limitations of time, funding and scope of the study required the research study to focus on a limited number of objectives. Moreover the research problem and questions often directly or indirectly involve multiple areas working capital management while limits of time and funds would not make all areas can be investigated.

Because of limited access to scare resources, this study could not research SMEs in all sectors and regions of Vietnam but only selected SMEs located in Da Nang City. There are the differences in knowledge, style of management, and financial characteristics between SMEs in different sectors and locations. As a result, an overestimation or underestimation may exist due to the higher or lower level of management knowledge of SMEs selected in this research.

In considering significant aspects of the working capital management practices, this study concentrated on internal factors of SMEs but did not capture much external environment factors. The internal business functions of the greatest concern in this study were financial management while other functions such as production management, marketing management, and personnel management were omitted. Moreover, his study could not specify what the appropriate financial ratio should be because the appropriate financial ratio is dependent on characteristics of each industry. Currently, the industry average ratios are not available in Vietnam. This requires further research with surveys to indicate appropriate ratios corresponding to each industry. Unfortunately, such extended research was beyond scope of this research.

6.5. Implications for further research
Effective Working Management in Small and Medium Enterprises in Vietnam

This study was designed to define the effective working capital management for SMEs in Vietnam. Its limitations were examined in the previous section. These limitations suggest further research to expand and supplement what could not be captured in this research. Descriptive findings of working capital management practices, financial characteristics of SME profitability and conclusions related to the consequences of poor working capital management could be used as the foundations for the further research. Additional implications of this study for the further research could include the following:

Findings on financial characteristics of SMEs could be applied to the further comparative research of differences in financial characteristics between SMEs and large enterprises in Vietnam.

Findings on working capital management practices could be used as the basis for specific and detailed research into other aspects of financial management practices in Vietnam such as fixed asset management, capital budgeting, financial planning and SMEs’ profitability.

This study’s findings of working capital management on SMEs could lead to expanded research to the large companies, state and foreign companies in Vietnam. This research could be used to develop further research on investigating and building industry averages of financial ratios in Vietnam. Such research is necessary and important for financial management practices in Vietnam.

The effective working capital management developed in this research could be applied as the basis for the further research on building financial strategies for SMEs.
CHAPTER SEVEN: SELF REFLECTION

7.1. The researcher’s profile

7.1.1. Family and culture background

The researcher was born in Vietnam, a developing country. The economy is growing quickly and the financial system is developing quickly. The financial market is creating so many jobs. Many growing companies are recruiting the high skill applicants.

In Vietnam, the society appreciates the successful person. Peoples around you, such as your friends, classmates, family or other persons you may be know, always look at what you achieve in your career. Therefore, his personal needs and values, such as wealth and professional success, came from his culture.

The researcher’s father is actually a vice director of a big company in construction market and his ambition and devotion was projected onto the researcher. In his family, the researcher is the only person who is studying abroad and that why he is bringing up with pressure to perform. His parents and grandparents want him to explore his talents and become a successful businessman. They can support the researcher all the necessary financial to pursue his talents.

7.1.2. Educational background

After graduating from high school, the researcher want to continue learning in an international environment and France was his first destination. This was a very exciting time for him as it was the first time he ever lived abroad. The time in France gave him a rich culture and new experience. At the time, the researcher decided for a Bachelor in Retail Banking Management. After that, for my graduate, he chose a master of Finance in Paris.

His school in Paris has a good partnership with Dublin Business School. That was why he went to undertake a MBA in Finance. The new adventure started from this moment.
7.1.3. Professional background

Both the professional experiences through his internship and part time job were important for him. There are two types of experiences:

Through the experiences related to his future career, he applied what he had studied in the university. He got familiar with business environment and he developed his networks. Through the internship, he acquired other knowledge that he hadn’t opportunity to learn in the university.
The researcher’s experience no related to his career help him to finance the undergraduate degree that he followed. Besides, the researcher put himself in different jobs and he acquired other knowledge outside his knowledge area.

Even though the researcher has always had a variety of interest, his ideal job has been concerned with finance. Being ambitious and driving for success, the researcher would like to set up a financial consultancy firm and make it become one of the large consultancies in Vietnam.

After obtaining MBA finance, the researcher wants to work as a financial analyst in a capital fund or a consultant in a consultancy firm.

*Figure 7.2: Career tree*
7.2. Relationship with the researcher’s career goal

7.2.1. Skills required for realization of career goal

Technical skills:

- University Degree in Finance and Accounting, preferred professional qualifications (CFA, ACCA, etc.) or post graduate in Finance / Business Administration
- Strong modelling and commercial analytical skills
- High command of English
- High level of presentation

Soft skills:

- Demonstrated analytical problem-solving ability and logical thinking
- Strong communications & good interpersonal / teamwork skills
- Strong motivation & discipline, and ability to work in dynamic fast-paced environment; maturity and self-awareness

7.2.2. Rationale for undertaking MBA

The reason to commence a MBA in finance was completely based on his objectives and evolving interests. In order to follow his career objectives, the researcher needs to build on the theoretical and technical knowledge for finance and to improve on the skills he had.

MBA Finance was best suited to him. The completion of the MBA can give a significant advantage in the job market: technical skills and soft skills. These include the skills of finance, international management as well as personal skills in inter-personal skills, personal management skills and critical thinking skills.

Besides, MBA is the best diploma for people who want to be a entrepreneur in the future. The MBA will prepare the knowledge and necessary skill to set up his business.
7.3. Self Reflection on Learning outcomes and Skill Development

Reflective practice is important to the development of the researcher as it enables him to learn from the experiences of realizing dissertation. Kolb developed a theory of experiential learning that can give the researcher a useful model, called The Kolb Cycle, The Learning Cycle or The Experiential Learning Cycle. The cycle comprises four different stages of learning from experience and can be entered at any point but all stages must be followed in sequence for successful learning to take place. The Learning Cycle suggests that it is not sufficient to have an experience in order to learn. It is necessary to reflect on the experience to generalize and formulate concepts and then apply to new situations. This learning needs to be tested out in different situations. The researcher must see clearly the link between the theory and action by planning, acting out, reflecting and relating it back to the theory. (Kolb, 1984)

![Figure 7.3: Kolb Learning Cycle](image_url)

7.3.1. Time Management

Pareto’s law states that 80 percent of our output is generated by 20 percent of our efforts. Imagine that the researcher could work less and gain more result. Time management is the key to this personal management skill. All of the productive colleagues that the researcher has met successfully manage their
time. I believe that I could probably work less and be much more at peace with myself with some quality time-management training. During the dissertation process, the researcher has learnt how to allocate time for every task of process to finish the dissertation.

Having time management skills is simply having the ability to recognize and solve time management problems. Besides of writing dissertation, the researcher has this job. That why he develop this personal management skill by keeping a calendar and beginning to schedule everything. This includes scheduling the free time and the time to work and to write dissertation.

### 7.3.2. Data Analysis

The data is useless without the skill to analyze it. During the dissertation process, the researcher has learnt how to translate big data to insights and business value.

In this research, there are many types of data. The information comes from companies’ financial documents, from the interviews with companies’ managers. These information are called raw data. That means the researcher needs to work hard with it, to transform it to useful data and find out the relationship between them.

### 7.3.3. Communication skill

This skill is needed for every job. It is an important skill that the researcher have developed during dissertation process. After interviews with companies’’s manager, the researcher improved the communication competences in a professional environment. Moreover, with good communication skill, the researcher can get more information he wants from the company.

During the dissertation process, the researcher needs to keep a good relationship with the supervisor. The dissertation was realized in Vietnam and that’s why the communication was through email. Today, email communication is also skill that needs to be trained carrefully because it’s one of the most often ways of communication using in professional relation.

### 7.3.4. Organizational skills
Personal management would be incomplete without the ability to stay organized. We cannot accomplish any goals without the resources required to get the job done. The researcher can greatly increase my personal management skills by getting organized. The best part is the researcher already has the skills required to be organized, he just need to start putting them to good use. During the MBA study and dissertation process, the researcher try to organize a working place for effective result, to organize paper documents, electronic documents in a good way. Before getting MBA, the researcher had many email accounts and he had difficulty in managing email.

7.3.5. **Research and investigative skills**

During the MBA programme and dissertation process, the researcher developed the critical thinking skill throughout many modules and research study. The researcher needed to propose a topic for the dissertation and make a plan of realizing process. The researcher investigated many documents and looked for information from any sources. The quality of information is very different, may be useless, useful or very important. Here is the critical thinking process of the researcher:

1. Recognize problems
2. Understand the importance of prioritization of problems
3. Gather pertinent information
4. Interpret data, to appraise evidence and evaluate arguments
5. Draw conclusions and generalizations

*Figure 7.4: Investigate problem process*
Critical thinking has been described as the process of purposeful, self-regulatory judgment, which uses reasoned consideration to evidence, context, conceptualizations, and methods. It is a way of deciding whether a claim is true, false; sometimes true, or partly true.

7.4. Link of learning outcomes to theory

During the realization of Dissertation, the researcher has opportunity to read many books and documents in financial domain and particularly in working capital management field. These sources of information are really an important knowledge for MBA student.

Realization of dissertation gives a chance to the researcher to have a deep knowledge on a specific field of study. This knowledge has a value for research field or professional field. After the dissertation, the researcher will be confident about his knowledge and his ability to apply in the real professional situation.

Before choosing a research topic, the researcher did a lot of research about the domain he wants to work in, the personalities of researcher, the career goal. After that, the researcher chose a specific field of knowledge that he wanted to focus. In this case, it is the corporate financial management.

To do literature review, the researcher read many books from popular authors in finance sector; many journals, research study from other serious researcher; many professional websites in financial advisory. As a result, the researcher acquired a wide range of knowledge about financial management, especially his research topic, working capital management practices. Here are the learning outcomes from literature sources:

- Financial analysis: ratio analysis, working capital ratio calculation, interpretation on ratios, trend analysis, growth analysis, cash flow analysis.
- Financial management: Short term planning, long term planning, credit management, debt collection, assets management.
- Using tools such as excel to do financial calculation, using tables and chart for trend analysis and growth analysis.

- Understanding financial report

There are une impact of theory on practice. SMEs owners and managers usually manage finance and business activities by their own experiences. However, this style of management presents the limit and mistake in difficult economic situation. The intelligent applying of theory on practice become essential for survival and development of SMEs. This research propose many tips and methodologies to manage working capital for a strong financial health.

7.5. Plans to apply the learning outcomes

The learning outcomes from dissertation will be applied to realize the researcher’s career goal. Regarding the research career goal, the research chooses the consultant job and wants to open an consultancy firm in the future. His ambition is developing a consultancy firm, which will provide the following services for particularly SMEs in Vietnam:

- Financial management consultancy

- Investment consultancy

- Management solution

- Building strategy for enterprise development

This research study, which focus on financial management, particularly working capital management of SMEs is an important source of knowledge to realize the researcher’s career goal. The researcher understands the SMEs management and financial problems, SMEs characteristics, Vietnam economic characteristics and possible solutions for working capital management issues.

The researcher has learned the key lessons about research and investigate skills it is an important skill to work in finance or consultancy areas. The skills developed during the MBA and dissertation process such as inter-personal skills, time management, communication, data analysis and organizational skills will be big help for the researcher’s career and setting up consultancy firm.
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Appendix 1: Interview A with Construction and Commerce HUONG SON Company Limited

Interviewer: Student
Interviewee: Director

Interview Setting: Interview conducted in Director Office of Construction and Commerce HUONG SON co. ltd. The interview was conducted Friday 22/03/2013. The list of question was presented one week before the interview. The interview is conducted in English.

Affiliation with interviewee: Director is a friend of my family. I have also spoken with him privately regarding my areas of study.

(Start of Interview)

Interviewer: What sectors is your company focusing in recent years?

Interviewee: Our Company is focusing on construction and real estate sectors. We are building street, bridge, ports water supply and drainage system of building. Generally, we are subcontractor of many big projects. Real estate is also our main sector. Actually, we have a small building about 20 flats for renting. In the future, we will focus particularly on real estate sector.

Interviewer: What sector contributes the most profit?

Interviewee: Construction sector represents about 70% revenue but only 50% of total profit. Real estate sector contributes the most profit to our company.

Interviewer: Why?

Interviewee: In construction sector, the margin is low. The cost is very high. The cost of Inventory, material cost, depreciation, salary, renting cost for machines are very high. In the last two year, debt-
collecting cost was also important. In real estate sector, the beginning investment is high but the operational cost is much lower than construction sector.

**Interviewer: How do you think about working capital management (WCM)?**

Interviewee: For our company, WCM is one of the most important parts of financial management. In the beginning period, we didn’t have a financial service. We hired an accountant to do only financial reports. When our activities expanded with many projects in other provinces, we created financial services to manage construction and real estate sectors.

**Interviewer: What aspects of WCM that your company faced in recent years?**

Interviewee: I think Cash Management

**Interviewer: Can you tell me more about the problem of Cash Management?**

Interviewee: you know that one-year has many periods. Sometimes, we had a lot of cash in bank account but in some periods, we were short of cash, when we didn’t receive the payment yet or we needed to pay many bills, salaries, pay debt to suppliers in the same period. For a construction project, the subcontractor is paid when the project finish. We always need to find a way to finance working capital. You know that the bank is also short of cash. We cannot afford a high interest rate of short-term debt.

**Interviewer: How the current economic affects your company business?**

Interviewee: You know that the current economic is very difficult with high inflation, high interest rate and low consumption. Our cost of production increased significantly in recent years. The profit margin also decreased heavily. The high financial cost is very high comparing the previous period, I mean 4 year ago. That’s why we don’t have enough capital to expand our business.

**Interviewer: How the difficult economy affects your WCM?**
Interviewee: Like I said before, our business is affected under the pressure of difficult economic. We used short-term loan to finance the need of working capital. You know that the interest rate of loan is various between 12% and 18%. The cash flow from operating activity decreased. High inventory is also a pressure on our WCM.

**Interviewer: What is your company plan in order to reinforce WCM?**

Interviewee: To reinforce WCM, we will concentrate on managing cash flow from operating activity and financial activity. We will work with the suppliers to extend the time of payment. We need to work with bank about WCM. Our financial service needs to apply some financial method to manage WC efficiently.

Interviewer: That’s all my questions. Thank you for your time. I will send a copy of my dissertation when I finish. I hope you will consider my work.

Interviewee: Certainly. You’re welcome.
Appendix 2: Interview B with Construction HA BINH PHUONG Company Limited

Interviewer: Student
Interviewee: Director

Interview Setting: Interview conducted in Director Office of Construction HA BINH PHUONG co. ltd. The interview was conducted on Friday 22/03/2013.

Affiliation with interviewee: Director is a friend of my father. I have also spoken with him privately.

(Start of Interview)

Interviewer: What sectors is your company focusing in recent years?

Interviewee: We are working on construction sectors: consulting and construction. In construction sector, we build civil works, houses for sale or renting. We propose design-consulting service B2B or B2C.

Interviewer: What sector contributes the most profit?

Interviewee: Construction activity, about 80% our profit, 20% profit from consulting and design activity. However, we want to focus on consulting and design activity and increase profit to 50%.

Interviewer: Why you want to focus on this activity?

Interviewee: Indeed, consulting activity generates higher profit margin than construction activity, also less risk of high interest rate. As a result, we don’t need to worry too much about WCM.

Interviewer: How do you think about working capital management (WCM)?
Interviewee: WCM is one of most important job of our financial department.

**Interviewer: What aspects of WCM that your company faced in recent years?**

Interviewee: Cash Management and Inventory Management are the two big problems to consider, especially Inventory Management.

**Interviewer: Can you tell me more about these problems?**

Interviewee: Our Company is selling material for construction. You know that real estate sector is not working well. We have a high inventory level. Our building has not done yet, so no coming cash flow from this section. In the mean time, we need to pay the short-term loan and middle term loan at high interest rate. That’s why we have cash flow problem.

**Interviewer: How the current economic affects your company business?**

Interviewee: I think you know that the real estate market is in trouble since 2011. The house price is decreasing. The number of new houses is about 50% comparing the previous period. That’s the reason our company had less customers in consulting and design sector. Total sales of trading material for construction sector also decreased significantly.

**Interviewer: How the difficult economic affects your WCM?**

Interviewee: The company business has a direct link with the situation of WCM. As I said before, we are subcontractor. There is a big delay on payment in construction sector. This trouble impacts our working capital. Moreover, the high inventory cost us a lot, especially material for construction. The high interest rate also put pressure on our financial situation. We are building some houses for sales but I think with the current economic situation, it may be hard to sell them at good price.

**Interviewer: What is your company plan in order to reinforce WCM?**
Interviewee: We are trying to concentrate on consulting and design activity. So less pressure on WCM. We have a plan to reduce inventory and always keep inventory level as low as possible. We need to work more with suppliers. Our sale service needs to find more customers. We will reduce cost and generate more profit.

When the real estate sector recovers, it means the total sale of material for construction will increase; so the Cash flow from this activity will improve.

**Interviewer:** That’s all my questions. Thank you for your time. I will send a copy of my dissertation when I finish. I hope my analysis will help your company in WCM

Interviewee: No problem. If you need any thing, just call me and I will help you
Appendix 3: Financial reports A- Construction and Commerce HUONG SON Company Limited

Balance Sheet

<table>
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<tr>
<th></th>
<th>Q4 - 2012</th>
<th>Q3 - 2012</th>
<th>Q2 - 2012</th>
<th>Q1 - 2012</th>
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<td>13,723,655</td>
<td>15,097,052</td>
<td>18,111,825</td>
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<td>429,308,051</td>
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<td>III. TOTAL ASSETS</td>
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### EQUITY

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<td>429,308,051</td>
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### I. CURRENT ASSETS

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### II. NON-CURRENT ASSETS

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<td>7,482,880</td>
<td>8,707,888</td>
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### Effective Working Management in Small and Medium Enterprises in Vietnam

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<th>III. TOTAL ASSETS</th>
<th>393,552,988</th>
<th>447,102,414</th>
<th>414,377,405</th>
<th>376,240,281</th>
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<td>190,313,103</td>
<td>189,805,183</td>
<td>132,839,356</td>
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<tr>
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<td>151,177,763</td>
<td>154,276,572</td>
<td>137,274,874</td>
<td>95,384,181</td>
<td>84,971,041</td>
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### Income Statement

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<td>91,017,321</td>
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### Cash flow

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<td>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</td>
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<td>-7,143,365</td>
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<td>4,662,102</td>
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<td>-22,434,571</td>
<td>-29,117,636</td>
<td>-18,156,862</td>
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<td>-27,598,044</td>
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<td>-18,636,373</td>
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<td>53,438,289</td>
<td>25,903,186</td>
<td>25,579,300</td>
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<td>-116,214</td>
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<td>18,203,202</td>
<td>34,918,129</td>
<td>53,438,289</td>
<td>25,903,186</td>
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</tbody>
</table>

**SELLING GENERAL AND ADMINISTRATIVE**

|                      | -31,392,160 | -24,670,790 | -21,284,916 | -34,882,792 | -14,673,940 |

**OPERATING INCOME**

|                      | 15,652,358 | 20,326,965 | 52,606,316 | 41,947,857 | 10,287,392 |

**OTHER REVENUE**

|                      | 11,578,044 | 4,434,616 | 1,618,911 | 1,665,660 | 3,062,851 |

**OTHER COST**

|                      | -3,401,195 | -2,748,380 | -1,971,699 | -953,841 | -2,337,587 |

**OTHER INCOME**

|                      | 8,176,849 | 1,686,237 | -352,788 | 711,819 | 725,263 |

| PROFIT IN OTHER COMPANIES | 29,437 | 206,789 | 0 | 0 | 47,535 |

| INCOME BEFORE TAX | 23,858,644 | 22,219,991 | 52,253,528 | 42,659,677 | 11,060,190 |

| INCOME AFTER TAX | 17,371,989 | 20,359,600 | 40,440,750 | 40,506,874 | 9,877,377 |

| Minority interest | -80,466 | 203,733 | 403,154 | 681,349 | 0 |

| Income after tax of company | 17,291,523 | 20,155,867 | 40,037,596 | 39,825,526 | 9,877,377 |

| EPS | 2 | 3 | 6 | 6 | 1 |
### Appendix 4: Financial reports B-Construction HA BINH PHUONG Company Limited

**Balance Sheet**

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<td><strong>I. CURRENT ASSETS</strong></td>
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<td>1959940030</td>
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<td>Cash</td>
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<td>371678440</td>
<td>123901210</td>
<td>231816400</td>
<td>323267600</td>
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<tr>
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<td>833133320</td>
<td>768128670</td>
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<td>4. Other receivable</td>
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<td>670679000</td>
<td>630100720</td>
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<td>5. Inventory</td>
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<td>95955350</td>
<td>158787890</td>
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<td>4. Long term financial investment</td>
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<td>83161850</td>
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<td>5. Other long term assets</td>
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Income Statement
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Appendix 5: Vietnam Background information

1. Overview on Vietnam geography

**Country name:** Socialist Republic of Vietnam  
**Capital:** Hanoi  
**Geographical location:** (main land)  
- **Longitude:** from 102°09' to 109°30' East  
- **Latitude:** from 8°10' to 23°24' North  

**Mainland area:** 331,690 km²  

Distance (air way) between the Northernmost point and the Southernmost point: 1,650 km  
Distance East-West at max: 600 km (Northern), 400 km (Southern); at min: 50 km (Quảng Bình, Central Part)  
**Population:** more than 80 millions (2002) in which Age structure is female 51%, male 49%.  
**Administrative divisions:** 63 provinces and municipalities (Hanoi, Hồ Chí Minh City, Hải Phòng, Đà Nẵng).

2. Overview on Vietnam economy (by European Chamber of Commerce)

Vietnam is among the best performing economies in the world since the past decade. The economy has been resilient to shocks and negative impacts from SARS, avian influenza, poor weather, high commodity prices, inflation, and anti-dumping suits.

The country introduced the so-called Doi Moi reforms in 1986 to make its transition from a centrally-planned to a „socialist-oriented market economy”. In the early-to-mid 1990s, liberalization measures resulted in rapidly expanding exports and high economic growth, with real GDP growth averaging 9% per year. Between 2001 and 2007 GDP growth was 7.5% on average, reaching 8.5% in 2007. Growth was increasingly driven by the private sector with 59 000 new enterprises being registered in 2007,
which is an increase of 26% when compared to the previous year. Additionally, poverty rates are now less than 20%, down from almost 60% in the early 1990s.

This recent growth is driven by the rising importance of the private sector. Macroeconomic policies in Viet Nam have been generally prudent and key economic balances have been maintained at manageable levels. The Government’s fiscal and monetary stance reflects a determination to not repeat past mistakes that resulted in a short period of hyperinflation in 1992-1996.

**International Trade and Investment**

Vietnam has become increasingly integrated in the world economy, particularly after acceding to the WTO in 2007. The main drivers for growth are exports, and foreign investments have been buoyant in recent years. Main manufacturing exports are garments, footwear, and wood products, reflecting Vietnam comparative advantage of a low-cost but high-quality labor force. As a result, goods and services exports constitute around 80% of GDP, which is two and a half times higher than the 30% recorded in mid 1990s.

Viet Nam's major imports are machinery and spare parts, refined petroleum products, urea, steel ingots, pharmaceuticals, textile and garment inputs, plastics and chemicals. The top five sources of imports in 2008 were China, Singapore, Taiwan, Japan and Korea.

**Economic and Corporate Reform**

Since 2000, Vietnam's Enterprise Law has fostered the creation of over 200 000 registered private domestic enterprises, accounting for around 10% of the economy. Additionally, the Enterprise Law (2005) and Investment Law (2005) are gradually contributing to an improved business environment and a more 'level playing field' in most economic sectors.

As part of its effort to improve the competitiveness of the state corporate sector and maintain the momentum in FDI, Vietnam has undertaken a program to equitise (semi-privatise) the majority of state-owned enterprises (SOEs). The Vietnamese Government also has an ambitious plan to extend the
equitisation process to major state-owned conglomerates in sectors such as banking, insurance, aviation, cement, steel and textiles.

**Business Operating Environment**

Vietnam’s economic strength is based predominantly on the skillful and entrepreneurial young workforce, as well as the country’s membership in a growing network of Free Trade Agreements, both bilateral and multilateral through ASEAN.

However, there are several restrictions on trade and investment in Vietnam, on top of the protection enjoyed by a large number of state-owned enterprises (SOEs) and the 30% cap on foreign ownership in unlisted equitised SOEs. These limitations include: high average tariffs, a lack of transparency and consistency in the legal system, complex taxation and regulations on foreign investment, a high level of corruption especially in infrastructure projects, an underdeveloped state of the financial system, increasingly strained infrastructure that leads to high transport, power and telecom costs, and the emerging shortage of skilled human resources.

The Vietnamese Government is gradually loosening the existing constraints to foreign investment, for example by lifting the foreign ownership limit in listed companies to 49% and in unlisted companies to 40%. The legal system is also in the process of undergoing major changes in order to better align commercial statutes with international norms. Furthermore, the implementation of WTO commitments is gradually contributing to a better operating environment, as tariffs are cut, investment restrictions are loosened still further, and a more transparent and predictable commercial legal and administrative system comes into place. But it will take a few years before the real benefits become visible.

**Looking back at 2010**

In 2010, exports increased by more than 25%, year-on-year, but the trade deficit remained high, prompting the government to consider administrative measures to limit the trade deficit.
Vietnam's managed currency, the Dong, continues to face downward pressure due to a persistent trade imbalance. Since 2008 the government devalued it by 20% through a series of small devaluations.

Foreign donors pledged nearly $8 billion in new development assistance for 2011. However, the government's strong growth-oriented economic policies have caused it to struggle to control one of the region's highest inflation rates, which reached 11.8% in 2010.

Vietnam's economy also faces challenges from falling foreign exchange reserves, an undercapitalized banking sector, and high borrowing costs. The near-bankruptcy and subsequent default of the SOE Vinashin, a leading shipbuilder, led to a ratings downgrade of Vietnam's sovereign debt, exacerbating Vietnam's borrowing difficulties.

**Trade and Economic Indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010(a)</th>
<th>2011(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$bn) (current prices)</td>
<td>61</td>
<td>71.1</td>
<td>90.3</td>
<td>93.2</td>
<td>103.6</td>
<td>111.1</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>2,358</td>
<td>2,606</td>
<td>1,048</td>
<td>1,068</td>
<td>1,156</td>
<td>1,272</td>
</tr>
<tr>
<td>Real GDP growth (% change yoy)</td>
<td>8.2</td>
<td>8.5</td>
<td>6.3</td>
<td>5.3</td>
<td>6.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Current account balance (US$m)</td>
<td>-164</td>
<td>-6,992</td>
<td>-10,787</td>
<td>-7,440</td>
<td>-8,510</td>
<td>-9,162</td>
</tr>
<tr>
<td>Trade balance (US$ m)</td>
<td>-2,776</td>
<td>-10,438</td>
<td>-12,782</td>
<td>-8,307</td>
<td>-7,735</td>
<td>-8,138</td>
</tr>
<tr>
<td>Services Balance (US$ m)</td>
<td>-8</td>
<td>-755</td>
<td>-915</td>
<td>-1,230</td>
<td>-948</td>
<td>-1,133</td>
</tr>
<tr>
<td>Consumer prices (end-period; %)</td>
<td>6.6</td>
<td>12.6</td>
<td>20</td>
<td>6.5</td>
<td>11.8</td>
<td>18.7</td>
</tr>
</tbody>
</table>
Vietnam’s ranking in the Doing Business Index 2011

The Doing Business Index provides a ranking of countries based on indicators that assess regulatory system, and how they impact the ease or difficulty of doing business.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business</td>
<td>78</td>
</tr>
<tr>
<td>Starting a business</td>
<td>100</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>62</td>
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<tr>
<td>Registering Property</td>
<td>43</td>
</tr>
<tr>
<td>Getting credit</td>
<td>15</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>173</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>124</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>63</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>31</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>124</td>
</tr>
</tbody>
</table>