Journal of Research Administration
Society of Research Administrators International

FINANCIAL CAPAPBILITY OF SMALL AND MEDIUM ENTERPRISES: CAPACITY FOR USING CAPITAL

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Abstract
This study aims to understand the financial capapbility of small and medium-sized enterprises in terms of capacity for using capital. The authors use both qualitative research methods and quantitative research methods. The survey subjects were employees of SMEs in Hanoi. The results show the financial capapbility of small and medium-sized enterprises in terms of capacity for using capital, including revenue, profit, profitability ratio (ROA, ROE, ROS), and a survey on the capacity for using capital of SMEs. Of which, in 2022, revenue will reach 9.6 million billion VND, an increase of 18.52% compared to the previous year and the highest in the period 2018–2022. In 2022, medium-sized enterprises will have pre-tax profits at their highest, reaching 35.4 trillion VND, an increase of 108.1% compared to 2018. This is a year of outstanding development for medium-sized enterprises in this period. In the period 2018–2022, the return on assets (ROA) and return on equity (ROE) of SMEs are proportional to the scale of the firm. The profit margin on revenue (ROS) of SMEs in the period 2018–2022 tends to increase gradually with scale. The debt index of the surveyed firms has a value of 0.67, less than 1 (<1), showing that the majority of assets of these firms are funded by debt; only 33% are funded by equity.

Keywords: Business administration, business performance, financial capapbility, capacity for using capital, small and medium enterprises (SMEs)
JEL codes: M10, L66, M21, L25, D24, F65

1. INTRODUCTION

Capital is an economic category, a prerequisite for any enterprise, economic and technical profession, or service in the economy. Capital is the key—the means to turn business ideas into reality. Effective use of capital will contribute to determining the success or failure of a firm because firms in general and small and medium-sized enterprises in particular are all interested in capital and improving their capacity to use capital. During the operation of a firm, short-term and long-term capital needs often arise for regular business activities as well as for investment and development activities of the firm. Lack of capital will make firm operations difficult or impossible. Therefore, ensuring that firm activities are carried out normally and continuously depends greatly on the organization of mobilization and the ability to use capital in the most effective way.

The 4.0 industrial revolution is taking place, the whole society is implementing digital transformation, and with the trend of integration and globalization of the economy, competition between firms, especially between small and medium-sized enterprises in the countries and foreign firms, is extremely strong. In addition, due to the negative impact of the world economic crisis, raising capital to maintain the operations of firms in Vietnam in general and small and medium-sized enterprises in particular faces many difficulties. Therefore, to be able to compete and survive in the market, using capital economically and effectively plays a vital role for every firm.

In recent years, Vietnamese small and medium-sized enterprises (SMEs) have shown their contribution to the country's economic development. However, one of the weaknesses of SMEs is their limited ability to use capital compared to large enterprises. Therefore, this study is necessary for research and has both scientific and practical significance.

2. LITERATURE REVIEW AND THEORETICAL BASIS

Tim Ogier, John Rugman, and Lucinda (2004) research capital management techniques to make effective financial decisions. The capital management mechanisms of enterprises include mechanisms for mobilizing and creating business capital; mechanisms for using business capital; mechanisms for distributing the capital income of enterprises; and mechanisms for inspection and supervision of financial operations corporations.

Walter Kruz, Alex Stratigakis, and Gerald Hunt (2006) clearly point out the importance of capital and asset management in firms. Effectively managed capital and assets ensure the survival and development of the firm. Capital use efficiency is a measure to evaluate the management capacity, competitiveness, and development ability of an enterprise.

The business capital of an enterprise is the monetary expression of the entire value of assets mobilized and used in production and business activities for the purpose of making a profit (Nguyen Dinh Kiem and Bach Duc Hien, 2008).

Dam Van Hue (2010) presents the contents of improving the efficiency of capital use for small and medium enterprises in a developed market economy.

Phan Duc Dung (2011) analyzes indicators to evaluate the business performance of enterprises, including analysis of production and business factors related to capital use efficiency such as fixed assets, raw material factors, consumer goods factors, cost items, etc., thereby helping administrators make immediate and useful decisions and at the same time forecast the future business situation.

Cao Van Ke (2015) researched the efficiency of capital use of construction enterprises in Vietnam today and also proposed solutions to improve the efficiency of capital use of enterprises in the context of the industry market depressed, tightened credit policy, and cut public investment by the government.

Based on the circulation characteristics of capital when participating in the production and business processes Accordingly, capital is divided into two types: fixed capital and working capital. Bhattacharya (1997) uses three different indices to measure working capital efficiency: (i) PI (performance index); (ii) UI (utilization index); and (iii) EI (efficiency index). Ghosh & Majji

(2004) applied the model of Bhattacharya (1997) to build a working capital efficiency index in the Indian cement industry with research data collected during the period 1992–1993 to 2000–2002. This set of indicators was also used by Harsh Vineet (2014) in his study of the working capital efficiency of units operating in the health care sector in India.

Inheriting the results of the above studies and the opinions of interviewed experts, we analyze and evaluate the financial capacity of small and medium-sized enterprises with the aspect of capital use capacity, including the following contents: revenue, profit, profitability ratio (ROA, ROE, ROS), and a survey on the capital use capacity of SMEs.

3. RESEARCH METHODS

3.1. Qualitative research

Based on the results of previous studies, this study was conducted to understand the financial capacity of small and medium-sized enterprises in the aspect of capital use capacity, including the following contents: Revenue, profit, and profitability ratio (ROA, ROE, ROS). The authors conducted interviews with five heads or deputy heads of finance departments of small and medium-sized enterprises in Hanoi and also interviewed three lecturers with expertise in finance from universities such as National Economics University and Hanoi University of Business and Technology. The results of the criteria reflecting the capacity to use capital of SMEs are maintained.

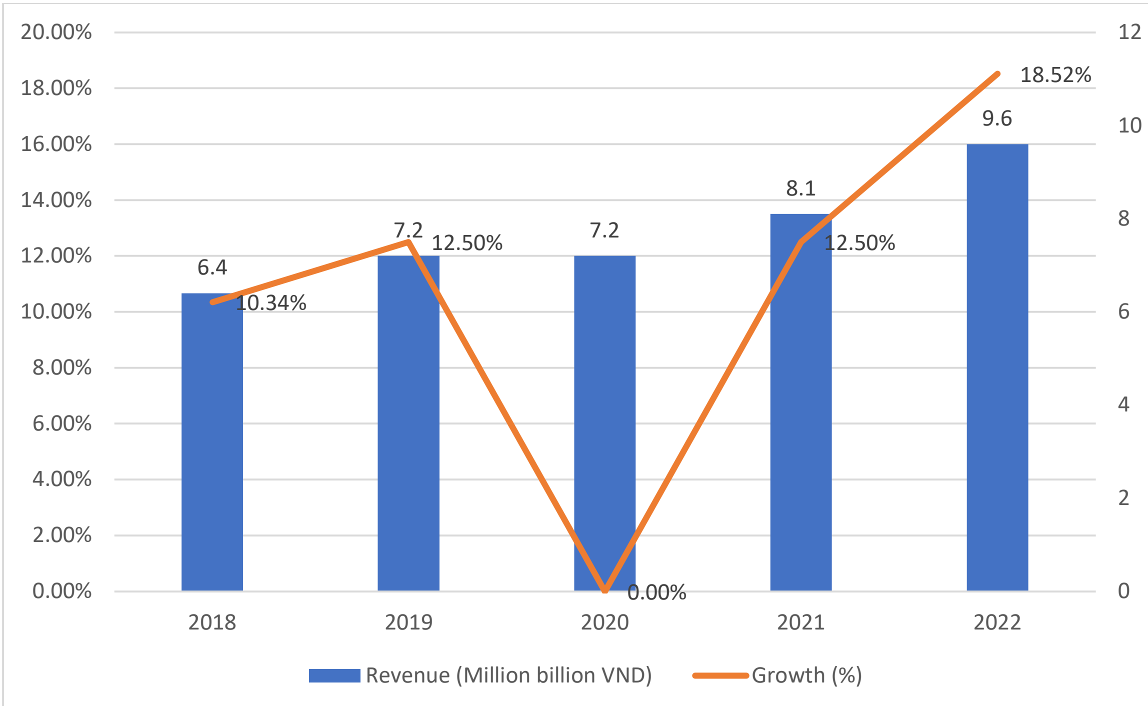
3.2. Quantitative research

The survey subjects were employees working at SMEs in Hanoi. The sample was selected by the convenience method, with 350 valid questionnaires obtained. Respondents directly fill in their answers to the questionnaire and immediately return it to the surveyor or answer online. Implementation time is from February 2024 to April 2024. The data processing method is based on Excel software with statistics and comparison.

4. RESEARCH RESULTS

4.1. Revenue of small and medium enterprises in the period 2018–2022

Figure 1: Revenue of SMEs in the period 2018–2022



Source: General Statistics Office and author's calculations

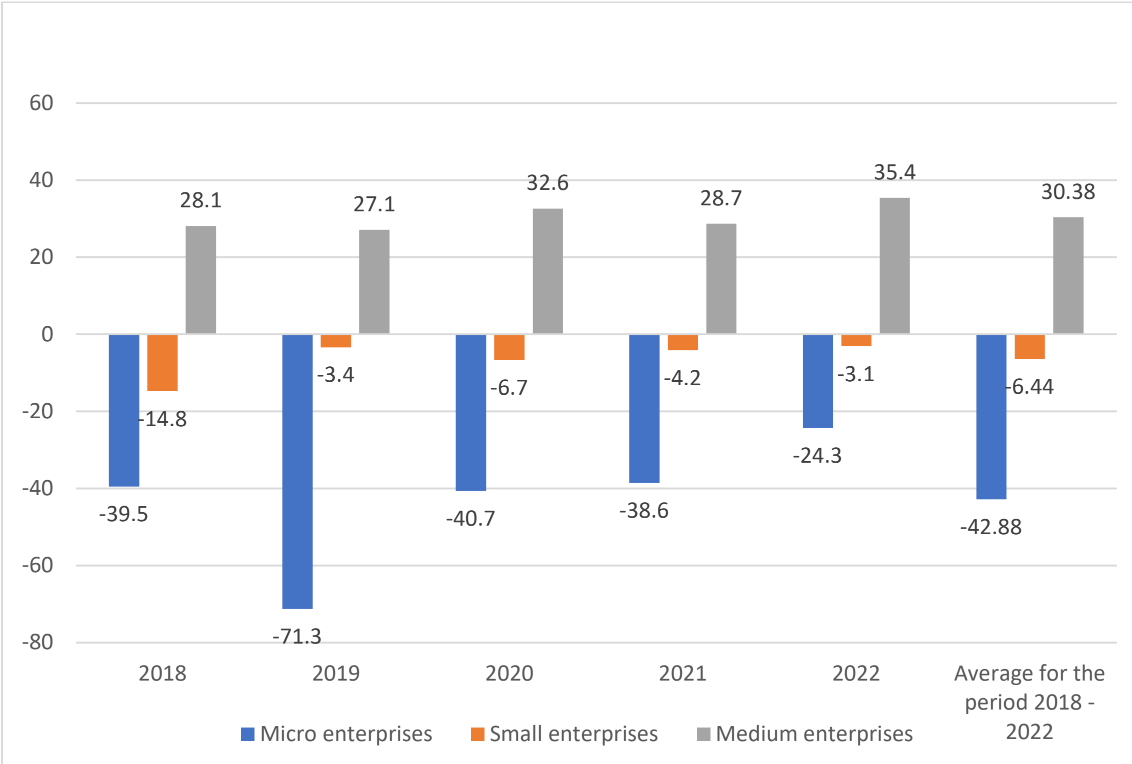
In the period 2018–2022, the average revenue of SMEs with production and business results was 7.7 million billion VND. The average revenue growth rate in this period was 10.77%. Specifically, in 2018, the revenue of SMEs reached 6.4 million billion VND; in 2022, the revenue reached 1.5 times that of 2018, which was 9.6 million billion VND. The average revenue growth rate reached 10.30%.

In 2020-2021, although firms in general and SMEs in particular are affected by the COVID-19 epidemic, thanks to the government's timely support policies and the firms' own improvisation plans, the revenue of this firm sector remains unchanged, reaching 7.2 million billion VND in 2020 and increasing slightly to 8.1 million billion VND in 2021. By 2022, the business situation of SMEs seems to have improved. more than when revenue reached 9.6 million billion VND, an increase of 18.52% compared to the previous year, the highest in the period 2018–2022.

4.2. Profits of small and medium enterprises in the period 2018–2022

Unit: Thousand billion VND

Figure 2: Profits of SMEs in the period 2018–2022.



Source: General Statistics Office and author's calculations

Figure 2 shows that micro- and small-scale enterprises generally tend to operate inefficiently in the period 2018–2022, when these two groups of enterprises continuously make losses, especially very small-scale enterprises. Although the number of microenterprises accounts for the largest proportion among SMEs, this group of firms has the most losses in business results. On average, in the period 2018–2022, this group of firms lost 42.88 billion dong. Especially in 2019, micro-sized enterprises lost up to 71.3 trillion VND. Small-scale enterprises also operate inefficiently, with an average loss of VND 6.44 trillion in the period 2018–2022, of which in 2018 this group of enterprises had the largest loss of VND 14.8 trillion. However, this loss figure is not necessarily declared accurately because micro- and small-scale enterprises tend to report losses to receive support from the government and do not have to pay corporate income tax.

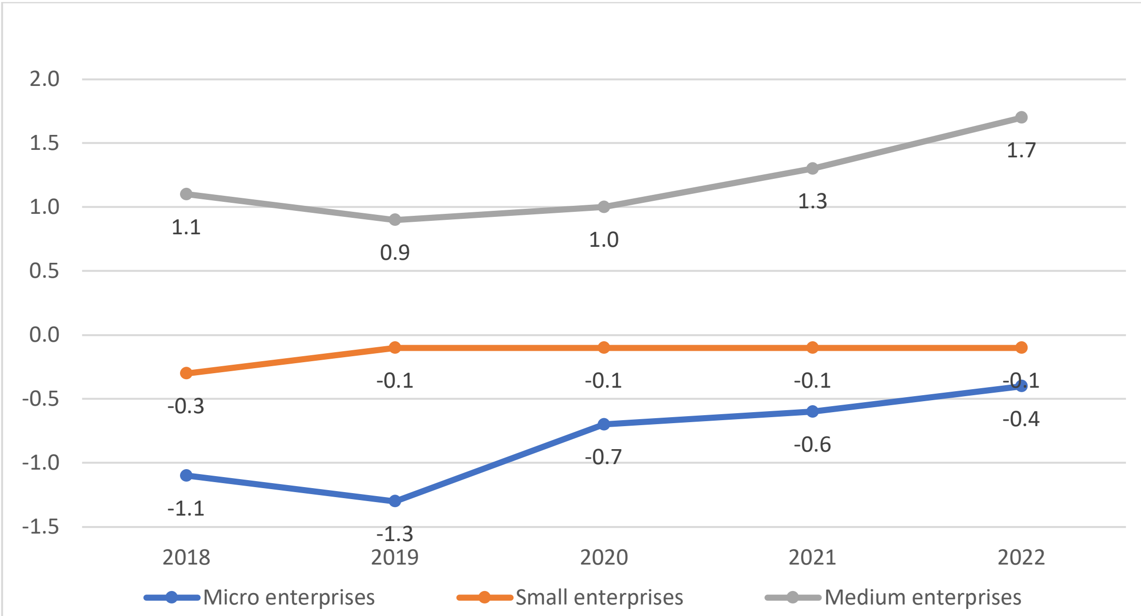
In the SME sector, only medium-sized enterprises are profitable when the average pre-tax profit in the 2018–2022 period reached 30.38 trillion VND, an increase of 189.8% compared to the previous 2014–2017 period (reaching 16 trillion VND). In particular, in 2022, medium-sized enterprises will have the highest pre-tax profits, reaching 35.4 trillion VND, an increase of 108.1% compared to 2018. This is a year of outstanding development for enterprises with medium-scale operations during this period. The reason may be that firms have returned to normal operations after a period of hardship due to the COVID-19 epidemic.

Most SMEs operate inefficiently on their books and financial reports; however, as mentioned above, pre-tax profit statistics do not accurately reflect the level of operating efficiency of SMEs because this is a firm trick to exempt corporate income tax payable to the state budget.

4.3. Profit rate

Rate of return on assets (ROA)

Figure 3: Return on assets (ROA) of SMEs in the period 2018–2022.



Source: General Statistics Office and author's calculations

In the period 2018–2022, the return on assets (ROA) of SMEs is proportional to the scale of the firm. Small- and micro-scale enterprises with negative ROA show that the efficiency of exploiting the enterprise's assets is not high, requiring measures and plans to improve in the future.

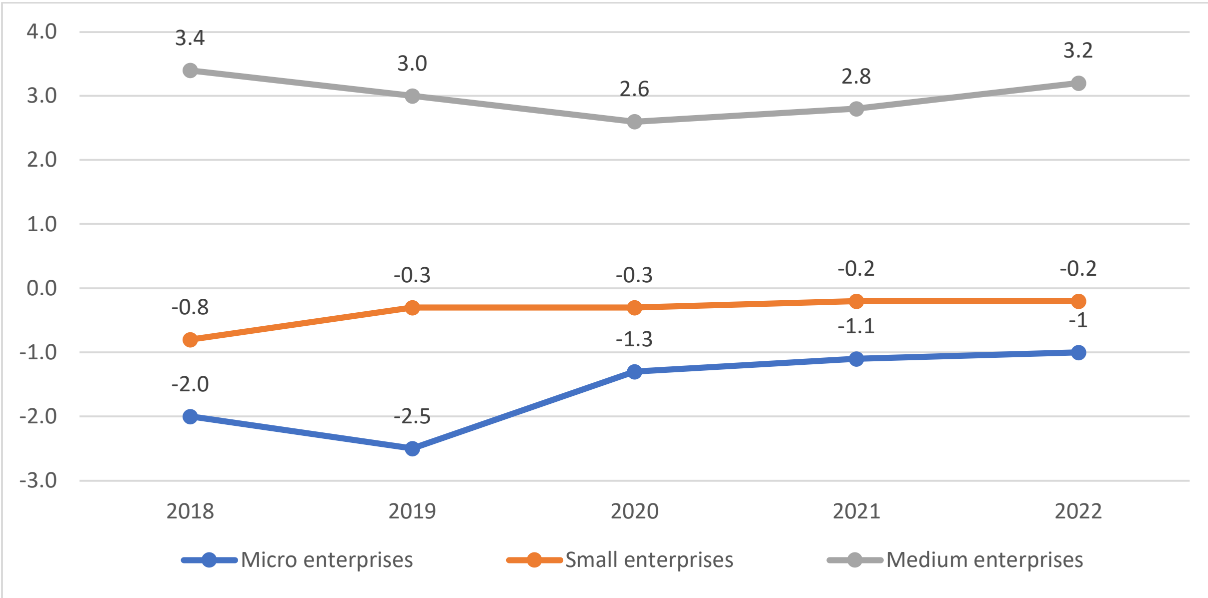
Although the ROA of micro-sized enterprises is still negative, it has tended to increase from -1.1 in 2018 to -0.4 in 2022, showing that this group of enterprises has an effective plan to exploit assets more effectively after 5 years.

The ROA of small enterprises has been stable over the years, always at -0.3 to -0.1, showing that this group of firms knows how to exploit assets more effectively than the group of micro-sized enterprises but still needs improvement in the future.

The ROA of medium-sized enterprises tends to increase. In 2018, ROA reached 1.1, decreased to 0.9 in 2019, slightly inched up to 1.0 in 2020, and continued to increase to 1.7 in 2022. ROA is always positive and tends to be higher than 1.0, showing that the group of medium-sized enterprises has exploited assets effectively, but this efficiency is not high and needs to be improved further in the next period.

Return on equity (ROE)

Figure 4: Return on equity (ROE) of SMEs in the period 2018–2022.



Source: General Statistics Office and author's calculations

In the period 2018–2022, similar to the return on assets (ROA), the return on equity (ROE) of SMEs is also proportional to the size of the firm; the larger the firm, the higher the ROE, and vice versa.

The ROE of micro- and small-scale enterprises always reaches negative values during this period, showing that the enterprise is making a negative loss even on its equity. The ROE of micro-sized enterprises is the lowest, always below -1.0; especially in 2019, the ROE of this group of enterprises was at -2.5, showing that micro-enterprises are continuously losing money and heavily negative on equity. However, by 2022, the ROE of microenterprises will reach -1.0, showing that this group of firms is making efforts to gradually improve production and business results to reduce losses.

The ROE of small enterprises tends to stay at -0.2 for two consecutive years, 2021 and 2022. This group of firms has ROE at this level, while in 2018, ROE only reached -0.8. . Although there are still losses, the above results show that the group of small enterprises is gradually having better production and business results.

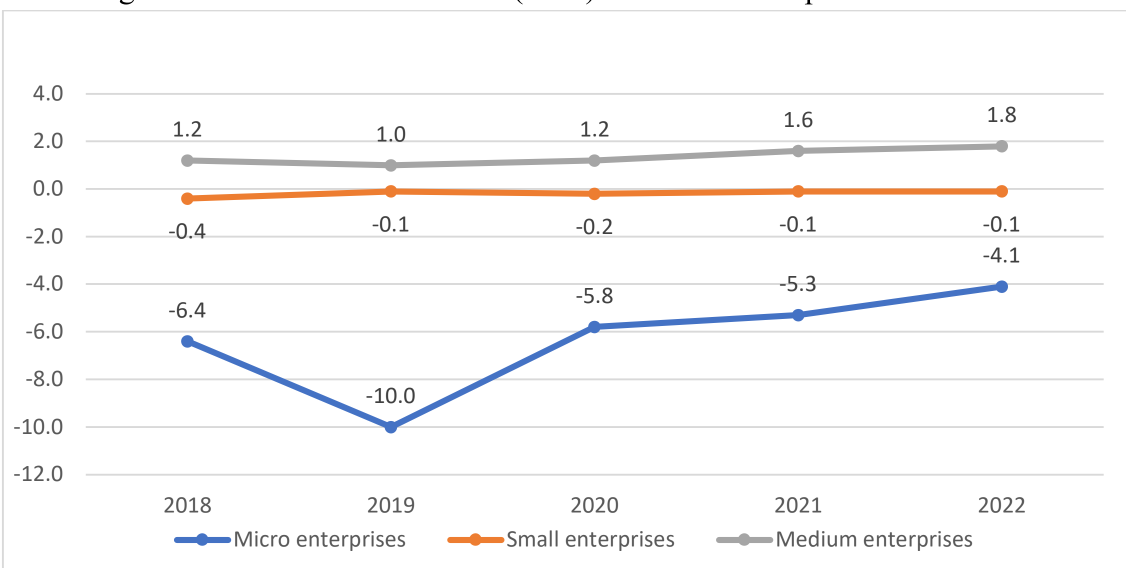
In contrast to small- and micro-sized enterprises, medium-sized enterprises have a positive ROE and tend to decrease over the years. The enterprise's ROE peaked at 3.4 in 2018 and reached the bottom at only 2.6 in 2020, then gradually recovered to 3.2 in 2022. This result shows that the group of medium-sized enterprises is effectively using their equity capital, and firms are operating with high profits compared to equity capital, but the level of operational efficiency is significantly affected by the global epidemic, and this group of firms is gradually restoring production after the period of the epidemic is full of difficulties.

Return on sales (ROS)

The profit margin on revenue (ROS) of SMEs in the period 2018–2022 tends to increase gradually with scale. Micro-sized enterprises have the lowest ROS when they are always at a negative level, below -4.1. Especially in 2019, the ROS of the micro-enterprise group decreased to the bottom at -10.0, meaning that even though this group of enterprises has high revenue, it suffers a lot of losses. This is not only a paradox with the group of micro-sized enterprises but also happens with the group of small-scale enterprises. Similar to microenterprises, small enterprises also lose money; however, the ROS of this group of firms fluctuates from -0.4 to -0.1. That shows that profits still have the ability to improve from negative to positive in the future when properly cared for and invested.

The ROS of medium-sized enterprises, although greater than zero (positive level), is not high, only fluctuating around 1.0 to 1.8, which shows that the profits of medium-sized enterprises are not high. Firms are not efficient; operating costs are still high, causing high revenue but low profit. This group of firms needs to pay attention to improving, cutting, and optimizing operating costs to achieve higher production and business performance.

Figure 5: Profit ratio on revenue (ROS) of SMEs in the period 2018–2022.



Source: General Statistics Office and author's calculations

4.4. Survey results on the capital use capacity of SMEs

Table 1: Estimated business performance in 2022 for the surveyed firms

Indicators	Micro enterprises		Small enterprise		Medium enterprise		Total	Rate
	Quantity	Rate	Quantity	Rate	Quantity	Rate		
Profit	13	8.13%	17	15.32%	43	54.43%	73	20.86%
Break even	8	5.00%	27	24.32%	23	29.11%	58	16.57%
Loss	139	86.88%	67	60.36%	13	16.46%	219	62.57%
Total	160	100,00%	111	100.00%	79	100.00%	350	100.00%

Source: Authors compiled from survey results

Survey results of 350 SMEs, including 160 micro-sized enterprises, 111 small-scale enterprises, and 79 medium-sized enterprises, show that, out of 160 micro-sized enterprises, 13 firms are estimated to be profitable in 2022, accounting for 8.13%; 8 firms had break-even business results, accounting for 5.00%; and 139 firms had business losses, accounting for 86.88%.

Among the 111 small-scale enterprises, 17 are profitable, accounting for 15.32%; 27 are break-even enterprises, accounting for 24.32%; and 67 enterprises have reported losses, accounting for 60.36%.

In the group of medium-sized enterprises, the business situation in 2022 seems to be more positive when 43 out of 79 surveyed enterprises responded that their business is profitable; 13 firms correspond to 29.91% of break-even businesses, and 13 firms lose money, accounting for 16.46%.

Overall results show that out of 350 surveyed businesses, 73 have profitable business performance, accounting for 20.86%; 58 have break-even business performance, accounting for 16.57%; and 219 have loss-making business performance, accounting for 62.57%.

Thus, when an enterprise makes a loss, especially a micro-sized enterprise with limited equity capital, it greatly affects the enterprise's solvency.

Table 2: Estimate some financial indicators of the surveyed firms.

Indicators	Estimate value
Debt index	0.65
Financial leverage index	3.03
Gross profit margin	-2.7

Source: Authors compiled from survey results

The debt index of the surveyed firms has a value of 0.67, less than 1 (<1), showing that the majority of assets of these firms are funded by debt; only 33% are funded. by equity. Proving that firms have been using financial leverage effectively. However, a high debt index represents a large debt burden, which can lead to insolvency.

Financial leverage index: This indicator is determined by the average total assets divided by the average owner's capital. This index represents the relationship between equity and loan capital. This index is equal to 3.03; that is a normal level, proving that the firm has the ability to be financially independent, but this ability is not high, and it does not know how to take advantage of the many advantages of main leverage.

The average gross profit margin of the group of firms surveyed was negative, showing that in 2022, the above group of firms in general did not do business effectively. The reason may be due to the impact of the government's blockade and distancing measures to prevent the COVID-19 epidemic. The government's SME support packages this year have not been promptly delivered to firms, leading to firms still facing many difficulties in production and business activities as well as financial activities.

5. DISCUSSION AND RECOMMENDATIONS

To improve financial capacity in terms of capital use capacity, one solution is to improve production and business capacity by building a capital financing strategy suitable for SMEs to increase sources of capital.

For SME financial administrators, the issue of building a capital financing strategy to both meet the capital needs of the business process and create conditions to improve the efficiency of capital use for the firm is the most important. Because the choice of capital sources to form assets involved in the firm's operations greatly affects the financial structure of the firm, that affects financial risks, the ability to survive, and firm development, strongly impacting the financial capacity of SMEs. In reality, choosing a source of mobilized capital to establish a reasonable financial structure always faces complex problems, requiring consideration of capital sources in their mutual interaction. Regardless of the choice of capital source and form of mobilization, there are certain conflicts related to determining capital mobilization options for firms. However, each firm has its own characteristics, so making decisions on choosing capital sources and forms of capital mobilization is not completely the same but changes depending on conditions in the economy, the business industry, and the bravery of enterprise administrators. Although administrators have certain rights to adjust the financial structure, they are still limited by the different nature of each mobilized capital source. Therefore, there is no general template for making decisions on choosing capital sources and capital mobilization methods.

Creating and improving the business environment: Improving the business environment helps SMEs minimize costs during production and business activities, thereby improving operational efficiency and capacity in their finances. In particular, attention should be paid to the following topic groups: Promoting administrative reform and improving the effectiveness and efficiency of the state management apparatus for SMEs. Promote administrative reform to create favorable conditions for SMEs to establish and operate businesses, reduce costs so that businesses can focus resources on production and business development, and at the same time create favorable conditions for businesses. for the implementation of state policies and regulations for firms. Especially at the provincial and city levels, it is necessary to consolidate, consolidate, and reorganize the administrative apparatus at all levels, resolutely eliminating unnecessary units and intermediaries, combined with reducing borders.

It should improve the functions, tasks, powers, and responsibilities of administrative management organizations and units at all levels, overcome and gradually eliminate duplication or gaps in management and administration, clarify the responsibilities of the head of each organization, and have a strict reward and punishment mechanism. An effective and specific mechanism should be built on legal responsibility between individuals and groups—between individuals with authority in the state management apparatus and citizens. Gradually separate the currently confused functions, which are the state economic management function from the production and business management function and the administrative function from the public service function, to delineate and clarify the different legal regulations for different types of agencies (such as state administrative management agencies, non-business administrative management agencies, and revenue-generating non-business administrative agencies), in order to build a strong administrative system that is clean and transparent.

Localities should research the establishment of a number of organizations to serve the requirements of developing the market economy and expanding international economic integration, such as arbitration organizations, forecasting centers, trade promotion centers, and trade promotion centers. investment promotion and technology transfer. Implement administrative decentralization and assign proactive authority to the grassroots, along with strengthening inspection and supervision of provinces and cities. Consolidate, perfect, and clean up the organization. Improve the management and administration effectiveness of governments at all levels and the quality of the judicial apparatus, inspection and investigation agencies, and judicial support organizations. Develop and effectively implement inter-level and inter-sectoral coordination mechanisms to solve common local tasks and overcome the situation of division, dispersion, overlap, both wastefulness and ineffectiveness in Implement socio-economic development tasks. Stabilize the economic situation, control inflation, stabilize exchange rates, etc. to create favorable conditions for the business operations of SMEs.

ACKNOWLEDGEMENT

Thank you, editors and friends, for supporting this publishing.

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