

Evaluation of Financial Capacity of Small and Medium Enterprises in Hanoi



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ABSTRACT: The main objective of this study was to identify, evaluate, and to measure the attributes of financial capacity through the qualitative indicators of small and medium enterprises (SMEs) in Hanoi. The study was based on a field survey using a semi-structured questionnaire on a sample of 150 accountants. But, only 115 filled questionnaires were satisfactory and therefore included in the analysis. By using several statistical analytical tools, i.e. descriptive statistics, Cronbach's Alpha analysis, T-test, and Anova, the study has identified and measured four (4) attributes of financial capacity through qualitative indicators of SMEs in Hanoi that have great effects on SMEs. There is, statistically, significant difference in the level of financial capacity through qualitative indicators of SMEs in Hanoi from these different work experiences. There is not, statistically, significant difference in the level of financial capacity through qualitative indicators of SMEs in Hanoi between the mentioned three groups of job description. Based on the findings, some recommendations are given for SMEs to improve financial capacity.

KEYWORDS: financial capacity; qualitative indicators; finance; accounting; SMEs

JEL code: F65, M41

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) played a very important role in each country's economy, including countries with a high level of development (Liu, 2012). In Hanoi, since May 2018, there have been a total of 232,000 enterprises in Hanoi city, of which, the number of small and medium-sized enterprises accounts for over 97%, contributing more than 40% of GDP to the city; creating jobs for more than 50% of workers (Van Ha, 2018). However, SMEs had difficulty in capital, as well as access to credit (Thuy & Cuong, 2016).

In SMEs' activities, to achieve the set purposes, there was a need for an adequate financial capacity (Anh, 2018). Financial capacity indicator was considered as the top criterion when people evaluated firm performance of operating enterprises, demonstrated the general financial capacity of enterprises, assessed whether enterprises were currently operating well and having advantages or being at risk, losing money (Phuong & Chi, 2020). It was also one of the factors affecting banks' providing services to SMEs.

Financial capacity of each SME had a certain limit that stemmed from the domination of the important factors making up enterprises and external factors (Anh, 2018). However, Financial capacity is always a matter of concern in the operation of an enterprise (Hung, 2019).

Therefore, the assessment financial capacity of SMEs in Hanoi is necessary and meaningful to improve the financial capacity, to help SMEs easily access credit, improve business capital, thereby contributing to improving business efficiency, improve competitiveness, step by step integrate into the world.

2. LITERATURE REVIEW

Financial capacity of the enterprise was shown by the value and structure of capital sources, assets, and liabilities (Ha, 2010).

Giang and Dung (2018) said that, assessing financial capacity was done through analyzing the financial situation of the enterprise to see the results and efficiency of financial activities, investment activities as well as all business activities that the enterprise was conducting. SMEs used two (2) criterion groups of financial capacity: qualitative criteria and quantitative criteria, in which, the group of qualitative criteria included: competitive position of enterprises, level of industry risk, operating environment of enterprises, management capacity of production and business activities (Anh, 2018)

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Nhat (2020) affirmed that the financial capacity of the enterprise positively affected the credit quality of banks, in which the financial capacity of the enterprise included 5 attributes (indicators): (i) capital equity of the enterprise, (ii) the company's charter capital, (iii) the enterprise's bank loans, (iv) the ability to repay the company's bank loans, and (v) the annual profit of the enterprise.

The analysis of financial capacity of enterprises was not only limited to financial resources to ensure business performance for enterprises, but also showed through the ability to exploit, manage and use limited resources to serve the most effective service for business activities. Moreover, the financial capacity, in addition to showing the current strength of enterprises, showed the potential financial strength, prospects and development trends in the future plans of enterprises (Phuong & Chi, 2020).

Following the above studies, we summarize the attributes of financial capacity through the qualitative indicators of SMES in Table 1 as followed:

Table 1: Attributes of financial capacity through the qualitative indicators of SMEs in Hanoi

Code	Scale	Sources
Financial capacity through the qualitative indicators of SMEs in Hanoi (FCTQI)		
FCTQ1	Competitive position of the enterprise	Anh (2018), Phuong and Chi (2020).
FCTQ2	Enterprises are proactive about the level of industry risks	
FCTQ3	Business environment of the enterprise	
FCTQ4	Management capacity of production and business activities of enterprises	

3. RESEARCH SUBJECT AND METHODOLOGY

Research Subject: The subject of this research is financial capacity through the qualitative indicators of SMEs in Hanoi.

Qualitative Research Methodology:

This research used a qualitative research methodology based on some in-depth interviews with three (3) lecturers with extensive experiences in accounting in SMEs of the National Economics University and University of Labor and Social Affairs. These are the two leading universities in Vietnam in training accounting and finance. At the same time, three (3) experts were also interviewed who are chief accountants in SMES in Hanoi. The contents of the interviews focused on the subject of financial capacity through the qualitative indicators' attributes of SMEs in Hanoi.

Quantitative Research Methodology

For the purpose of this research, a questionnaire was designed which consisted of four (4) variables with a 5-point Likert scale from 1: "The worst" to 5: "The best". The method of data collection was accomplished through the survey with a number of accountants in SMEs in Vietnam. A total of 150 questionnaires were sent and received the filled questionnaires with full information for data entry and analysis from 115 respondents. The size of this sample was consistent with study of Hair et al. (1998) that the research sample must be at least 5 times the total number of indicators in the scales. The questionnaire of this study included four (4) indicators, and therefore, the minimum sample size to be achieved is $4 * 5 = 20$ observations. Then, data from these 115 questionnaires was cleaned and coded with the necessary information in the questionnaires, inputted the analyzed by using SPSS23.

The steps of data analysis were as follows:

- (i) Descriptive statistics,
- (ii) Cronbach's Alpha to assess the reliability of the scale, and
- (iii) Independent T-test and ANOVA.

4. RESEARCH RESULTS

4.1. Descriptive Statistics

Information of data collected is shown in Table 2. It shows that among the 115 respondents, about 26.1% were male while the remaining 85 (73.9%) were female. Of these, 71 of them (or 61.7%) are 27 years old or younger, and 38.3% of the participants were over 27 years old. Among the respondents, accounting staffs accounted for 46.1%, general accounting accounted for 26.1%, while the remaining 27.8% or 32 respondents were chief accountant. Of these, 53.9% of the participants have work experiences for 5 years or less, and over 5 years accounted for 46.1%. Among the respondents, 38 respondents worked for SMEs with industry and construction sectors, accounted for 33.0% and 77 respondents worked for commercial and service enterprises, accounted for 67.0%.

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Table 2. Respondents by Gender, Age, Job Description, Work Experience, Business areas

	Frequency	Percent	Cumulative Percent
Gender			
Male	30	26.1	26.1
Female	85	73.9	100.0
Age			
To 27 years old	71	61.7	61.7
Over 27 years old	44	38.3	100.0
Job description			
General accountants	30	26.1	26.1
Chief accountants	32	27.8	53.9
Accounting staff	53	46.1	100.0
Work experience			
To 5 years	62	53.9	53.9
Over 5 years	53	46.1	100.0
Business areas			
Industry and construction	38	33.0	33.0
Commercial and service	77	67.0	100.0
Total	115	100.0	

Next, Table 3 indicates that the respondents agree with the dependent variables of “financial capacity through the qualitative indicators of SMEs in Hanoi” where four attributes were quite high with an average of 3.830 compared with the highest of the Likert 5-point scale. All 4 attributes were rated at an average of 3.783 or higher.

Table 3. Descriptive Analysis of Attributes of financial capacity through the qualitative indicators of SMEs in Hanoi

	N	Minimum	Maximum	Mean	Std. Deviation
FCTQI1	115	2.0	5.0	3.800	.6516
FCTQI2	115	2.0	5.0	3.783	.6726
FCTQI3	115	3.0	5.0	3.887	0.542
FCTQI4	115	3.0	5.0	3.852	0.566
Valid N (listwise)	115			3.830	

4.2. Cronbach's Alpha

Financial capacity through the qualitative indicators of SMEs in Hanoi has been measured by the Cronbach's Alpha. Results of testing Cronbach's alpha of attributes are presented in Table 4 below. The results also show that attributes of the dependent variables have Cronbach's Alpha coefficients that are greater than 0.6, and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the dependent variables are statistically significant (Hair et al, 2010; Hoang & Chu, 2008).

Table 4. Results of Cronbach's Alpha Testing of Attributes

Cronbach's Alpha	N of Items			
.658	4			
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
FCTQI1	11.522	1.831	.388	.626
FCTQI2	11.539	1.584	.533	.606
FCTQI3	11.435	2.037	.393	.619
FCTQI4	11.470	1.918	.448	.618

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4.3. Independent T – test

Comparison of the results of the evaluation of financial capacity through the qualitative indicators of SMEs in Hanoi between participants have work experiences for 5 years or less with those over 5 years can be seen in Table 5. According to the results shown in Table 5, Sig Levene's Test is 0.263, which is more than 0.05. The variance between the two 5 years or less and over 5 years work experiences is not different. Moreover, Sig value T-Test = 0.029 < 0.05, which means that there is, statistically, significant difference in the level of financial capacity through the qualitative indicators of SMEs in Hanoi from these different work experiences (Hair et al, 2010; Hoang & Chu, 2008).

Table 5. Differences of financial capacity through the qualitative indicators of SMEs in Hanoi between Participants 5 years or less work experiences and over 5 years work experiences - Independent Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
FCTQI	Equal variances assumed	1.266	.263	-2.214	113	.029	-.17453	.07885	-.33074	-.01832
	Equal variances not assumed			-2.205	108.479	.030	-.17453	.07913	-.33138	-.01768

4.4. ANOVA

ANOVA test was needed to make a comparison of the results of the evaluation of financial capacity through the qualitative indicators of SMEs in Hanoi between the three subjects, including accounting staff, general accounting and chief accountant. Table 7 shows that Sig Levene Statistic of 0.518 is more than 0.05, which means that the hypothesis of homogeneity variance among the variable value groups (different job descriptions) has not been violated. Table 8 shows that, Sig. = 0.130 is more than 0.05, which indicates that there is no, statistically, significant difference in the level of financial capacity through the qualitative indicators of SMEs in Hanoi between the mentioned three groups of job descriptions (Hair et al, 2010; Hoang & Chu, 2008).

Table 7: Test of Homogeneity of Variances

FCTQI

Levene Statistic	df1	df2	Sig.
.662	2	112	.518

Table 8: ANOVA

FCTQI

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.750	2	.375	2.079	.130
Within Groups	20.194	112	.180		
Total	20.943	114			

5. DISCUSSION AND IMPLICATIONS

Competitive position of the enterprise

The fact that Vietnam is a member of international economic organizations such as the Association of South East Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ASEAN Economic Community (AEC), Free Trade Agreement (FTA), etc. has

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pushed Vietnam to integrate into the international economy. However, when Vietnam joins many international economic organizations, the competitive environment will become increasingly fierce. SMEs have to compete with competitors in international markets and with foreign enterprises. Therefore, it is really necessary to define and improve the competitive position of SMEs.

Product quality and product price are effective tools to improve the competitiveness of SMEs. These two tools have a close relationship. If products of SMEs with guaranteed quality at an affordable price make the market accept, the competitiveness of enterprises will be high. Therefore, SMEs need to base on the characteristics of the market, products, and customers, etc. to make a decision on price or on product quality. For price decisions, experts say, SMEs need to focus all their efforts to achieve the lowest cost of production and distribution, so they can lower prices than their competitors and achieve a large market segment. SMEs pursuing this strategy need to be good at sourcing, manufacturing, and distributing and need less marketing techniques. For product decisions, experts say, SMEs need to focus on creating a unique product and marketing program, creating customer satisfaction in an important area of interest that the market appreciates or SMEs should strive to occupy a leading position in service or product quality or design or technology. In addition, according to experts, SMEs need to focus on making deals with a few market segments rather than chasing the entire market; SMEs must understand the unique needs of each target market and strive for a leading low-cost position or other standout features in that target market.

Enterprises are proactive about the level of industry risks

Due to the limited size and limited resources, the risk management capacity of SMEs is still limited, the financial and accounting systems are inadequate, and there is a lack of reliable financial statements. The lack of proper accounting tracking systems, financial reports and business plans in SMEs has hindered banks and investors from assessing potential SMEs' financial needs.

Risk is a random occurrence of events that can yield losses or unexpected results. The ability to secure SMEs means the ability to ensure that enterprises' operations are not harmed, not endangered from risks in the production and business process, especially financial risks. Financial security is very important to the development of SMES. Financial insecurity makes SMES vulnerable to crisis, reduces capital mobilization capacity, leads to low production efficiency, loss, and even bankruptcy. Staying safe means not damaging, preventing negative external influences, so the reputation increases, which can increase the ability to mobilize capital for production and business activities, thereby promoting the efficiency of them, contributing to improving financial capacity for SMES (Anh, 2018).

Experts say that, when SMEs use auditing services, thanks to auditing with the service's advisory, support and assurance functions on risk management processes, enterprises will maintain their investment and banking's trust, improving financial management capacity.

Business environment of the enterprise

SMES operated in a volatile environment, from which opportunities appeared to bring profits as well as risks for them. Under such conditions, the manager had to make decisions that were in line with the enterprise's goals, and had to organize the implementation of the enterprise's activities towards the set goals (Anh, 2018).

SMEs always faced difficulties in capital, including inflation, hot growth and a recession and deflation economy (Thanh, 2010). One of the reasons was that there was a gap between SMEs and banks that both sides wanted to narrow, firstly for the benefits of each side (Thanh, 2010). To bridge this gap, SMEs needed to improve their financial capacity, operational skills, and managerial capacity. SMEs had to create a sufficient amount of capital and assets for business operations and access to capital sources, first and foremost with bank credit sources (Thanh, 2010).

In business activities that SMEs always faced with uncertain future events that could cause loss and damage to them such as inflation, fluctuations in interest rates, exchange rates, and changing consumer tastes, ECT. Had a strong impact on the business environment, thereby affecting asset value and business performance of enterprises (Nguyen the Anh, 2018).

In recent years, the Government has constantly implemented solutions to improve the investment and business environment, and improve the legal framework to innovate and create motivation for enterprises to develop. The Government has promptly issued resolutions to meet the requirements of the practice set by SMES, such as Resolution No. 35 / NQ-CP dated May 16, 2016 and Directive No. 26 / CT-TTg dated 6 June 2017 on enterprises' support and development to 2020; Resolution No. 75 / NQ-CP dated August 9, 2017 on reducing fees and costs for enterprises; Resolution No. 98 / NQ-CP dated October 3, 2017 on the Government's Action Program to implement the Party's Resolution No. 10-NQ / TW dated June 3, 2017 on private economic development; Resolution No. 19 / NQ-CP dated 15 May 2018 on improving the business environment, enhancing national competitiveness, etc. The implementation of these resolutions simplifies and reduces business conditions, creates favorable, equal and transparent business environment for all economic sectors, helps SMES development. Many revised, supplemented and newly issued policies

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aim to expand the rights and obligations of private economic entities related to land, creating a favorable environment for businesses and investors to expand the scale of investment, production and business.

Management capacity of production and business activities of enterprises

In order to improve financial capacity for SMEs, it was not only necessary to increase the value of capital for production and business activities of enterprises, but it was also important to improve financial management capacity (Ha, 2010).

The limit of capital size made most SMEs unable to properly invest in the accounting system, corporate governance and as a vicious circle, without investing in the accounting system, the capital size of enterprises was increasingly difficult to strengthen (Ha, 2010). Experts say that the production capacity of SMEs is the maximum production capacity of SMEs in a certain period of time under certain conditions. Production capacity can be calculated for one workshop, one step, one line or the entire production system in a SMEs. The production and business capacity of SMEs is influenced by 3 factors: (i) human resources; (ii) facilities and (iii) production management and organization. Therefore, SMEs need to focus on training human resources to improve their expertise and production capacity; invest in renovating machinery and equipment, apply modern advanced technologies to improve the quality and quantity of products; actively deploy information technology application in production activities of enterprises, such as: building hardware, perfecting software to ensure sufficient, timely and accurate information; and developing product quality management system (Completing product measurement system; developing methods, means and systems to check product quality indicators from raw materials to production and providing finished products to consumers).

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