A study on financial performance of Small and medium-sized enterprises in Vietnam

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Abstracts: Small and medium enterprises (SMEs) have shown the importance of the development strategy of the socialist-oriented market economy in Vietnam. The main objective of this study was to identify, evaluate, and to measure the attributes of financial performance of Small and Medium Enterprises (SMEs) in Vietnam. The study was based on a field survey using a semi-structured questionnaire on a sample of 150 accountants. But, only 120 filled questionnaires were satisfactory and therefore included in the analysis. By using seceral statistical analytical tools, i.e. descriptive statistics, Cronbach's Alpha analysis, Independent T-test and ANOVA, the study has identified and measured four (4) attributes of financial performance of SMEs that have great effects on SMEs. There is, statistically, significant difference in the level of financial performance of SMEs in Vietnam from these different work experiences. There is not, statistically, significant difference in the level of financial performance of SMEs in Vietnam from these different business areas and between the mentioned three groups of job description. Based on the findings, some recommendations are given for SMEs to improve the financial performance.
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INTRODUCTION

The financial aspects of the performance have been employed to a greater extent in order to gauge the performance of the businesses not in SMEs but in also larger firms as they manifest the accomplishment of the economic objectives of the firm (Murphy et al. 1996).

Use of financial indicators as a measure of organization's performance is conventionally most commonly exercised accounting tool as it based on the principle of profitability which is one of the significant measureable goal of a firm (Kaplan & Atkinson, 1998).

Financial performance is the degree to which financial goals are being or has been achieved (Pimpong & Laryea, 2016).

Analyzicng financial performance helped enterprises assess and consider the implementation of economic targets to formulate development strategies and effective business plans (Tran & Nguyen, 2019).

Small and medium enterprises (SMEs) have shown the importance of the development strategy of the socialist-oriented market economy in Vietnam. SMEs have contributed over 40% of GDP and created 50% of jobs nationwide. However, in recent years there has been an increase in the number of SMEs that have been dissolved and shut down due to lack of capital and lack of management skills. In this context, it is appropriate and necessary to choose a research scope for the financial performance in SMEs.

The main objective of this study was to identify, evaluate and measure the attributes of financial performance of SMEs in Vietnam, and its analysis and findings are presented and discussed in this paper. In the final section of this paper, based on the findings, some recommendations are given for SEMs to improve the financial performance.

LITERATURE REVIEW

There are several financial indicators that are used as evaluation criteria in assessing the financial performance like profitability, sales revenue, growth and efficiency (Murphy et al. 1996) The financial ratios employed in this regard are return on assets, return on sales, net profit margin, market share growth, return on investment and change in net income among others (Murphy et al. 1996).

The subject of financial performance has gotten significant consideration from researchers in different regions of business and strategic management. It has additionally been the essential worry of business experts in a wide range of organization since financial performance has an effect on an organization's wellbeing and at last its survival (Onduso, 2013).

Mulani et al. (2015) researched the impact of budgeting on the performance of small and medium enterprises of India. Three major areas of the study are budgeting in SMEs, performance measurement in SMEs and Small and Medium Enterprises. Therein, financial performance including (i) growth of sales revenues and (ii) growth of profit.

Agbenyo et al. (2018) explored the role of budgeting and its effect on financial performance of listed manufacturing firms on the Ghana Stock Exchange as a case study. Therein, a firm's total assets index represents financial performance.

Hindasah, L., and Nuryakin, N. (2020)' study aims to empirically investigate the influence of organizational capability and organizational learning on the financial performance of family-business type small- and medium-sized enterprises (SMEs). The result of this study shows that organizational capability positively and significantly affects the financial performance. Also, organizational learning significantly affects the financial performance. Therein, financial performance including (i) The profit of the company has increased in the last three years; (ii) The number of the asset (property) of our company has increased in the last three years; (iii) The number of working capitals has increased in the last three years; (iv) The number of sales growths has increased in the last three years; and (v) The number of cash flow has increased in the last three years.

Performance is a complex concept and it can be measure by many different methods. In general, performance is understood as the degree to which an individual or an organization achieves the goals. For an enterprise in particular, performance is normally measured by the final result in term of financial aspect or nonfinancial aspect such as profit, revenue, customer satisfaction (Le & Nguyen, 2020). Do (2021) assessed and measured the financial

performance of Transport & Warehouses Firms Listed on the Hanoi Stock Exchange (HNX), including, return on assets (ROA), return on equity (ROE) & return on sales (ROS).

The above researches have studied the financial performance of enterprises. Some studies use qualitative research methods and quantitative research methods based on secondary data or survey results. However, there has been no research yet that fully examine the financial performance of SMEs in Vietnam. Inheriting the results of previous studies, this study used a mixed research method to evaluate, analyze and measure the financial performance of SMEs in Vietnam.

RESEARCH SUBJECT AND METHODOLOGY

Research Subject: The subject of this research is financial performance of Small and Medium Enterprises (SMEs) in Vietnam.

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. The contents of the interviews focused on the subject of financial performance's attributes of SMEs.

Based on findings from a number of studies conducted by Mulani et al. (2015), Hindasah and Nuryakin (2020); Agbenyo et al. (2018) and findings from the interviews with those experts, this research has identified financial performance of SMEs (FP) in four (4) attributes as presented in Table 1 below.

Table 1. Attributes of financial performance of SMEs

Code	Scale	Sources
Financial performance of SMEs (FP)		
FP1	The profit of the company has increased in the last three years	Mulani et al. (2015), Hindasah and Nuryakin (2020)
FP2	The number of the asset (property) of our company has increased in the last three years	Agbenyo et al. (2018), Hindasah and Nuryakin (2020)
FP3	The number of working capitals has increased in the last three years	Hindasah and Nuryakin (2020)
FP4	The number of sales growths has increased in the last three years	Mulani et al. (2015), Hindasah and Nuryakin (2020)

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: "Strongly disagree" to 5: "Strongly agree". The method of data collection Iwas 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 120 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 120 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.

RESEARCH RESULTS
Descriptive Statistics
Information of data collected is shown in Table 2. It shows that among the 120 respondents,
about 26.7% were male while the remaining 88 (73.3%) were female. Of these, 75 of them (or
62.5%) are 27 years old or younger, and 37.5% of the participants were over 27 years old.
Among the respondents, accounting staffs accounted for 45.8%, general accounting accounted
for 27.5%, while the remaining 26.7% or 32 respondents were chief accountant. Of these,
53.3% of the participants have work experiences for 5 years or less, and over 5 years
accounted for 46.7%. Among the respondents, 38 respondents worked for SMEs with industry
and construction sectors, accounted for 31.7% and 82 respondents worked for commercial and
service enterprises, accounted for 68.3%.

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

	Frequency	Percent	Cumulative Percent
Gender			
Male	32	26.7	26.7
Female	88	73.3	100.0
Age			
To 27 years old	75	62.5	62.5
Over 27 years old	45	37.5	100.0
Job description			
General accountants	33	27.5	27.5
Chief accountants	32	26.7	54.2
Accounting staff	55	45.8	100.0
Work experience			
To 5 years	64	53.3	53.3
Over 5 years	56	46.7	100.0
Business areas			
Industry and construction	38	31,7	31,7
Commercial and service	82	68,3	100,0
Total	**120**	**100.0**	

Next, Table 3 indicates that the respondents agree with the dependent variables of "Financial
performance of SMEs" where four attributes were quite high with an average of 3.827
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 performance of SMEs

	N	Minimum	Maximum	Mean	Std. Deviation
FP1	120	2.0	5.0	3.800	.6559
FP2	120	2.0	5.0	3.783	.6634
FP3	120	3.0	5.0	3.875	.5433
FP4	120	3.0	5.0	3.850	.5599
Valid N (listwise)	120			3.827	

Cronbach's Alpha

Financial performance of SMEs 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
.746	4

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
FP1	11.508	1.781	.376	.717
FP2	11.525	1.562	.523	.603
FP3	11.433	1.996	.378	.710
FP4	11.458	1.881	.441	.670

Independent T – test

Comparison of the results of the evaluation of financial performance of SMEs 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 0.335, 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 = 0.043 < 0.05, which means that there is, statistically, significant difference in the level of financial performance of SMEs from these different work experiences (Hair et al, 2010; Hoang & Chu, 2008).

Table 5. Differences of financial performance of SMEs 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
FP	Equal variances assumed	.938	.335	-2.050	118	.043	-.15681	.07648	-.30826	-.00535
	Equal variances not assumed			-2.046	114.84	.043	-.15681	.07664	-.30862	-.00499

Comparison of the results of the evaluation of financial performance of SMEs between participants worked for industry and construction enterprises with those worked for commercial and service enterprises can be seen in Table 6. According to the results shown in Table 6, Sig Levene's Test is 0.213, which is more than 0.05. The variance between the two industry and construction enterprises and commercial and service enterprises is not different. Moreover, Sig value T-Test = 0.793 > 0.05, which means that there is, statistically, no significant difference in the level of financial performance of SMEs from these different Business areas (Hair et al, 2010; Hoang & Chu, 2008).

Table 6. Differences of financial performance of SMEs between participants work for industry and construction enterprises and commercial and service enterprises
- Independent Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
						Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
		F	Sig.	t	df				Lower	Upper
FP	Equal variances assumed	1.567	.213	-.263	118	.793	-.02198	.08345	-.18723	.14327
	Equal variances not assumed			-.280	83.836	.781	-.02198	.07865	-.17839	.13442

Anova

Anova test was needed to make a comparison of the results of the evaluation of financial

performance of SMEs between the three subjects, including accounting staff, general accounting and chief accountant. Table 7 shows that Sig Levene Statistic of 0.811 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. = 0.127 is more than 0.05, which indicates that there is no, statistically, significant difference in the level of financial performance of SMEs between the mentioned three groups of job descriptions (Hair et al, 2010; Hoang & Chu, 2008).

Table 7: Test of Homogeneity of Variances

FP

Levene Statistic	df1	df2	Sig.
.210	2	117	.811

Table 8: ANOVA

FP

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.739	2	.369	2.097	.127
Within Groups	20.611	117	.176		
Total	21.349	119			

DISCUSSION AND IMPLICATIONS

According to Vietnam Chamber of Commerce and Industry's (VCCI) annual report of Vietnam firm 2017-2018, SMEs accounted for nearly 98% of Vietnamese enterprises. In terms of ownership form, private enterprises accounted for a very large proportion (over 80%) (VCCI, 2018). This reflects the true nature of the newly transformed economy from centralized management to a market mechanism, with private enterprises often being SMEs.

Most SMEs focused on trade and services (68%) followed by industry and construction (31%) according to the white paper SMEs in Vietnam (VCCI, 2017).

The average revenue growth rate of enterprises was 19.5%/year but it has been on a downward trend in recent years. Meanwhile, the average rate of enterprise losses was still 42.3% even though the Government implemented the SME support package in 2012 (VCCI, 2018).

Also according to VCCI (2018), the enterprise's loss rate was inversely related to the size of the enterprise, the SME group, especially the microenterprise - the group with the highest loss.

Indicators reflecting profitability such as ROA, ROE, and ROS of the SME group were at a low level of approximately 5%/year (VCCI, 2017).

Although quantitative research results have shown positive financial performance of SMEs, but actual survey results and in-depth interviews in qualitative research show that the financial performance of SMEs has not met expectations of the managers and most of the managers of this group of firms do not have much knowledge about finance. In addition, the majority of enterprises in Vietnam are SMEs, of which there are many small and micro enterprises that are spontaneously formed. Most of the managers and directors of these enterprises also have little specialized training in economics, business administration and finance. Therefore, training institutions should provide short-term courses and training programs which are

suitable for SME managers. Through these training courses, managers will have more knowledge to make decisions to improve the efficiency of financial performance.

For revenue targets: SMEs need to make an estimate with full information including: expected sales volume, expected selling price, expected credit policy for customers. At that time, managers will have enough information to make accurate business decisions.

The budgetary goal characteristics can have positive and significant impact on such growth of sales revenue, growth of profit and managerial performance. So, managers need focus on setting clearer and more difficult but attainable budget goals to increase firm performance (Le & Nguyen, 2020).

CONCLUSIONS

Each year, SMEs create over one million new jobs, utilize up to 51% of labor force in the society, and contribute more than 40% of GDP to the country. Though there is a significant number of SMEs, most of them operate on a small scale and have a low level of development (Le & Nguyen, 2020). Given the current situation, the research on financial performance in Vietnamese SEMs has great significance in terms of both theoretical as well as practical application.

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