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## **Analysis of Existing Problems in Cash Flow Management of Enterprises in the Textile and Garment Industry Listed on the Market Vietnam Securities**

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### **Abstract**

Cash flow is one of the important measures reflecting the financial situation of an enterprise and the activities of an Enterprise are always associated with continuous cash flow movements. Cash flow management is closely related to the management activities of other departments and targets such as current asset management (inventory management, accounts receivable management), or short-term financial management. (short-term financial management, accounts payable management, short-term investment management, short-term capital mobilization), so cash flow management plays a very important role for businesses.

Cash flow management creates the capacity for businesses to maximize value, helps businesses detect potential gaps in

cash flow, and minimize risks in cash flow balance. Especially in the context of today's complex and volatile business environment, a series of businesses have gone bankrupt and have unsustainable existence due to lack of strict and comprehensive cash flow management.

For enterprises in the textile and garment industry - one of the key production sectors of the economy - currently facing huge challenges due to the Covid -19 pandemic, the issue of cash flow management has become even more urgent, but implementing Application still has many limitations. Therefore, in this study, the author evaluates some shortcomings in cash flow management activities at textile and garment enterprises listed on the Vietnam stock market.

**Keywords:** Cash Flow, Textile Industry, Businesses

### **1. Introduction**

The current context shows that international trade policies are declining, international commodity prices, especially raw material prices, tend to fluctuate, and some major countries tighten monetary policies and strengthen policies. commercial subsidy. Fluctuations in the international economy in general and in the country in particular have revealed a series of weaknesses of textile and garment enterprises, especially in cash flow management activities, leading to limitations in financial resources and negative impacts. seriously affect the survival and development of businesses.

### **2. Theoretical basis for cash flow management**

Cash flow management is an important aspect of corporate governance. Cash flow management is the process of monitoring, evaluating and controlling the revenues and expenditures of an organization or individual. It includes activities related to cash flow planning, budget management, expenditure forecasting, financing and investing.

The importance of cash flow management in businesses includes:

- Ensure financial stability: Cash flow management helps ensure that the business will have enough money to pay debts, pay accounts payable and invest in business development activities.
- Optimize profits: Cash flow management helps optimize profits by balancing investment and costs, helping businesses achieve the highest profit level.
- Risk management: Cash flow management helps businesses evaluate and manage financial risks such as interest rate risk, price change risk, liquidity risk, ensuring the financial stability of the business.
- Make strategic decisions: Cash flow management provides businesses with information about their financial situation, helping businesses make strategic decisions such as making new investments, expanding or reducing the scale of operations.

- Enhance reputation: Cash flow management helps businesses increase reputation and trust from customers, shareholders and partners by ensuring transparency and on-time debt payments.

### 3. Research methods

The article uses qualitative research methods including two basic methods: data collection, synthesis and analysis and evaluation. The article has compiled data related to cash flow management activities at listed textile and garment enterprises in Vietnam, thereby evaluating the cash flow management activities of those enterprises.

### 4. Assess the current status of cash flow management of textile and garment enterprises listed on the Vietnamese stock market

#### 4.1 Result

*First*, some textile and garment enterprises have gradually approached and proactively conducted cash flow management with varying degrees of attention.

Although the six basic contents of cash flow management are not fully implemented by all textile and garment enterprises, a number of issues have been basically implemented, including: inventory control, provisioning for price declines. inventory, provisioning for bad debts.

*Second*, net cash flow from business activities of listed textile and garment enterprises achieved some remarkable results.

Depending on different stages of development, net cash flow from business activities of listed textile and garment enterprises is gradually improved. During the period 2016 - 2018, Vietnam's textile and garment industry had remarkable developments and was one of the largest textile and garment producing and exporting countries in the world. Thanks to that, listed textile and garment enterprises create positive net cash flow from business activities. Net cash flow from business activities of all three types of textile enterprises classified by capital size were positive in the period 2016 - 2018 when the economy grew well. In 2021, when the economy recovers after the pandemic, net cash flow from business activities of large-scale enterprises will be positive.

*Third*, the overall debt solvency ratio is guaranteed. Although the coefficients of short-term debt payment ability, quick payment ability, and immediate payment ability tend to fluctuate, in general, the overall debt payment ability of some textile and garment enterprises is guaranteed. This proves that listed textile and garment enterprises have

fulfilled their debt obligations including short-term loans and payables to suppliers.

*Fourth*, the net working capital of many listed textile and garment enterprises is guaranteed, always maintained stable and has a positive value such as Phong Phu Joint Stock Corporation, 10 Garment Corporation...

*Fifth*, although the budget needs have not been optimally determined, some listed textile and garment enterprises have taken measures to handle cash surpluses through bank savings to earn interest and Borrow capital from banks when there is a cash deficit.

### 4.2 Limitations and causes of limitations in cash flow management of textile and garment enterprises listed on the Vietnam stock market

#### 4.2.1 Limit

*First*, some listed textile and garment enterprises have cash flow imbalances.

Cash flow imbalance is divided into: temporary imbalance and long-term imbalance. It can be said that in any business, temporary imbalances occur due to the unplanned collection of receivables; Capital contribution was not carried out as committed... In fact, at listed textile enterprises at certain times during the research period, the phenomenon of cash flow into the enterprise was smaller than the amount of money leaving. enterprise, then there is an imbalance in cash flow. For example, in 2019 and 2020, some listed textile and garment enterprises had cash flow imbalances, focusing on small and medium-sized enterprises with capital such as 28.1 joint stock company, X26 joint stock company, and joint stock company. part of Truong Tien Group.

This imbalance poses great risks to the business operations of listed textile enterprises. Due to lack of money, the purchase of raw materials, materials, fuel, etc. to serve production and business may be interrupted, leading to production and business stagnation; Workers' salaries and loans (if any) are not paid on time, greatly affecting the reputation of the business. If there is a long-term cash flow imbalance, it can cause listed textile enterprises to fall into bankruptcy.

*Second*, the cash turnover period of some listed textile and garment enterprises has not been shortened.

The cash conversion period reflects the sales collection policy, inventory management policy and payment policy with suppliers of businesses. However, for listed textile enterprises, the cash turnover period during the research period is still long, reflecting inadequacies in cash flow management by administrators.

**Table 1:** Average cash conversion period of listed textile and garment enterprises

Targets	Unit	2016	2017	2018	2019	2020	2021
Average inventory reserves	Million dong	73,9	69,8	50,3	98,5	105,7	60,8
Cost of goods sold	Million dong	230,58	237,33	241,29	216,49	200,93	170,38
Average inventory holding period	Day	<b>116,98</b>	<b>107,35</b>	<b>76,09</b>	<b>166,07</b>	<b>192,01</b>	<b>130,25</b>
Inventory turnover number	Ring	3,08	3,35	4,73	2,17	1,87	2,76
Average receivables	Million dong	690,18	645,31	500,27	915,56	1.487,5	619,25
Net revenue	Million dong	2.299,75	2.348,48	2.217,95	1.160,53	1.661,91	2.328,38
Average collection period	Day	<b>108,04</b>	<b>98,92</b>	<b>81,2</b>	<b>284,01</b>	<b>322,22</b>	<b>95,84</b>
Accounts receivable turnover number	Ring	3,33	3,64	4,43	1,27	1,12	3,76
Average accounts payable	Million dong	1.059,80	713,81	572,63	645,71	1.093,91	639,51
Average payment period	Day	<b>168,20</b>	<b>110,94</b>	<b>94,24</b>	<b>203,08</b>	<b>240,25</b>	<b>100,25</b>
Accounts payable turnover number	Ring	2,14	3,25	3,82	1,77	1,50	3,59
Average cash turnover period	Day	<b>56,82</b>	<b>95,33</b>	<b>63,05</b>	<b>247</b>	<b>273,98</b>	<b>125,84</b>

Source: Compiled from financial statements of textile and garment enterprises in the period 2016 - 2021 <sup>[1]</sup>

In addition, the long cash turnover period, especially in 2019 and 2020, caused the capital of listed textile and garment enterprises to be appropriated by customers, making it difficult for inventory to flow, greatly affecting production plans, business output and cash flow of these enterprises. Businesses with long cash turnover periods exist in all three groups of large, medium and small capital enterprises such as: TDT Development Investment Joint Stock Company, X26 Joint Stock Company, Investment Joint Stock Company Vinh Phuc textile...

*Third*, the proportion of overdue receivables and overdue payables is still high

Considering all three groups of listed textile and garment enterprises with large, medium and small capital scale, the proportion of overdue receivables and overdue debts of some enterprises was still high during the research period, especially in the last two years, year of the epidemic, such as Hue Textile and Garment Joint Stock Company, 29.3 Textile and Garment Joint Stock Company, 28 Quang Ngai Joint Stock Company...

*Fourth*, payment capacity is limited

Solvency is an indicator that reflects a business's cash flow management capacity. However, the targets on general solvency ratio, short-term solvency ratio, quick solvency ratio and immediate solvency ratio of some listed textile and garment enterprises have not been met. special insurance in the period 2019 - 2020 such as Nam Dinh garment company, X28 joint stock company,...

*Fifth*, the solvency coefficient from net operating cash flow has not been met

A number of listed textile enterprises have negative solvency coefficients from net operating cash flow during the research period in all three groups of large, medium and small-scale enterprises such as investment companies. TNG trade, Phu Bai fiber joint stock company, 28 Hung Phu joint stock company...

#### 4.2.2 Cause of restrictions

Subjective reasons

*First*, the cash flow management process has not really been focused on.

Listed textile and garment enterprises have not fully developed cash flow management processes. Some listed textile enterprises' cash flow management only stops at controlling cash inflow and outflow without paying attention to cash flow planning; Establish and implement regulations on revenue and expenditure of money or control and create a balance of revenue and expenditure of capital in cash.

Therefore, in reality, the cash flow management activities of some textile and garment enterprises are not synchronized and inconsistent, leading to low results, being passive and not promptly responding to difficult situations. difficulties to ensure the maintenance of production and business activities. When the Covid -19 pandemic occurred, most of the raw materials for the textile and garment industry were imported from abroad, so the supply chain of input materials was interrupted, and listed textile enterprises had difficulty meeting orders. At the same time, customers' inability to pay also greatly impacts debt recovery.

*Second*, listed textile enterprises have not closely followed and updated new policies of state management agencies.

The basic characteristic of listed textile enterprises is that they must import raw materials from abroad and process them for export. Therefore, listed textile enterprises depend

heavily on exchange rate policies, tax policies... of state management agencies. However, in reality, some listed textile and garment enterprises have not promptly grasped the new policies of State management agencies, leading to an impact on cash flow management results.

*Third*, human resources do not meet the requirements of cash flow management activities.

Reality shows that human resources for cash flow management activities at some listed textile enterprises are lacking. Some textile and garment enterprises are still integrated into many departments, there is no clear division of work, and there are no specialized staff to handle financial decisions within the enterprise. Cash flow management activities can be undertaken by the financial director or chief accountant and often seek direction from the Director or Deputy Director. Therefore, when planning production and business plans, they fall into a passive position if exchange rate or interest rate risks occur, thereby significantly affecting the net cash flow of the business. They also do not have measures to minimize capital costs to maximize value for the business.

*Fourth*, the awareness and capacity of financial administrators are limited.

About awareness:

At many listed textile enterprises, managers are still not properly aware of the importance of cash flow management activities. Many administrators still consider profit as the decisive factor for the survival and development of a business because they do not distinguish the difference between cash flow and profit, thinking that cash flow is revenue, cash flow is out. by cost. That misconception leads to the phenomenon of many businesses not giving the right direction in cash flow management.

About capacity:

At some enterprises in the textile and garment industry, the capacity of staff performing cash flow management still does not fully meet the requirements. This department does not have extensive knowledge and proficient skills in cash flow management activities, leading to poor performance results.

On the other hand, some financial managers of listed textile enterprises lack thinking and vision in cash flow planning, and the ability to control corporate finances is weak and passive.

*Fifth*, cash flow management activities do not consider the size of the business.

Business size has a significant impact on the business's cash flow management activities.

(i) There is no harmonious balance between revenue and costs.

At listed textile enterprises, especially large-scale textile enterprises, need a lot of production costs but there are no measures to balance revenue and costs to ensure the stability of the enterprise's financial situation. Karma. Therefore, the business's cash flow is unstable.

(ii) There is no plan to mobilize and use capital properly.

Currently, listed textile enterprises have not proactively found plans to mobilize and use capital appropriately. Specifically, small and medium-sized listed textile enterprises face more growth limitations than large-scale enterprises, making it difficult for these enterprises to access capital to meet production and business needs, however

However, these businesses have not yet found a plan to mobilize and use capital effectively.

*Sixth*, the application of information technology in cash flow management still has many shortcomings.

Information technology plays an important and indispensable role in the process of managing and operating production and business activities of enterprises. The development and application of the internet has changed the business model and way of doing business. The gradual transition from traditional transactions to electronic transactions has greatly affected the cash flow management activities of businesses.

In fact, although some listed textile and garment enterprises have initial awareness of the importance of information technology, the number of businesses that can deeply exploit the capabilities of information technology in their operations is limited. Cash flow management is only available in 18 businesses (36%). In addition, small and medium-sized enterprises do not really see the benefits of information technology, are not familiar with the form of business in the e-commerce environment, and do not have a good understanding of information technology. Information technology with a strategic vision has not received the necessary attention.

However, at listed textile and garment enterprises, information technology has not been applied well, the reason is: (i) Information technology application software for cash flow management is still separate and lacking connection, many automatic connection ports with commercial banks have not yet been built. (ii) Not paying attention to synchronous investment in computer systems and modern technological equipment to organize the receipt, processing, provision, storage and control of cash flow information. (iii) There is no focus on human resource training in the direction of developing management capacity and professional capacity to grasp techniques and analyze data; Applying advances in science and technology to cash flow management.

*Seventh*, the internal control system has not been thoroughly implemented.

The internal control system has not been applied by textile and garment enterprises, affecting cash outflow. Specifically: the management system in many listed textile and garment enterprises in Vietnam is still loose and not closely followed. Small-scale businesses manage in a family style, while large-scale businesses push responsibility for control to subordinates. This leads to inadequate control.

*Eighth*, products and services of the financial market, derivative services, risk prevention, and banking services are not widely used. In fact, these products are very diverse, but the textile and garment enterprises using these tools are still limited, only stopping at loans, demand and term deposits, and payment services. international math. New products with many advantages have not been chosen by these businesses, such as working capital management and use of derivative operations.

*Ninth*, not proactively looking for solutions to improve production capacity to optimize cash flow. Specifically: (i) chain linkages have not been implemented to increase competitive advantage; (ii) Not proactive in sourcing raw materials for production; (iii) There is no plan to find alternative markets and export products.

Objective reasons

The reason is from the State management agency

*First*: The Government's tax and tax refund policies are not complete.

Tax support policy is a tool often used to create favorable conditions and promote the development of businesses, but in reality, this policy does not encourage production for export. In addition, documents from State management agencies do not clearly guide the implementation of preferential tariffs according to signed agreements.

In fact, complex regulations on rules of origin of goods are a big challenge for Vietnam's textile and garment industry when participating in signed agreements. Therefore, to be able to take full advantage of incentives from those Agreements to reduce cash outflow, Vietnamese textile and garment enterprises need to clearly understand and properly understand the regulations on rules of origin of goods in the Agreements. However, inadequacies in the implementation of policies by State agencies along with a lack of information about commitments and implementation methods cause significant obstacles for Vietnamese textile and garment enterprises.

*Second*: The Government has not issued a planning for raw material areas serving the textile and garment industry.

In fact, the "bottleneck" situation at the weaving and dyeing stage makes fabric insufficient for sewing (over 70% of fabric is imported), creating an unbalanced development of textile and garment enterprises. Specifically, the development of cotton, mulberry and some raw material crops is difficult with access to land, large fields or high technology levels. Currently, there are only a few industrial parks scattered in the provinces of Hung Yen, Thai Binh, Binh Duong and Dong Nai but the area is limited. Therefore, the textile industry needs planning from the Government to actively source raw materials.

*Third*: the State Bank's mechanisms and policies on interest rates and exchange rates to support textile and garment enterprises are still limited.

During the research period, commercial banks' capital resources were quite abundant, ready to promptly supply to the economy. However, due to the impact of the Covid-19 epidemic, listed textile and garment enterprises are facing difficulties in production and business, so credit demand is still very weak. Meanwhile, for some small-scale textile enterprises, accessing low-interest capital is still difficult. The 6-month loan interest rate on the old loan is 10.5%/year, while the new loan interest rate is reduced to 9.3%/year, but only for the first 3 months. Not only that, the business's collateral is real estate, which was previously highly valued by banks and lent about 50% of the value, but is now priced lower and only lends about 40% of the value, so businesses It is difficult for businesses to borrow more.

Besides, exchange rate policy also significantly affects the cash flow management activities of listed textile and garment enterprises. Currently, the US-China trade war has had an adverse impact on Vietnam's textile and garment industry. Specifically, the sharp decline in the Chinese Yuan caused the exchange rate between this currency and the US dollar to fall to its lowest level in nearly 10 years. The VND is still pegged to the USD. When the Yuan depreciates sharply, Vietnam's trade balance will be severely affected as cheap Chinese goods massively flow into the domestic

market. That causes our country's textile and garment enterprises that import mainly raw materials from China to be significantly affected. Therefore, the State Bank's management of exchange rate policy not only creates a stable macroeconomic environment, curbs inflation, but also ensures fairness in trade competition between countries, encouraging exports. exports, improving the international balance of payments... In particular, adjusting the exchange rate will benefit Vietnam's textile and garment industry in importing raw materials from China and exporting to the US market and have a significant impact. to cash flow management activities of textile and garment enterprises.

The reason is from the market side

*First*, due to the characteristics of the textile industry market. The activities of textile and garment enterprises involve customers in many different countries, mainly in: Japan, Korea, China, EU and especially the US. Due to geographical differences, the information collected is incomplete and may be misleading, making the ability to assess the financial capacity of those customers very limited and debt recovery of these subjects. have many difficult.

*Second*, financial market products are limited. The financial market in Vietnam is not synchronized and has not fully promoted its role as a long-term capital channel for businesses. At the same time, there are not many products and tools for businesses to perform cash flow management operations. money. Therefore, when there is a need for long-term investment capital, textile and garment enterprises often access capital from commercial banks. However, the unstable interest rate policies of commercial banks cause businesses to encounter many obstacles. Or in the case of a budget surplus, the common form of investment of enterprises in the textile and garment industry is limited to term savings at banks. In addition, the support services of commercial banks have not been maximized, the international payment methods used are still simple, derivative products and services, and payment services in Vietnam are still limited.

*Third*, adverse economic cycles. The Covid-19 pandemic caused a global economic recession and changed consumer behavior and spending. To save money, consumers will change their shopping methods, spending only on a few essential products and services. Our country's textile and garment industry mainly produce for export, so it is also seriously affected. Thus, the unstable economy, weak purchasing power of consumers, slow product consumption of businesses, and rapid increase in inventory have caused textile and garment enterprises to face many difficulties in recent times. cash flow management.

*Fourth*, the business environment is highly volatile. Cash flow management planning of textile and garment enterprises is influenced by fluctuations in the business environment. The process of importing input materials and fierce competition with foreign businesses in the context of low domestic consumer demand have dominated all activities of Vietnam's textile and garment industry. On the other hand, cash flow management activities of listed textile and garment enterprises are also affected when the negotiation and payment mechanism changes. In the context of reduced global purchasing power, importers cannot sell goods, goods are left in warehouses, and there is no money to pay, causing them to negotiate a deferred payment method, with some orders Deferred payment of goods up to

5 months along with extending the L/C opening time (previously 60 days, now 120 days) and they also requested to delay payment for finished products from 30 to 60 days compared to with the applicable deadline. That has created great pressure on Vietnamese textile and garment enterprises to pay interest costs on bank loans and pay salaries to workers.

Causes from customers and suppliers

Firstly, because the customer intends to appropriate the business's capital or has difficulty paying. In 2019 and 2020, Vietnam's textile and garment industry was affected in many ways by the Covid -19 epidemic. Many textile and garment export contracts were delivered but the importer requested to postpone payment due to the implementation of social distancing regulations. Society in many countries prevents people from leaving the house or going to shopping centers. Importers cannot sell goods, goods are left in warehouse, and have no money to pay.

*Second*, when exporting goods, textile enterprises must depend on foreign laws. In case foreign partners (especially the United States - the main importer of Vietnamese garments) fall into bankruptcy, our country's textile and garment enterprises are completely passive.

Thus, through the limitations and causes of the above limitations, it can be seen: cash flow management activities of textile and garment enterprises in our country still have many shortcomings. To solve the above shortcomings, in chapter 3, the researcher will propose some solutions to enhance cash flow management of textile and garment enterprises.

## 5. Conclusion

Thus, through the limitations and causes of the above limitations, it can be seen: cash flow management activities of textile and garment enterprises in our country still have many shortcomings. Therefore, it is necessary to provide specific and comprehensive solutions to improve cash flow management activities to help textile and garment enterprises increase value and ensure their standing in the market.

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