Int. j. adv. multidisc. res. stud. 2024; 4(1):484-488

Received: 02-12-2023
Accepted: 12-01-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Debt Management Affects Corporate Financial Situation

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Abstract
Currently, the economy is in a period of increasingly open government policy. To meet the requirements of the economy, businesses must upgrade and innovate themselves, and at the same time, also face capital difficulties that promote the development of debt; at the same time, the impact of debt and capital appropriation relationships on the survival of businesses and the integrity of the entire economy. In the context of increasingly fierce competition between businesses, business administrators need to determine a reasonable capital structure to maximize business benefits. With the goal of improving and enhancing the financial capacity of businesses, thereby proposing solutions to promote efficiency in the management and operation of the business apparatus. During operations, businesses always aim to maximize profits and enhance business value. To achieve that goal, businesses must explore, research and implement measures to effectively organize and manage business activities, in addition to paying attention to corporate financial risks. Arise. Debt management is an important part of a corporate financial strategy. Understanding and applying effective management methods not only helps maintain financial stability but also creates favorable conditions for the development process. The article presents theories about debt management, the impact of debt management on the financial situation of businesses and from there offers solutions for debt management in businesses, to help management teams and business owners. Master financial management strategies, while minimizing risks in the business process.

Keywords: Debt Management, Receivables, Payables, Capital Structure

1. Introduction

During operations, businesses always aim to maximize profits and enhance business value. To achieve that goal, businesses must explore, research and implement measures to effectively organize and manage business activities, in addition to paying attention to corporate financial risks. Arise. Debt management is important for administrators, investors, and partners.

For administrators, debt management helps them better understand the capital resources of their businesses to come up with appropriate short-term and long-term management strategies, taking into account risk and inflation factors. Development and investment opportunities to bring efficiency in business operations of the enterprise.

For investors, debt management is the basis for assessing solvency, capital structure and corporate financial safety, considering the nature of solvency assessment coefficients and efficiency. Efficiency and effectiveness of capital use during the period of the enterprise to make appropriate investment decisions.

At the same time, for partners, considering how to manage debt helps them make decisions about reasonable trade discounts, placing economic relations at a safe or unsafe level.

Debt management helps businesses take advantage of capital from debt payable to suppliers to carry out other necessary business activities, taking into account payment deadlines for suppliers to ensure on-time reputation., contractual obligations. Similarly, for cyclical liabilities, such as salaries and wages paid to employees but not yet due, taxes and social insurance payable but not yet due are also used. For production and business but need to ensure a term to pay these amounts. Bank credit capital plays a very important role for businesses, especially short-term loans to meet seasonal production and business needs. Long-term loans from credit institutions and corporate bonds with longer capital use periods help businesses be more proactive in production and business as well as more planned in balancing debt repayment sources to ensure Pay on time according to the signed credit contract.

2. Research methods

2.1 Theoretical research methods

- Collect secondary data sources: Data collected from published documents on corporate debt management.
- Collect primary data: The author conducted a survey using a Questionnaire of 40 businesses. After determining the survey target group, the authors used a convenient sampling method for Vietnamese businesses. Survey forms were sent via email, Facebook, and Zalo to businesses in the research sample.

2.2 Practical research methods

This study aims to evaluate the impact of debt management on the financial situation of businesses. Based on the theory of debt management in enterprises, the author uses the method of surveying enterprises on debt management affecting the financial situation of enterprises, thereby making suggestions and recommendations to improve the financial situation of enterprises. High quality debt management for businesses.

3. Research overview

Concept of corporate debt

Debt is the amount of money an individual, organization, etc. has borrowed from other individuals and organizations. Debts arise from borrowing money to buy goods and services. Debt certificates are evidence to get back the loan amount, including interest during the loan term.

Liabilities represent in money the obligations that the enterprise is responsible for paying to economic agents such as: Loans, accounts payable to sellers, taxes payable to the state, payable to employees...

According to the textbook Principles of Accounting - National Economics University, page 19 (Associate Professor, Dr. Pham Duc Cuong, 2020) [1]: Liabilities are the current obligations of an enterprise arising from past transactions that Enterprises must use their assets to make payments.

According to the textbook Principles of Accounting - National Economics University, page 223 (M.A. Nguyen Phuong Thao, 2020): Liabilities are one of the sources that form an enterprise's assets, defined as the current service in which a business must use its resources to pay objects inside or outside the business.

The impact of debt management on corporate financial situation

The impact of debt management on corporate profits

Debt management provides information for decision making regarding the structural relationship between debt and equity (financial leverage). Financial leverage will be very high if businesses have a higher proportion of liabilities than equity and vice versa.

Financial leverage is used in addition to compensating for a business's capital shortage and also boosting after-tax profits with the purpose of increasing the company's equity return or income per common share. This is also considered an effective tool as a tax shield for businesses. The reason is that this loan as well as the interest will be included in the company's operating costs. Therefore, the organization will have to pay less tax but still achieve the best profit growth. Therefore, choosing the appropriate financial structure by applying financial leverage is a tool favored by many managers. Most businesses operating in the market today use financial leverage because of the many benefits it brings.

The impact of debt management on governance

Debt management provides information for decision-making on which capital source to choose for asset purchases, whether to use equity capital or debt capital, whether to use short-term capital or long-term capital.

In addition, business managers must also consider the relationship between reinvested retained profits and profits distributed to shareholders in the form of dividends. Once the choice of loan or capital sources for the business, whether to use short-term loans or long-term loans, or the choice between retained profits and distributed profits has been decided, the next step is for the investor to decide. Management must also decide how to mobilize those capital sources. The requirement for business managers is to make a decision whether to retain the excess income of the business for future investments and operating requirements or distribute the income to shareholders. Shareholders in the form of dividends or stock buybacks.

The impact of debt management on capital mobilization of businesses

Debt management is an important basis for business administrators to decide from which source to mobilize capital to suit the current financial situation on the basis of consideration in harmony with retained profits for reinvestment and Profits are distributed to shareholders in the form of dividends.

Some decisions on funding sources can be listed as follows:

- Decision to mobilize short-term capital: decide to borrow short-term or use commercial credit, decide to borrow short-term from a bank or issue corporate bonds.
- Decision to mobilize long-term capital: decide to use long-term debt or equity capital, decide to borrow long-term from banks or issue corporate bonds, decide to use common equity capital or use debt long-term, decide to use common shares or preferred shares.
- Decide whether to borrow to buy fixed assets or rent assets.

The impact of debt management on the solvency of businesses

Debt management is also important for liquidity risk management, especially for short-term financial management, where the goal is to ensure that there is enough liquidity to carry out operations. Continuous. Short-term financial management involves current assets and short-term liabilities or working capital and operating cash flow.

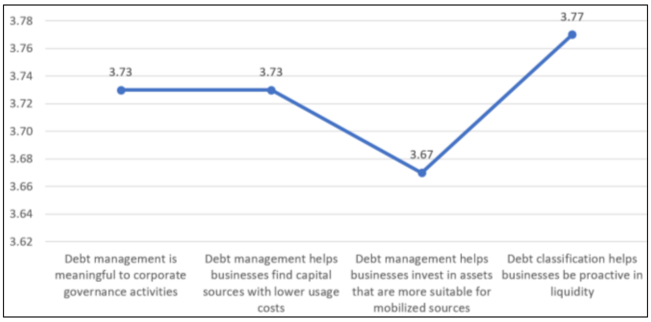
Using short-term capital to finance long-term assets creates a difference in maturity between assets and capital. This leads to payment risk when debts are due but long-term assets have not yet been recovered. On the contrary, if a business uses long-term capital to finance short-term assets, it will cause a waste of capital because the cost of long-term capital is higher than short-term capital.

Therefore, businesses need to have proper capital policies and strategies to prevent payment risks, create and strengthen reputation and image in the market; at the same time, avoid wasting capital and ensure corporate financial efficiency.

4. Assess the impact of debt management on corporate financial situation

To evaluate how debt management affects the financial situation of businesses, the author conducted a survey of 40 businesses.

The importance of debt management to corporate financial situation

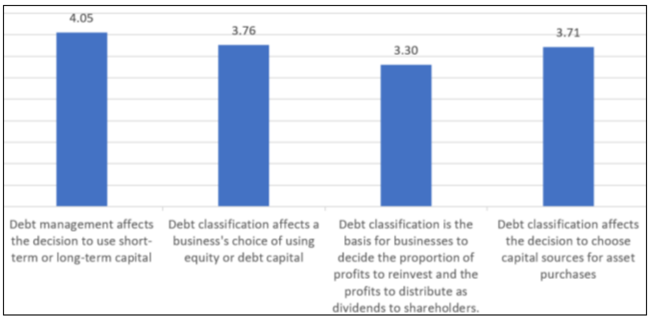


Source: Calculated from author's survey results

Fig 1: Assessing the importance of debt management to corporate financial situation according to average value (Mean)

Assessing the importance of debt management to the corporate financial situation: basically, businesses all think that debt management has a certain importance to corporate finance but not yet high (average value from 3 .67 to 3.77). In which debt management plays the most important role in affecting solvency (average value 3.77), followed by the influence on finding low-cost capital sources (average value 3, 75), management (average value 3.73) and finally investing in assets appropriate to mobilized capital (average value 3.67). This result shows that businesses are concerned about their ability to pay debt. Normally, small and medium-sized enterprises (SMEs) often think that they need to manage debt to be proactive in payments. But large businesses, because of their good financial potential, often pay attention to debt management to use financial leverage tools to amplify profits for the business. Of the 40 businesses participating in the survey, they are mainly small and medium-sized enterprises, so the level of impact on solvency is higher.

Debt management affects corporate governance

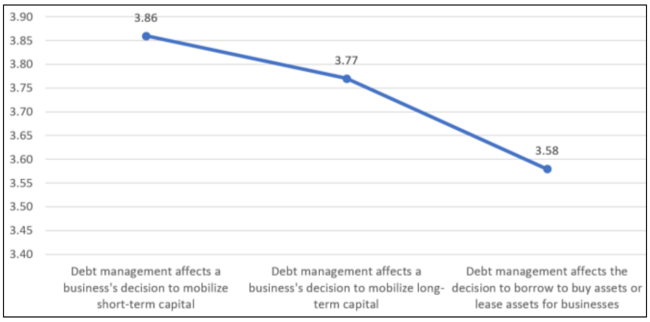


Source: Calculated from author's survey results

Fig 2: Debt management affects corporate governance according to average value (Mean)

Businesses all agree that debt management is one of the important bases for businesses to decide whether to use short-term or long-term capital (average value is 4.05). Debt management is needed to decide whether to use equity capital or debt capital (average value is 3.76), followed by debt management which affects the decision to choose capital sources to purchase assets (average value is 3.76). Average of 3.71) and finally debt management is the basis for businesses to decide the rate of profit to reinvest and distribute dividends to shareholders (with a fairly low average value of 3.3). This means that businesses are interested in the impact of debt management on this factor, but it is not the main factor in the decision.

The impact of debt management on capital mobilization of enterprises



Source: Calculated from author's survey results

Fig 3: Debt management affects capital mobilization of enterprises according to average value (Mean)

Fig 3 shows that debt management is an important basis for making decisions to mobilize capital in different forms for businesses (average value from 3.58 to 3.86). Decisions to mobilize short-term capital based on debt management have a high deciding factor (70%), followed by influencing the decision to mobilize long-term capital (67.5%). Besides, it influences the business's decision whether to borrow to buy assets or rent assets less (59%).

Limit debt management of businesses

Firstly, the capital management of many businesses is still inadequate

With the main short-term capital structure choice of businesses in the short term, it will affect the sustainability and solvency of the business in the long term. At the same time, in recent times, many businesses have used excessive financial leverage because in a short time, thanks to the use of financial leverage, businesses can increase profits and reduce taxes significantly. But in the long term, excessive use of financial leverage will have the opposite effect in capital management.

Second, the management of receivables still has many limitations

Currently, many businesses have not yet developed debt management regulations. Therefore, the management of receivables has not been built in a methodical and scientific way, leading to low efficiency in receivable management.

Third, debt management has not been paid attention

In recent times, the liabilities of many large enterprises have tended to increase. This is because many businesses have not yet developed debt management regulations, including regulations on debt management. Therefore, debt management has not been developed scientifically, leading to debt being accumulated, affecting the financial situation and reputation of the enterprise.

5. Solutions to improve business debt management

Solution 1: Determine the appropriate short-term debt ratio

Businesses need to balance the use of short-term debt in accordance with short-term plans. In addition, businesses need to be flexible in using short-term debt in their capital structure to suit the needs and strategies at each period and estimate the cost of liabilities to have a financial strategy. respectable.

Solution 2: Strengthen the management of receivables and payables

To manage receivables and payables, the most effective solution is for businesses to develop debt management regulations that include both receivable debt management and payable debt management. When developing debt management regulations, it is necessary to focus on the following contents:

For accounts receivable

To prevent outstanding receivables from arising, businesses must improve receivable management to fully and promptly control fluctuations in receivables at all times. At the same time, it is necessary to closely monitor to urge partners to repay debt on time, avoiding the phenomenon of procrastination and misappropriation of capital. To do this, the most effective measure is to develop regulations on receivable debt management. At the same time, businesses need to build debt management and collection processes:

Regarding the debt management process:

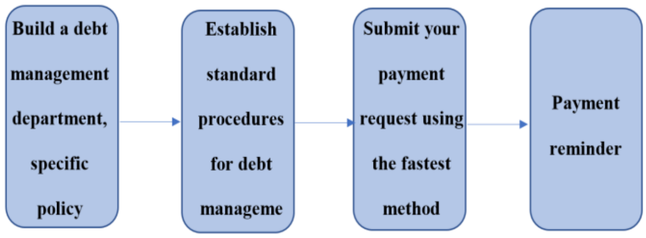


Diagram 1: Debt management process

Step 1: Enterprises need to build a debt management department and specific payment policies. Specialized departments will closely manage debt, avoiding uncontrolled risks. When making a commitment, it is necessary to clearly state the debt repayment period, the debt repayment commitment, and the penalty for non-payment.

Step 2: Establish a debt management process and build a strict debt collection process diagram. This step aims to clearly and quickly handle debt, which individual will be responsible for working with which customer, and what specific steps will be taken.

Step 3: Send invoices and payment requests to customers using the fastest possible method. The payment request clearly states the time the customer needs to repay the debt. This is a measure to influence and remind customers to speed up debt collection time.

Step 4: Regularly remind customers about debt payments if they are late. When the repayment deadline is approaching, send an email or call to remind customers about debt repayment. If necessary, make an appointment to meet in person to discuss debt repayment.

Regarding the debt recovery process:

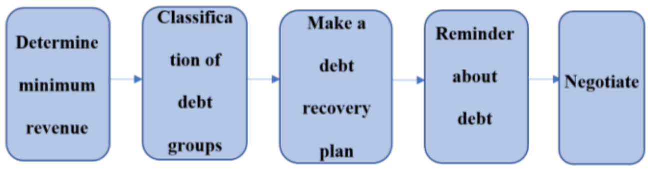


Diagram 2: Debt recovery process

First, determine how much revenue each customer needs to collect at a minimum

This is the first step when collecting debts. Debt accountants, sales departments and materials departments need to analyze the budget carefully to see what minimum amount of debt needs to be recovered to ensure the debt is recovered. Protect the company's business operations. This will help businesses calculate the ability to collect debt.

Second, classify into different debt groups

Among debtors, there are many different groups such as long-term debt, short-term debt, and bad debts. Debt collection methods need to be more flexible and flexible to both maintain relationships and collect debt.

Third, consider choosing an appropriate debt collector

Businesses need to choose appropriate people who can convince customers, can work directly, and have good relationships with customers. Depending on each case, choose the right person.

Fourth, remind and notify customers about the debt deadline.

When the repayment deadline is about 10 days away, you should remind customers about debt repayment via email, phone, or make a face-to-face meeting if necessary and the customer is important.

Fifth, negotiate with debtors about debt repayment

Need to be skillful in communication and behavior, sometimes being firm and firm but sometimes being flexible in negotiating with customers.

Sixth, if it cannot be resolved, file a lawsuit in court

This is the last solution when using many other debt collection methods but cannot collect the debt. In fact, filing a lawsuit in court takes a lot of time and effort, so it is best to skillfully negotiate with customers to recover debt.

Seventh, when deciding to give debt to customers, it is necessary to consider carefully.

When deciding to give debt to customers, it is necessary to consider the criteria of debt repayment ability, capital level, customer reputation, whether the customer still owes money to other places, etc. From there, decide whether to give debt to the customer. At what level and how long is the debt repayment period to minimize risks for the business?

For liabilities

Improving the production and business efficiency of enterprises is both a measure to generate revenue to repay outstanding debts, and is also a basic solution to prevent the creation of outstanding debts. This is also the best sustainable measure to maintain corporate financial health.

It is necessary to regularly manage and closely monitor the status of payable debts to promptly pay on time, avoid penalties due to late payments, and strictly comply with payment discipline to partners to enhance reputation. Create image in the market. In addition to developing regulations for managing liabilities, businesses need to develop ways to manage liabilities in all three aspects:

▪ Manage debt of each supplier

For this aspect of management, there are mandatory requirements for debt accounting and the materials department to monitor as follows:

- Detailed debt book of a supplier
- Debt reconciliation table or debt confirmation table
- Balance sheet of suppliers.

▪ Detailed debt management for each invoice and payment deadline.

For this aspect of management, there are mandatory requirements that the materials department needs to monitor as follows:

- Report the debt age of invoices (usually divided by weeks or months).
- List of invoices due for payment.
- List of overdue invoices.
- List of outstanding invoices from a supplier.

When tracking debt according to invoices, in reality there are often situations where the buyer advances money for goods/services to the supplier. At that time, there was no invoice from the supplier. If the business uses accounting software, the software must allow for advance payment amounts only for invoices when subsequently received. There are cases where the buyer pays one time for multiple invoices, so the accounting software must also allow the allocation of that amount to each invoice.

▪ Debt management according to each purchase contract

A special feature here is that a contract can have many payment stages, according to progress and volume of performance. Therefore, to effectively manage debt, the company needs:

- Have tools to effectively monitor debt and revenue management
- Develop purchasing and sales policies
- Classify groups of customers and sellers to effectively manage debt
- Build personnel with good negotiation skills and skillful in negotiating debt with customers.
- Prepare management analysis reports, customers with overdue debt, due debt, etc.
- Build an internal debt management reporting system, regularly monitor debt fluctuations to have an effective debt collection plan.

Debts receivable and debts payable have an interactive relationship. When receivables are recovered, the enterprise has a source to pay its debts. When receivables cannot be recovered, the business's business capital is in short supply, which will affect production and business efficiency, so the company cannot without resources to pay due debts. Therefore, to handle liabilities mainly focus on having the right strategies to create revenue and increase the revenue of the business. At the same time, businesses should refer to the debt management regulations of other businesses and use debt management software from software companies such as misa, bravo, mis... To effectively manage their debts. Company, contributing to ensuring solvency, effective use of cash flow and enhancing the value of the business.

6. Conclusion

In the market economy, business competition is increasingly fierce and businesses are always looking for ways to expand their scale, market share, and strengthen their position in the market. To achieve this mission, capital plays a very important role. Besides, to use capital, especially debt capital, effectively and minimize risks, businesses need to have reasonable debt management. During the operation process, to achieve the goal of maximizing profits and enhancing their position, reputation, and image, businesses come up with appropriate short-term and long-term strategies that take into account the factors of risk, inflation, and investment opportunities to bring better results to businesses. To do this, businesses need to evaluate the risks in using debt and strictly manage debt. Enterprises need to implement solutions in debt management to create a basis and orient the development strategy of enterprises in the market in general, contributing to the cause of industrialization, modernization, bring the country to integrate and develop into the world economy.

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