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Evaluating Business Efficiency Ratios of Listed Garment Enterprises in Vietnam

¹Thuy Vinh Nguyen, ²Nguyen Zen Nguyen
^{1,2}University of Labour and Social Affairs, Vietnam

Corresponding Author: Nguyen Zen Nguyen

Abstract

Based on appropriate research methods, the article clarifies the research objective of assessing the performance of textile and garment enterprises listed on the Vietnamese stock market. Analysis and evaluation of financial indicators and coefficients of financial indicators (Inventory turnover; Account Payable Turnover Ratio; Total Asset Turnover ratio) is essential in corporate governance. It helps us know whether inventory policies, financial policies in money management and asset use policies are reasonable or not. Based on the theoretical basis and data collected from textile

enterprises, we conducted analysis, evaluation and found that these indicators represent the capabilities and performance of the enterprise. However, in some special cases, such as the impact of macro factors or the influence of corporate operating policies in a short time, it will affect and change these indicators. At that time, it will not show the business performance of the enterprise in a short time. The research results are the basis for us to refer to and flexibly apply in analyzing and evaluating current business activities.

Keywords: Efficiency Ratios, Earning before Interest Tax, Inventory Turnover, Total Asset Turnover Ratio, Account Payable Turnover Ratio

1. Introduction

Efficiency Ratios is a financial instrument that measures the efficiency in asset utilization and liabilities management over the period of an enterprise. Performance is assessed through indicators such as capital management, asset management; management of accounts receivable. These indicators all have a common feature of supporting groups of people who need information that can measure the distance between the conversion of resources to cash or revenue. Some indicators are measured directly, but others can only be measured indirectly. Currently, there are many studies on the business performance of domestic and foreign enterprises.

One of these typical studies is the study of Mackevičius & Valkauskas (2010) on the method of meta-analysis of the financial condition of the company and operating results. In this study, the authors argue that the information that provides the financial position and operating results of the business will greatly affect the development and competitiveness of the business. It helps to accurately assess the position of the enterprise with competitors in the same industry in the market. According to the authors, for the information to be accurate, the source of information must be reliable. The method of analyzing the financial condition and results of operations of the enterprise proposed by the author team consists of three elements. First, "the study of the absolute volatility of financial indicators"; Second, "calculation and estimation of relative financial indicators"; Third, "standardization and analysis of indicators. The authors said that when these methods are applied, we only need to use 8 to 10 indicators to be able to estimate the financial condition and operating results of businesses. This method of analysis will allow the variability of financial indicators and it is the basis for recommending decisions aimed at improving the situation for the corporate governance department. Mackevičius & Valkauskas (2010) also concluded: The application of all three elements of the integrated analysis will help the management of the enterprise assess the current financial position of the enterprise, the results of its operations and make management decisions and make decisions on development policies in accordance with the enterprise, ensuring the development of the enterprise; develop and achieve maximum efficiency in the future ^[1]. Research by author Ďurišová (2015) on assessing enterprises' financial performance in the information technology field. The author said that evaluating and measuring the financial performance of enterprises is a fundamental step to help businesses develop stably and competitively with other businesses in the market. He made the observation when the management of the business knew

that the indicators showing financial performance related to the dynamic environment in which the business operates and also related to the pressure of continuous improvement of the surrounding environment are key factors to increase competitiveness and strengthen its position in the market. However, in addition to using these indicators, the author also encourages the use of non-financial indicators to simultaneously assess the actual and accurate state of the business. The author emphasizes that this assessment also needs to be based on the development history and business status of the past period of the enterprise. The author has achieved the goal of assessing the financial performance of enterprises operating in the field of information technology. Through the establishment of financial indicators, the author aims to determine the performance of the business; Through the analysis of selected financial indicators from the results of indicators and performance of the enterprise; Enterprises use as a basis to make development policies and governance policies for businesses in the future. This policy should ensure the stable and sustainable development of enterprises [2]. The study by the authors Kotane & Kuzmina (2017) with the goal of analyzing the practice in evaluating the "business performance of small and medium enterprises" in the field of transportation and warehousing services. Conducting business performance assessments for enterprises, especially small and medium enterprises, is increasingly important in the context of economic development and market globalization. The authors said that based on economic theory, there are many methods to evaluate the financial performance of enterprises. However, the author said that among those methods, which method is the most optimal method and which businesses need to choose to use in business management effectively is the issue to pay attention to. During the study, the authors determined that the evaluation of the business performance of SMEs can be done primarily through the use of financial indicators. These indicators are easily calculated based on the accounting information of the business. The authors' research results show that the traditional method of measuring business performance is being applied inadequately and inaccurately. This measurement method makes businesses unaware of solvency and leads to the possibility of payment loss. The authors emphasize, "Many businesses that have gone bankrupt in recent times are one of the examples of the application of old analytical methods" [3]. Research by Jenčová *et al.* (2019) on corporate financial indicators in the electrical engineering industry. An important activity in corporate governance is the evaluation and analysis of the business performance of the enterprise. In order to have a basis for interpreting financial indicators appropriately, it is necessary to evaluate and analyze the impact of financial indicators on the profitability of business enterprises. Research objectives at manufacturing enterprises in the period 2012 to 2016 and clarification of financial indicators, assessment of the performance of enterprises. The team used a quantitative research method to influence financial factors on business performance. The author said that, based on financial indicators, it is possible to assess the development of electrical engineering manufacturing enterprises along with the rest of the enterprises in the same industry. The dataset used is the figures from the company and its financial statements. The results of this study by the authors are aimed at providing information to financial managers in the companies being evaluated [4].

Through some of the above typical studies, we can see that performance evaluation at businesses is one of the most important activities for business leaders. Having accurate and appropriate financial indicators will help business leaders come up with good strategies, helping businesses grow sustainably. The above studies also show the importance of analyzing accounting data of the same industry group. Therefore, it is very necessary for us to evaluate the business performance of garment companies listed in Vietnam.

2. Theoretical basis

2.1 Efficiency Ratios

Business is the full or partial implementation of the process from investment to production to consumption or provision of services in the market aimed at making a profit. Today, company executives are more concerned about their performance. Production and business activities achieve positive results to help businesses survive and develop. The essence of yes can be understood that corporate profit growth is the ultimate goal of business leaders. Achieving efficiency in business means increasing profits. The difference is the difference between a result achieved and the cost of achieving it. High or low production and business efficiency depend on the level of organization and production management of each enterprise. According to the Oxford English Dictionary, "Efficiency is the often measurable ability to avoid making mistakes or wasting materials, energy, efforts, money, and time while performing a task. In a more general sense, it is the ability to do things well, successfully, and without waste" [5]. Sickles & Zelenyuk (2019) also stated: "In more mathematical or scientific terms, it signifies the level of performance that uses the least amount of inputs to achieve the highest amount of output. It often specifically comprises the capability of a specific application of effort to produce a specific outcome with a minimum amount or quantity of waste, expense, or unnecessary effort" [6]. Production and business efficiency is an economic category, associated with the market mechanism and related to all elements of the production and business process such as labor, capital, machinery, and raw materials... hence the enterprise. Enterprises can achieve high efficiency only by effectively using the basic elements of business processes. When it comes to business efficiency, economists rely on different perspectives to come up with different definitions. When setting out a business plan and wanting to achieve that production and business goal, enterprises need to pay attention to internal conditions and promote the effective capacity of production factors. Through saving all costs necessary to improve efficiency is one of the most basic methods of increasing profits. Production and business management must always use reasonable inputs to achieve maximum results and minimum costs. However, to fully understand the essence of efficiency, it is also necessary to distinguish between the concept of efficiency and the results of production and business activities.

From the above analysis, we can see that efficiency is a comparison of outputs and input resources. That comparison can be a relative comparison or and absolute comparison. "Outputs are usually expressed in revenue, profit. The input resources are labor, costs, assets, and capital." In addition, Thanh (2009) also said that "Business efficiency is an economic category in depth, reflecting the level of

exploitation of resources and the level of cost of those resources in the process of reproduction to realize business goals". Today, production and business efficiency are very important. It is a premise to help the economy grow and is a basic basis for evaluating the implementation of economic goals of enterprises in each period^[7].

2.2 Inventory and Inventory turnover

Based on the Vietnamese accounting standard system No. 02 inventory (issued and announced under Decision 149/2001/QD-BTC), accounting standard No. 02 inventory is clearly regulated. Inventories are assets that: Held for sale during normal production and business periods; In the process of production and unfinished business; Raw materials, materials, tools, tools for use in the process of production, business, or provision of services. Inventory includes: Goods purchased for sale (Inventory, purchased goods on the road, goods sent for sale, goods sent for processing); Finished products in inventory and finished products sent for sale; Unfinished products (Unfinished products and finished products that have not been subjected to warehousing procedures); Raw materials, materials, tools, tools in inventory, sent for processing and purchased are on the road; Unfinished service costs^[8]. Also in this accounting standard, inventory is guided to determine the value as follows: Inventory is calculated at cost. Where the realizable net value is lower than the original price, it must be calculated according to the realizable net value^[8].

Index Inventory turnover

In enterprises, Inventory turnover is a financial indicator that helps us measure the effectiveness of inventory management activities in a business. The operations of selling inventory or importing new and replacing inventory in a certain period are reflected in the cost of goods sold in the income statement of the enterprise. Therefore, Inventory turnover shows the number of times a business sells and re-imports (replaces) inventory to balance the cost of goods sold accordingly in the business period. Focusing on inventory turnover system management helps businesses more easily manage related costs such as warehousing costs, and goods management costs and avoid loss and damage of goods in warehouses. In addition, the Inventory turnover shows us the average frequency of inventory turnover during a business period. The formula for determining the Inventory turnover is as follows:

$$\text{Inventory turnover} = \text{Average Revenue} / \text{Inventory}$$

The higher the inventory turnover index of the business, the more efficient the business operation of the business. This index proves that the business does not have much inventory. A high inventory index helps minimize risks in inventory management. However, if the inventory index is too high, the business will also be affected by not being able to respond to customer needs in time.

2.3 Payables and Account Payable Turnover Ratio

According to the definition of Vietnam Accounting Standard VAS 01, Liabilities define the current obligations of an enterprise when an enterprise receives an asset, enters into a commitment, or incurs legal obligations. The payment of current obligations can be made in several ways, such as: Paying with money; Paying with other assets; Provision of

services; Replacing one obligation with another; Conversion of liabilities into equity. Liabilities arising from past transactions and events, such as purchases of unpaid goods, use of unpaid services, loans, commitments to warranty of goods, commitments to contractual obligations, payables to employees, taxes payable, and other payables^[9]. According to Standard No. 21 - Presentation of financial statements (issued and published under Decision 234/2003/QD-BTC), short-term liabilities are debts that enterprises are obliged to pay in 12 months or less from the end of the annual accounting period. This is usually a debt incurred in business activities during the period such as: Short-term bank loans; Staff salaries; Negotiable Instruments; Corporate Income Tax; and Other short-term liabilities. Therefore, businesses need to have a reasonable payment plan to ensure that they do not default. Long-term liabilities are debts that an enterprise is obliged to pay after 12 months from the end of the annual accounting period. Such as: Long-term bank loans; Bonds issued; Financial property tax liabilities, Payable to long-term sellers; Deferred income tax payable; Long-term expenses; and Convertible bonds. For long-term debts, enterprises can consider loan options or raise capital to ensure solvency^[10].

Payables turnover

In addition to the common name "Account Payable Turnover Ratio", this term is also understood as "payables turnover ratio" or "payables turnover ratio". This is a financial indicator related to the repayment of debts to a supplier or a financial indicator reflecting the supplier's ability to raise capital. The Account Payable Turnover Ratio measures the rate at which a company can pay creditors and suppliers who provide credit facilities. Accounting experts quantify this ratio by calculating the average frequency with which a company repays its accounts payable balance over a certain period of time. On a company's balance sheet, the Account Payable Turnover Ratio is an important indicator of liquidity and how the company manages its cash flow. The debt turnover ratio represents a company's financial potential to repay short-term debt to investors over a specified period. This ratio allows investors to know exactly how often a company can repay its debts each period. In the best-case scenario, the company must generate enough revenue to pay off debt quickly but not miss the opportunity too soon. The amount paid is a short-term debt on the balance sheet during the fiscal year. The formula for calculating payables turnover is determined as follows: "Payables turnover is usually calculated by measuring the average number of days that a sum due by a creditor remains unpaid". Dividing that average by 365 yields the Account Payable Turnover Ratio.

$$\text{Account Payable Turnover Ratio} = \frac{\text{Cost of goods sold} + \text{Ending inventory} - \text{Inventory at the beginning of the period}}{[(\text{Payable in previous year report} + \text{payable this year})/2]}$$

When using the Account Payable Turnover Ratio, corporate management should note some points as follows. First, if the Payables Turnover is too low and decreases compared to the same period in previous financial years, it indicates that the business is taking too long to pay suppliers. In addition, a lower payables turnover means that the business has different payment terms than its suppliers. Second, when the

Payables Turnover is too high or constantly increasing, it indicates that the business is keeping too much cash at the fund. This amount of cash is many times more than the amount required by the business in the target of paying short-term bills and debts. Therefore, an increased turnover ratio may indicate that the company is managing its liabilities and cash flow effectively. However, in the long run, the increased rate may also result in the company not reinvesting in its business, which may lead to a decrease in growth and a decrease in the company's operating efficiency. As such, "payables turnover is used to measure how quickly a business can make payments to creditors and suppliers." If this ratio is much higher than its peers, it may indicate that the company is not investing in the future or using cash too much.

2.4 Assets and Total Asset Turnover Ratio

According to Standard No. 21 - Presentation of financial statements (issued and published under Decision 234/2003/QĐ-BTC), the content of assets in enterprises is divided into short-term assets and long-term assets. An asset is classified as a short-term asset when this asset: Is intended for sale or use within the framework of the normal business cycle of the enterprise; Held primarily for commercial purposes or for short-term purposes and expected to be withdrawn or paid within 12 months from the end of the year; Money or cash equivalents whose use is not restricted. All assets other than current assets are classified as long-term assets. Long-term assets include tangible fixed assets, intangible fixed assets, long-term financial investment assets and other long-term assets. The operating cycle of an enterprise is the period from the purchase of materials involved in a production process to its conversion into money or assets that are easily converted into money. Current assets include both inventory and commercial receivables sold, used, and realized as part of normal operating cycles even if they are not contemplated for the next 12 months from the end of the year. Securities whose trading market is expected to perform in the next 12 months from the end of the year will be classified as short-term assets; Securities that do not meet this condition are classified as long-term assets^[10].

Total asset turnover index

The total asset turnover index is a financial indicator that measures the degree of efficiency in the use of assets of an enterprise. More specifically, this index shows how much revenue each dollar of assets of the business generates. A company with a high total asset turnover is often seen as operating more efficiently than its peers with a lower ratio. The total asset turnover index is determined as follows:

$$\text{Total asset turnover} = \text{Net revenue} / [(\text{Total assets at the beginning of the period} + \text{Total assets at the end of the period}) / 2]$$

Most often, this indicator reflects the efficiency of the company's use of assets, so the higher it is, the better. Conversely, a low total asset turnover indicates that the company is using its assets inefficiently. Possible causes include out-of-stock, poor sales, low receivables turnover, and improper use of fixed assets. As a composite index, if the total asset turnover is high, then the remaining performance indicators must also be good. There are

significant differences in the Total Asset Turnover ratio of companies in different industries. This indicator is usually higher in industries with lower marginal profits, such as retail, but it makes no sense. Real estate and utility companies that need large amounts of capital to prepare machinery, equipment, land, and even cash often have a low Total Asset Turnover ratio, which can yield a lot of useful information. This is beneficial for both investors and business owners.

3. Research method

The research methods used in the article are overview research methods and data analysis methods. For the overview research methodology, the authors used financial documents such as accounting standards for inventory, accounts payable, and assets. The theoretical basis of Inventory turnover, Account Payable Turnover Ratio, Total Asset Turnover ratio and calculation methods of these indicators are also presented. Along with that, we evaluated the literature and research results of the authors who also studied this issue. Some typical results in the field of research are presented in the article. From the research overview and theoretical basis, we draw that the study and evaluation of financial indicators, namely Account Payable Turnover Ratio, Inventory turnover and Total Asset Turnover ratio, is essential for business management. With the analysis method, we rely on data collected from secondary data which are financial statements of textile and garment enterprises listed on the Vietnam stock market. These aggregated data are synthesized, analyzed and calculated into the necessary coefficients to serve business evaluation. Based on the data, we have drawn that the calculation of indicators is essential. However, to accurately assess the performance of the business, we also have to base it on a number of other factors such as legal factors, policies, or development intentions of the enterprise.

4. Results

The study was conducted to evaluate the business performance of listed garment enterprises in Vietnam. Textiles and garments are an important export industry of Vietnam and although not an important product, they are the most popular consumer goods in the world. Vietnam's textile and garment products are very popular in the international arena. The textile and garment industry has the advantage of not requiring highly skilled labor and labor costs in Vietnam are very cheap. Textile companies do not require large investment costs, even small and medium-sized enterprises can produce and operate normally. The production and product cycles of the textile industry vary according to the season, local customs and consumer preferences. If any of the above factors change, it will affect the company's production and sales activities. As textile demand declines, companies also have to cut orders and staff, leading to a decline in business activity and a fall in the market price of textile inventory. The group of textile enterprises we study in this article includes: Thanh Cong Textile Garment Investment Trading Joint Stock Company (TCM); Viet Thang Corporation (TVT); Garmex Saigon Corporation (GMC); DamSan Joint Stock Company (ADS); Everpia JSC (EVE); Mirae JSC (KMR); Song Hong Garment Joint Stock Company (MSH); Binh Thanh Import - Export Production & Trade JSC (GIL); TNG Investment and Trading JSC (TNG).

Table 1: Some financial indicators of Vietnamese textile and garment enterprises

Unit: Billion VND

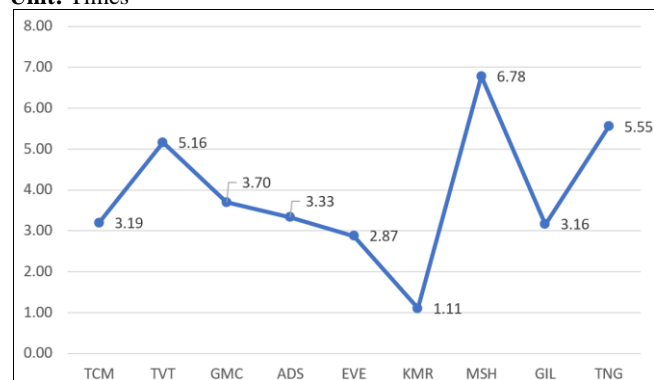
Quota	TCM	TVT	GMC	ADS	EVE	KMR	MSH	GIL	TNG
Turnover	4341	1960	292	1693	1022	599	5223	3167	6772
Inventory at the beginning of the period	1464	278	67	568	347	597	938	749	1159
End-of-period inventory	1255	482	91	448	364	486	603	1254	1280
Total assets at the beginning of the period	3606	1391	827	1985	1269	3203	5521	3766	4367
Total assets at the end of the period	3477	1813	535	2182	1457	3294	3294	3988	5292
Cost of goods sold	3627	1751	296	1555	637	527	4692	2672	5773
Inventory at the beginning of the period	1464	278	67	568	347	597	938	749	1159
End-of-period inventory	1255	482	91	448	364	486	603	1254	1280
Payable in previous year's report	1898	761	125	1401	305	457	1707	2155	2095
Payable in this year's report	1498	1191	87	1525	429	294	1575	1477	3641

Source: Compiled from Financial Statements of Vietnam textile and garment enterprises

4.1 Inventory turnover of Garment Enterprises Listed in Vietnam

The Inventory turnover ratio of Vietnamese textile and garment enterprises ranges from 1.11 times to the highest of 6.78 times. Businesses with good inventory turnover metrics include MSH, TNG, and TVT businesses. According to the meaning of inventory turnover stated on the theoretical basis, these businesses are operating effectively. It shows that businesses do not have too much inventory and costs related to inventory management are minimized. Businesses with low inventory turnover indexes such as KMR, and EVE are businesses at risk of not meeting customer needs. However, in order to specifically consider and evaluate whether the inventory turnover performance of businesses helps high performance or not, we also have to base on revenue and profit targets, this assessment will be given in the final part of the research results.

Unit: Times



Source: Compiled from Financial Statements

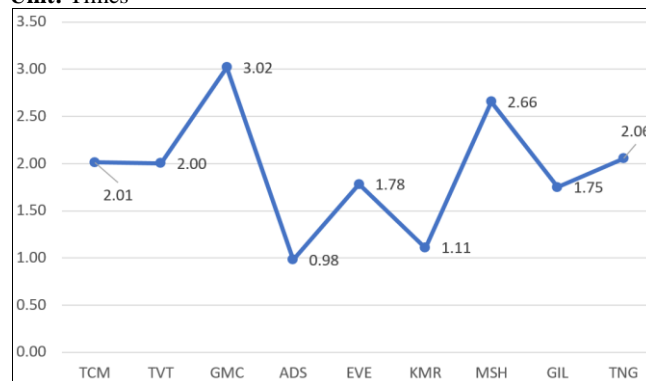
Fig 1: Inventory turnover of listed garment enterprises in Vietnam

4.2 Account Payable Turnover Ratio of Garment Enterprises Listed in Vietnam

The Account Payable Turnover Ratio of Vietnam's textile and garment enterprises is quite low. Specifically, ADS enterprises have an Account Payable Turnover Ratio of 0.98 times, KMR Textile and Garment enterprises have a turnover ratio of 1.11 times, EVE enterprises have 1.78 times. Some other businesses such as GIL and TCM are 1.75 and 2.01 times, respectively. Textile businesses with slightly higher Account Payable Turnover Ratios are GMC 3.02 times MSH 2.66 times. Thus, compared to other businesses in the same industry, GMC and MSH have the highest Account Payable Turnover Ratio. This shows that GMC and MSH have the best speed to pay creditors and

suppliers of credit facilities. This index also shows that businesses can pay their debts quickly. In contrast to the group with a relatively low Account Payable Turnover Ratio such as ADS enterprises, there is a high risk of insolvency for creditors and partners. However, to take a closer look at how these metrics affect operating profitability, we'll break down the mix in the final review of this article.

Unit: Times



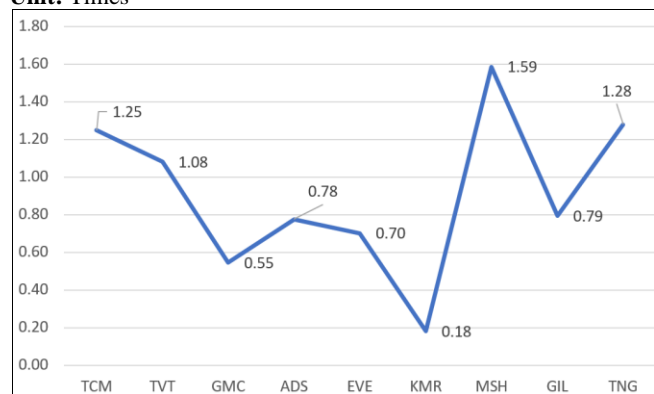
Source: Compiled from Financial Statements

Fig 2: Account Payable Turnover Ratio of Garment Enterprises Listed in Vietnam

4.3 Total Asset Turnover ratio of garment companies listed in Vietnam

The total Asset Turnover ratio is an indicator reflecting the efficiency of using assets of enterprises. Looking at Fig 3 we see that the highest ratio belongs to MSH Company at 1.59 times and the lowest with 0.18 times belongs to KMR enterprise. For the rest of the companies, this coefficient fluctuates quite low, ranging from 0.55 to 1.08. From these figures, we can see that MSH Textile and Garment enterprises are using their assets quite effectively, it is shown by the largest Total Asset Turnover ratio in the group of Textile and Garment enterprises and vice versa, enterprises such as KMR or other enterprises a low Total Asset Turnover ratio, which means that the management of the business are underutilizing assets. However, as we have already stated, in terms of usefulness and other reasons why the Total Asset Turnover ratio may be as low as an enterprise invests a large amount of capital in factory machinery and equipment in a short time, the Total Asset Turnover ratio for that year will decrease abnormally. Therefore, to evaluate the Total Asset Turnover ratio of good or bad business, we also need to base it on many other factors.

Unit: Times



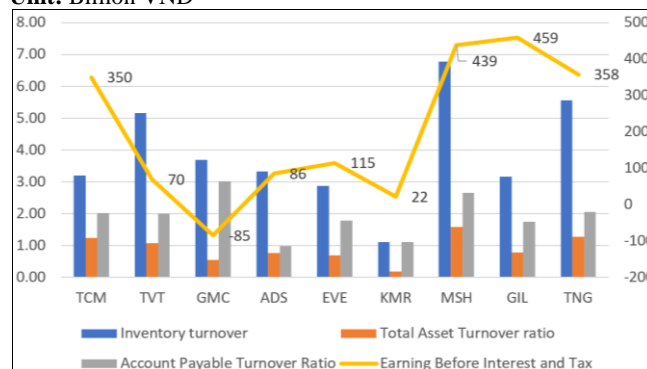
Source: Compiled from Financial Statements

Fig 3: Total Asset Turnover ratio of garment companies listed in Vietnam

4.4 Evaluating the performance of listed textile and garment enterprises in Vietnam

We have analyzed and presented the results of the inventory multiplier, Account Payable Turnover Ratio and Total Asset Turnover ratio. Based on these coefficients, we have a preliminary assessment of the operational ability, financial management ability, inventory management and asset management of the business. However, to look more specifically at the impact of these indicators on corporate profitability, let's look at Fig 4. In Fig 4, GIL's Earning Before Interest and Tax is the highest with VND 459 billion in 2022, the second highest is MSH enterprise with VND 439 billion, third is TNG enterprise with VND 359 billion, fourth is TCM enterprise with VND 350 billion. Enterprises with low pre-tax and fee profits are GMC enterprises with negative growth to VND 85 billion, KMR enterprises with pre-tax profit in 2022 of VND 22 billion and TPT of VND 70 billion. We notice that the two enterprises with the largest analyzed turnover ratios, TNG and MSH, both have quite high pre-tax profits and are in the top group of Vietnam's textile and garment industry. We have stated in the analysis in the Theoretical basis section that if the Account Payable Turnover Ratio, Inventory turnover ratio and Total Asset Turnover ratio are higher, it shows that the business is doing well and has effective governance policies. Thus, this result is true to the meaning and role that the Inventory turnover, Total Asset Turnover ratio and Account Payable Turnover ratio play. However, according to the data in Fig 4 on the pre-tax profit of enterprises, TCM enterprises are enterprises with relatively low turnover ratios and much lower than MSH enterprises and TPT enterprises, but the pre-tax profit of this enterprise is the fourth highest, followed by the case of GI enterprise with a relatively low turnover coefficient similar to TCM enterprises, but pre-tax profit ranked first with VND 459 billion. Therefore, in order to evaluate the performance of garment businesses, in addition to using and analyzing Account Payable Turnover Ratio, Inventory turnover or Total Asset Turnover ratio, we need to rely on many other factors. Factors should be used in combination in the assessment such as tax policies, government market development policies, indicators of the scale development of enterprises and long-term investment activities to draw conclusions about the business performance of enterprises.

Unit: Billion VND



Source: Compiled from Financial Statements

Fig 4: Comparing Earning before Interest and Tax with Inventory turnover, Total Asset Turnover ratio and Account Payable Turnover Ratio

5. Conclusions

The article has presented the theoretical basis, and calculated, and determined financial indicators. Based on that result, the article assessed the performance of enterprises in the textile and garment industry group in Vietnam. Based on the results of Inventory turnover, Account Payable Turnover Ratio, Total Asset Turnover ratio, we see that these indicators also show the management ability (Financial management; Asset management; Effective inventory management) of the business. In some cases, the article has also proved that in addition to based on the above coefficients, we also need to consider macro factors such as economic policies of the state and development policies and plans of enterprises to make judgments about performance in that enterprise closer to reality.

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