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OPTIMIZING WORKING CAPITAL FOR FINANCIAL SUCCESS: EVIDENCE FROM VIETNAM

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ABSTRACT

Effective working capital management (WCM) is vital for the financial success of firms. This study examines the impact of WCM on the financial performance of publicly listed companies in Vietnam's construction materials industry from 2010 to 2023. Using regression analysis techniques such as OLS, FEM, and REM, the research reveals a significant positive correlation between financial performance and the quick ratio, indicating the importance of liquidity management. Conversely, a negative relationship is found between financial performance and accounts receivable, highlighting the need for efficient credit management. Inventory management shows no significant correlation with financial outcomes. The findings suggest that construction materials firms should prioritize improving accounts receivable management and maintaining adequate short-term assets to meet current liabilities, thereby enhancing financial stability and performance.

KEYWORDS: - Working capital management, cash management, inventory management, account receivables management.

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1.0 INTRODUCTION

Working capital management (wcm) is described as the strategic approach of managing a firm's current assets and the finance required to sustain those assets [1]. It is a critical component of corporate financial management, alongside financing and investment decisions [2]. Effective wcm guarantees that a company can fulfill its short-term liabilities and finance its daily operations, thereby maintaining liquidity and profitability [3]. Decisions related to wcm can significantly impact a company's risk profile, returns and share price, particularly in capital-intensive sectors.

Various studies have indicated that proficient wcm enhances corporate performance by optimizing cash flows, reducing financial distress, and improving profitability [10]. Research has consistently shown a strong link between wcm efficiency and firm performance across various industries, including manufacturing [6]; food and beverage [7], [8]; bank [9] Or multiple sectors [4], [10]. However, the construction materials sector in vietnam presents unique financial challenges due to prolonged project cycles, delayed payments, and fluctuating demand, making efficient wcm particularly crucial [11]. The ability to meet its short-term payment obligation, manage inventory, and optimize accounts receivable directly influences a firm's operational success and long-term viability. Empirical evidence suggests that firms with effective liquidity management strategies tend to perform better financially [12]. Conversely, companies that neglect these aspects risk financial distress [2], [13], underscoring the importance of wcm in maintaining operational stability.

Despite the recognized importance of wcm, limited studies have specifically examined its impact on firm performance within vietnam's construction materials industry. Most existing research has focused on general manufacturing or service sectors [7], neglecting industry-specific challenges such as extended credit periods, high production costs, and supply chain disruptions. Additionally, while studies on wcm often explore cash conversion cycles and liquidity constraints, few have analyzed their combined effects on financial performance in emerging markets like vietnam. This gap necessitates further investigation into how wcm strategies influence firm profitability and risk management in this industry.

This study aims to examine the relationship between key wcm components—inventory turnover, accounts receivable, and liquidity—and firm financial performance in vietnam's construction materials industry; identify the extent to which wcm strategies impact firm financial performance, considering industry-specific factors such as payment delays and supply chain inefficiencies. After that, based on practical evidence, provide practical recommendations for optimizing wcm to enhance financial stability and financial performance.

To meet the following objectives, this research is presented in the following structure. After the introduction, section 2 reviews the existing literature on wcm and its impact on firm performance, highlighting gaps in prior research. Section 3 presents the research methodology, including data collection and analysis techniques. Section 4 discusses the empirical findings, interpreting the statistical relationship between wcm components and firm profitability. Finally, section 5 concludes with implications for business managers and policymakers, offering recommendations for improving wcm practices in vietnam's construction materials sector.

2.0 LITERATURE REVIEW

Wcm is essential for sustaining a company's liquidity and operational efficiency, particularly through the management of cash, inventory and account receivables. Proper cash management ensures that firms have sufficient liquidity to meet short-term obligations while minimizing idle cash that could be reinvested for growth. Inventory management plays a key role in balancing stock levels to avoid excess holding costs and stockouts, directly impacting cash flow and profitability. Additionally, managing accounts receivable efficiently—by setting optimal credit terms and ensuring timely collections—helps improve cash conversion cycles and reduces the risk of bad

debts. By integrating these components, firms can optimize their working capital, enhance financial performance, and strengthen overall business stability [1].

Numerous studies have investigated the relationship between the administration of cash, inventory, account receivables with the firm's performance.

2.1 Cash management

Effective cash management is a crucial component of working capital management, focusing on the efficient administration of a company's cash inputs and expenditures, along with the optimal maintenance of cash reserves. The basic objective is to guarantee that a company possesses adequate liquidity to fulfill its short-term liabilities, sustain daily operations, and capitalize on prospective opportunities, while avoiding the retention of excessive idle cash that could be used more efficiently. A number of studies suggest that maintaining an adequate level of cash can be beneficial for firm performance. Cash can act as a precautionary buffer against unexpected shocks or downturns in the business environment [6]. Companies with sufficient cash reserves may have greater financial flexibility to navigate uncertainties and pursue strategic investments or acquisitions when opportunities arise [6]. The study by nobanee & al hajjar (2011) in japan indicated that the payment period might have a positive effect on profitability. This could be because extending payment terms allows firms to retain cash longer for other uses. Conversely, holding too much cash can be detrimental to firm performance due to the opportunity cost of not investing those funds in potentially higher-return assets [4]. Large amounts of idle cash may be inefficient and could reduce profitability and firm value. Several studies have indicated a negative relationship between elements of wcm (including cash) and profitability. For example, excessively extending the collection period from customers can increase capital costs and bad debt risks, thereby negatively affecting profitability [10], [13]. Uyen (2018) studied 56 food industry firms listed in vietnam during 2015-2017 and concluded that there is an inverse relationship between cash conversion cycle (ccc) and return on assets (roa). Therefore, finding the optimal level of cash holdings is crucial for maximizing firm performance.

One way to assess a company's short-term liquidity and, by extension, a conservative aspect of its cash management, is through the quick ratio [15]. The quick ratio, calculated as (current assets - inventory) / current liabilities, indicates a company's ability to cover its immediate liabilities with its most liquid assets, excluding inventory [1]. A higher quick ratio generally suggests a stronger liquidity position [15]. In this research, quick ration is used as the representation for cash management of the firm.

2.2 Inventory management

Inventory management involves overseeing the flow of goods into and out of a company's stock. Efficient inventory management ensures that sufficient stock is available to meet customer demand without holding excessive amounts that tie up capital and incur storage costs [16]

Several studies suggest an inverse relationship between the inventory period (number of days inventory is held) and profitability [7], [11]. Longer inventory holding periods can lead to increased storage costs, obsolescence, and tied-up capital, thus negatively impacting profitability [17], [6].

Conversely, shorter inventory periods, indicating efficient inventory turnover, are often associated with higher profitability as it signifies less capital tied up in stock and reduced carrying costs [10], [18]. This suggests a potential trade-off, and firms need to find an optimal level of inventory [19]. These mixed findings highlight the context-specific nature of the inventory-profitability relationship.

2.3 Account receivables management

Accounts receivable management focuses on the credit and collection policies related to the money owed to the company by its customers for goods or services sold on credit. Effective management aims to minimize the time it takes to collect receivables while maintaining customer relationships [16].

Research generally indicates an inverse relationship between the average collection period (acp) or accounts receivable days and profitability [10], [18], [20]. Longer collection periods mean that a firm has more capital tied up in receivables, leading to increased financing costs and potentially higher bad debt expenses, thus reducing profitability.

Shorter collection periods, achieved through efficient credit policies and collection efforts, are usually linked to higher profitability as the firm receives cash quicker, improving liquidity and reducing financing needs [10].

However, extending trade credit and thus increasing days of account receivable can potentially stimulate sales and subsequently profitability by attracting more customers and larger orders [18], [19]. Again, this suggests a trade-off between offering lenient credit terms to boost sales and the costs associated with longer collection periods [21].

In summary, wcm is fundamentally about the effective management of a company's short-term assets (cash, inventory, receivables, and other) to ensure sufficient liquidity for operational continuity and to maximize profitability

3.0 DATA AND RESEARCH METHOD

3.1 Data sample

The study collects financial data from 103 listed companies in the construction materials industry on vietnam's two stock exchanges: the hanoi stock exchange (hnx) and the ho chi minh city stock exchange (hose). Listed companies were selected as the research subjects because they possess industry-specific characteristics and operate in a professional and well-standardized management environment, which can help them to represent other companies within the same sector.

However, among the 103 listed construction materials companies, 27 were excluded due to missing financial information, as their financial statements or annual reports were either unpublished or unavailable for certain years. As a result, after data processing, the final dataset includes 76 listed companies for analysis.

The dataset was collected and extracted from the financial statements and annual reports of these 76 companies over the period from 2010 to 2023. The reason for selecting the 2010–2023 period is that from 2010 onward, company reports have been collected and compiled in the most comprehensive manner.

3.2 Research model

Building on the existing literature, this study proposes a research model in which financial performance, represented by return on assets (roa), serves as the dependent variable. Roa is widely recognized as a key financial indicator and is commonly used as a proxy for firm performance [15]. In the context of wcm, this study incorporates three fundamental components: cash management (representing by quick ratio), inventory management (representing by inventory turnover in days), and accounts receivable management (representing by account receivables in days) [16]. Additionally, firm size and leverage are included as control variables to account for their potential influence on the research model [22], [23], [24].

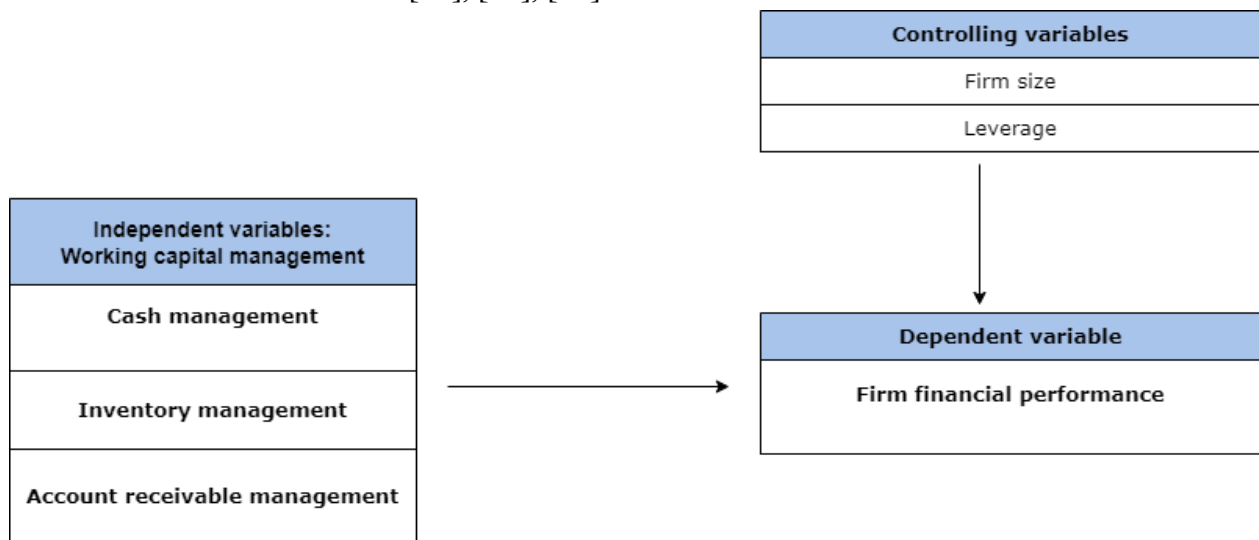


Figure 1. Research model

The model employs multivariate regression with panel data as follows:

$$ROA_{i,t} = \beta_0 + \beta_1 Quick + \beta_2 Invdays + \beta_3 Accountdays + \beta_4 Size + \beta_5 Leverage + u_{i,t}$$

Variables in the research model are described in details in the following table:

Table 1: Variable descriptions

Types of variables	Label	Description	Measurement
Dependent variable (Financial performance)	ROA	Return on total assets	$\frac{Net\ income}{Total\ assets}$
Independent variable (WCM)	Quick	Quick ratio	$\frac{Current\ assets - Inventory}{Current\ liabilities}$
	Invdays	Inventory turnover in days	$\frac{Average\ Inventory}{Cost\ of\ goods\ sold} \times 365$

		Account receivable turnover in days	$\frac{\text{Average account receivable}}{\text{Total revenue}} \times 365$
Controlling variables	Accountdays		
	Size	Firm size	Natural logarithm of Total Assets
	Leverage	Total debt to total assets	$\frac{\text{Total debt}}{\text{Total assets}}$

4.0 EMPIRICAL RESULTS

4.1.Descriptive statistics

The following summary statistics provide essential insights into the WCM and financial performance of Vietnam's construction materials sector.

Table 2: Summary statistic

Variable	Obs	Mean	Std. Dev.	Min	Max
Quick	1,064	1.202231	3.013743	0	62.69
Inv Days	1,031	189.8584	2466.973	0	79,164
Account Days	1,035	400.2242	6322.354	0	151,777
ROA	1,035	6.999353	8.054121	-29.67	48.83
Size	1,064	20.19037	1.597733	16.46036	25.95758
Leverage	1,064	0.2972485	0.2290377	0	1.825208

The inventory turnover period (inv days) and accounts receivable turnover period (account days) demonstrate exceedingly high maximum values (79,164 days and 151,777 days, respectively) and substantial standard deviations, indicating that certain firms encounter significant inefficiencies in inventory management and credit collection. This corresponds with industrial characteristics, wherein long production cycles, large-scale projects, and deferred payments from contractors contributing to cash flow difficulties. The quick ratio of 1.20 signifies a relatively low level of short-term liquidity, a characteristic often observed in capital-intensive sectors that require substantial working capital. The return on assets (roa) exhibits significant variability, ranging from -29.67% to 48.83%, indicative of the industry's vulnerability to economic cycles and market demand variations. The average debt-to-assets ratio is 29.7%, with several firms exceeding leverage levels of 1.8, underscoring the dependence on debt financing, a characteristic common in a sector requiring significant initial investment. The findings underscore the financial limitations encountered by construction material companies in vietnam, where the management of liquidity, working capital efficiency, and debt exposure is essential for sustainable performance.

4.2 Correlation matrix

Table 3: Pearson correlation results

	ROA	Quick	Inv days	Account Days	Size	Leverage
ROA	1.0000					
Quick	0.1105 0.0004	1.0000				
Inv days	-0.0298	0.0167	1.0000			

	0.3401	0.5928				
Account Days	-0.0316	0.4618	0.0832	1.0000		
	0.3094	0.0000	0.0076			
Size	0.0479	-0.1158	0.0190	0.0041	1.0000	
	0.1268	0.0002	0.5467	0.8963		
Leverage	-0.2850	-0.2836	-0.0030	-0.0570	0.3091	1.0000
	0.0000	0.0000	0.9244	0.0668	0.0000	

Table 3 displays the correlation among essential financial variables, including ROA, Quick ratio, Inventory days (Inv days), Accounts receivable days (Account Days), Firm size, and Leverage. The findings reveal that ROA exhibits a significant positive association with the Quick ratio (0.1105, $p < 0.01$) and Firm size (0.0479, $p > 0.1$), whereas it demonstrates a negative correlation with Leverage (-0.2850, $p < 0.001$) and Account receivable in days (-0.0316, $p > 0.1$). The Quick ratio exhibits a substantial link with Account Days (0.4618, $p < 0.001$), whereas Leverage demonstrates a moderate inverse correlation with the Quick ratio (-0.2836, $p < 0.001$).

4.3 Regression results

Before interpreting the coefficients, several diagnostic tests were conducted to determine the appropriate model specification:

Multicollinearity Test: The Variance Inflation Factor (VIF) results indicated no significant multicollinearity among the independent variables (mean VIF = 1.10).

Heteroskedasticity Test: White's test and the Modified Wald test for groupwise heteroskedasticity both indicated the presence of heteroskedasticity (p -value = 0.0000).

Autocorrelation Test: The Wooldridge test for autocorrelation in panel data confirmed the presence of first-order autocorrelation (p -value = 0.0000).

Hausman Test: The Hausman test result ($p = 0.0337$) rejected the null hypothesis, indicating that FEM is preferred over REM.

Given the presence of heteroskedasticity and autocorrelation, robust standard errors or GLS estimation should be considered to ensure reliable inference. The FEM results are considered the most appropriate, but GLS is also reported for robustness.

To guarantee the reliability of the results, four distinct estimate techniques were utilized: Ordinary Least Squares (OLS), Fixed Effects Model (FEM), Random Effects Model (REM), and Generalized Least Squares (GLS). Table 4 presents the regression findings.

Table 4: Multiple regression results

Variables	(1) OLS	(2) FEM	(3) REM	(4) GLS
Quick	0.238** (2.58)	0.148* (1.89)	0.160** (2.07)	0.238*** (3.54)
Invdays	-0.0000685 (-0.73)	-0.0000207 (-0.27)	-0.0000283 (-0.37)	-0.0000402 (-0.56)
AccountDays	-0.00231*** (-5.59)	-0.00127*** (-3.60)	-0.00142*** (-4.07)	-0.00274*** (-5.66)
Size	0.791*** (5.10)	-0.0701 (-0.19)	0.331 (1.24)	0.358** (3.10)
Leverage	-11.61*** (-10.09)	-4.690** (-2.87)	-6.552*** (-4.54)	-8.232*** (-9.74)
Constant	-5.465* (-1.78)	9.880 (1.30)	2.135 (0.40)	2.033 (0.89)
Observations	1010	1010	1010	1010
R-squared	0.141	0.028	-	-

t statistics in parentheses: * p<0.1, ** p<0.05, *** p<0.001

It can be seen that quick ratio (Quick) is positively associated with ROA across all models, indicating that firms with better short-term liquidity tend to perform better financially. The relationship is statistically significant at the 5% level in FEM and REM, and at the 1% level in GLS, suggesting a consistent positive effect of liquidity on firm performance. This finding align with the previous research of [25], [26].

Inventory turnover in days (Invdays) is negative in all models but statistically insignificant, implying that inventory turnover speed may not have a clear impact on firm performance in this industry. This can be explained by the fact that inventory management strategies vary across firms, and some companies may hold higher inventory levels to mitigate supply chain disruptions, while others prioritize rapid turnover to enhance liquidity. Additionally, the construction materials industry often deals with bulk purchasing and storage of raw materials, which can reduce cost fluctuations but may not directly translate into immediate profitability. As a result, the relationship between inventory turnover and firm performance remains weak and statistically insignificant in this context.

Accounts receivable turnover in days (Account days) has a significant negative effect on ROA at the 1% level in all models, meaning that longer collection periods negatively impact financial performance. This result supports the idea that efficient receivables management improves firm financial outcomes which also stated in the research of [18], [20]

Firm size (Size) shows a significant positive impact on ROA in the OLS and GLS models, but the FEM estimation suggests that firm-specific factors may weaken this relationship. This inconsistency suggests that the effect of size on financial performance may be influenced by firm-specific characteristics.

Debt-to-assets ratio (Leverage) has a strong negative impact on ROA in all models, with highly significant coefficients ($p < 0.001$). This implies that firms with higher debt levels tend to experience lower profitability, likely due to higher interest expenses and financial risk.

5.0 DISCUSSION

The results of the study provide significant insights into how financial metrics impact firm performance, particularly in the construction materials industry. The positive and statistically significant relationship between the quick ratio and ROA suggests that firms in the construction materials industry with better short-term liquidity tend to perform better financially. This aligns with the industry's need for substantial upfront investments in raw materials and labor, as highlighted by the importance of working capital in construction businesses. Efficient liquidity management ensures that firms can meet immediate obligations, maintain smooth operations, and avoid project delays, which are critical in an industry characterized by high capital intensity and long billing cycles.

The negative but statistically insignificant relationship between inventory turnover in days and ROA reflects the unique challenges of inventory management in the construction materials sector. Firms often deal with bulk purchasing and storage of raw materials like cement, aggregates, and bricks to mitigate cost fluctuations and supply chain disruptions. While rapid inventory turnover may enhance liquidity, holding larger inventories can provide stability in project execution. This trade-off explains why inventory turnover speed does not have a clear impact on profitability in this context. Additionally, variations in inventory strategies across firms further dilute the significance of this metric.

The significant negative effect of accounts receivable turnover in days on ROA highlights the critical role of receivables management in the construction materials industry. Longer collection periods tie up capital, reducing cash flow and financial flexibility. This is particularly relevant for construction companies, where delayed payments are common due to project-based billing cycles. Efficient receivables management not only improves liquidity but also enhances overall financial performance by freeing up resources for reinvestment.

Additionally, firm size shows a significant positive relationship with ROA, indicating that larger firms benefit from economies of scale, better resource allocation, and stronger market positioning. The strong negative association between debt-to-assets ratio and ROA underscores the financial risks associated with high leverage. In the construction materials industry, firms often rely on debt to finance large-scale projects or bulk material purchases. However, excessive debt increases interest expenses and financial vulnerability, ultimately eroding profitability. This finding reinforces the importance of maintaining an optimal capital structure to balance growth opportunities with financial stability. In light of these findings, several strategic implications emerge for both businesses and policymakers. For businesses, it is crucial to optimize financial restructuring by reducing costs and ensuring timely debt repayment. Efficient inventory and receivables management are also vital, as they can enhance liquidity and reduce financial risks. Furthermore, expanding domestic consumption through government-backed projects and increasing exports can help stabilize market demand.

For policymakers, providing financial support through preferential loans and simplifying loan procedures can alleviate financial pressure on construction materials companies. Additionally, implementing large-scale public investment projects can boost domestic demand for construction materials. Streamlining administrative procedures and providing favorable conditions for businesses to access bidding information and execute projects can also improve the overall business environment.

Overall, these insights highlight the need for a balanced approach to financial management and strategic planning in the construction materials industry, emphasizing both operational efficiency and prudent financial decision-making.

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