

**IMPACT OF FINANCIAL MANAGEMENT ON THE PROFITABILITY
OF SMALL AND MEDIUM TRADE AND SERVICE ENTERPRISES
IN THAI NGUYEN PROVINCE**

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PHAM ANH NGOC (RANDY)

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ABSTRACT

This dissertation examines the relationship between financial management and profitability of SMEs to determine whether financial management practices and financial aspects impact on SME profitability.

Specific Objectives of the dissertation are:

1. To determine the profile of the respondents in terms of the following
 - 1.1. The form of business organization affiliated with
 - 1.2. Position in the company
 - 1.3. Highest educational attainment
 - 1.4. Attendance to financial management-related trainings
2. To Identify the financial management practices of the company in terms of the following areas:
 - 2.1. Accounting information system
 - 2.2. Working capital management
 - 2.3. Fixed asset management
3. To assess the company in terms of the following financial aspects:
 - 3.1. Liquidity
 - 3.2. Financial leverage
 - 3.3. Activity
4. To know the relationship of financial management practices and financial aspects to the company's profitability in terms of the following:
 - 4.1. Return on sales
 - 4.2. Return of assets
 - 4.3. Return on equity
5. To develop a model for the SME's profitability

6. To propose solutions to improve the company's and SME's profitability

In this research, both survey and secondary data methods are used in combination. Survey was chosen to investigate financial management practices. The secondary data method was used to examine the financial aspects.

Respondents in this study can be: Owner, Manager, Chief-accountant of SMEs located in Thai Nguyen City.

The dissertation provides descriptive findings of financial management practices and financial aspects and demonstrates the simultaneous impact of financial management practices and financial aspects on SME profitability. In addition, the research study provides a model of SME profitability, in which profitability was found to be related to financial management practices and financial aspects. With the exception of debt ratios, all other variables including cash ratio, total asset turnover, accounting information systems, working capital management and fixed asset management were found to be significantly related to SME profitability.

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Chapter 1

INTRODUCTION

This chapter provides a general introduction to the research study. The purpose is to establish foundations for following chapters and the study as a whole, by providing a general picture of the study. This chapter is structured into ten sections

Section 1.1 examines the research background where the research problem is identified. Section 1.2 defines the research problem, presents a statement of the problem and expands the research problem in two subsections 1.2.1 and 1.2.2. Subsection 1.2.1 presents research objectives that the study covers in the process of solving the research problem defined. Subsection 1.2.2 addresses the research questions that will be respectively answered in chapters of the study

Section 1.3 provides hypothesis of this study. Section 1.4 and section 1.5 points out the significance and scope of the study. Lastly, section 1.6 presents definition of terms

1.1. BACKGROUND OF THE STUDY

Vietnam was a strong command-economy system in the mid-1980s. The difficulties from years of war and the inefficiency of the command-economy system had led the Vietnam economy to crisis. Face with stagnant growth, shortage of food, deficit budgets, increase in inflation and trade imbalances, the Government of Vietnam started an economic renovation policy in 1986.

According to Vietnam Chamber Of Commerce And Industry (VCCI), since the government introduced the series of economic reform, the private sector has rapidly grown in terms of the number of businesses, capital and employees. From the base of zero in 1991, the number of private businesses, limited companies and joint stock companies had quickly risen to 543.963 in 2011 and almost all are small and medium enterprises (SMEs). SMEs have

contributed considerably to growing GDP and creating jobs for labour-age people as follows (VCCI):

Total of capital was 6.000.000 billion VND

Providing a large number of diversified products, occupying 40 percent of GDP

Creating jobs for 26 million people,

Mobilizing temporarily unused resources such as land, capital labour and management skills to develop production, and

Increasing export volume and lessening trade deficits.

Originating from recognition of the increasingly important role and contribution of SMEs as well as the recent promotion and supporting policy on developing SMEs, this research study the *Impact of Financial Management on the Profitability of Small and Medium Trade and Service Enterprises in Thai Nguyen Province*.

1.2. STATEMENT OF THE OBJECTIVES

The problem that SMEs in Thai Nguyen province face appears to be that inefficient financial management has adversely affected their profitability (Thai Nguyen Young Businesses's Union 2010). Therefore, the problem to be addressed in this research is to investigate effects of Financial aspects and financial management practices on SME profitability, and then, to determine the best measures for improving SME profitability in Thai Nguyen province by using efficient financial management tools.

1.2.1. Research objectives

In solving the research problem and answering the research questions mentioned previously, this study has the following objectives:

1) To determine the profile of the respondents in terms of the following

1.1) The form of business organization affiliated with