Int. j. adv. multidisc. res. stud. 2024; 4(2):1138-1140

Received: 27-02-2024
Accepted: 07-04-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Preventing Liquidity Risks at Vietnamese Enterprises

Chien Dinh Thi
Department of Accounting, University of Labour and Social Affairs, Vietnam

Corresponding Author: **Chien Dinh Thi**

Abstract
Liquidity plays an important role in operational efficiency and affects a business's credit risk. Businesses facing liquidity difficulties will suffer many negative impacts and may lead to bankruptcy. Many businesses are currently experiencing many consequences related to liquidity due to many different reasons.
Therefore, the goal of the article is to prevent liquidity risks at businesses. The research was conducted with a qualitative method by understanding the current liquidity situation of Vietnamese businesses in recent times. Based on the research results, the article offers some solutions to improve liquidity risk prevention for these businesses in the coming time.

Keywords: Liquidity, Business, Prevention, Risk

1. Introduction

Enterprise liquidity affects many subjects:
(i) With the socio-economic background
Liquidity risk makes it difficult for banks and businesses to mobilize capital, operate credit and provide capital to the economy. When there is not enough capital, the business operations of businesses and banks will face obstacles, inflation will increase, the scale of investment will decrease, leading to a decline in the economy. From there it also affects people's lives.
For developed countries that have a great influence on the global economy, liquidity risk can also lead to political disruption and implicate other countries.
(ii) With the company's customers and shareholders
Bank deposit customers are also affected. When they have trouble withdrawing money to spend for investment, production or business purposes, they will doubt the bank's financial capacity and insist on withdrawing the money. The more people withdraw, the more losses the bank will have, and the customer relationship will no longer exist.
For a company's shareholders, when they are not paid dividends or debts are not fully repaid, they will no longer trust that company, because the purpose of investing in the company is to benefit. They will force the company to repay debt and take their capital elsewhere.
(iii) With businesses themselves
Enterprises with weak liquidity will affect their cash flow and lose their ability to pay debts. Creditors will continuously tighten their debts, and other partners will also be hesitant in providing raw materials to the enterprise; Borrowing and raising capital will not go smoothly, and at the same time, it will be difficult for businesses to find a good sponsor.
In addition, production and business activities will stagnate due to lack of raw material sources, and human resources will also be affected because businesses cannot afford to pay labor wages. Therefore, the produced goods are not enough to sell to customers, causing heavy losses to the business.
If the above situation persists, it will cause businesses to face the risk of bankruptcy. Therefore, it is necessary to prevent liquidity risks in businesses.

2. Theoretical basis for liquidity risk

- **Creditial**

Liquidity is a term used to refer to the extent to which any asset can be bought or sold in the market without affecting its market value. An asset is highly liquid if it can be sold quickly with little or no decrease in selling price, typically characterized by high transaction volume. The more liquid the asset, the lower the risk.

- **Payment risk**

Liquidity Risk occurs when individuals, organizations or businesses cannot fully meet their short-term debt obligations. They cannot convert the assets they have into cash to pay off debt, forced to give up capital and income due to lack of buyers or inefficient markets.

Liquidity risk includes asset liquidity risk and operating capital liquidity risk. This refers to the ease with which a company can convert its assets and capital into cash when a sudden need arises.

- **Liquidity risk in businesses**

Liquidity risk in a business is the business's risk in paying debts from suppliers, banks or other arising debts. Liquidity risk here considers the ability of the business to repay both short-term and long-term debt. Liquidity in assets is the asset's readiness to be converted into cash. At this time, businesses must restructure their debt and asset portfolios, issue more valuable papers to mobilize capital, and adjust their loan structure. Businesses should not be too dependent on bank credit, but should review the budget, adjust revenue and expenses (for example, increase sales, promote debt recovery or look for another financial institution) to compensate for the shortfall.

Businesses will often encounter a situation where there is a lot of revenue but not much cash flow, leading to difficulty in rotating capital for the next business cycle. And liquidity risk increases when the company suddenly finds itself without enough cash to pay basic necessary expenses to serve the company's operations, or short-term debt, or long-term debt. but it is due. This is why cash flow management is so important for business owners. And businesses will have trouble when they do not have enough cash or highly liquid assets to serve short-term needs, even though recorded revenue is very high.

3. Research methods

The article uses qualitative research methods including two basic methods: Data collection, synthesis and analysis and evaluation. Based on the synthesis of data related to liquidity risks in Vietnamese enterprises, the article offers some solutions to prevent liquidity risks of these enterprises in the coming time.

4. Current status of liquidity risk in Vietnamese enterprises

According to the Vietnam Business Association, up to 41.2% of businesses are facing difficulties due to the shrinking market. Increased inventory means capital is tied up in goods and businesses do not have cash to meet production and business needs. Businesses find ways to turn inventory into money.

The amount of inventory is large and increasing, which means it is becoming more and more difficult for businesses to produce. Because the products cannot be sold, businesses will lack capital to rotate production and buy raw materials to serve production at the end of the year when the market recovers.

Causes of liquidity risk:

- **Objective reasons**

(i) Interest rate fluctuations

All interest rate fluctuations affect the flow of deposits and loans of banks or organizations and businesses, because changing interest rates will affect the psychology of depositors, thereby changing the behavior of investors. they cause the cash flow to change.

(ii) Monetary policy

The Central Bank needs to issue monetary policy to be able to manage the money supply in the financial market. Therefore, they use monetary tools including: Open market operations, required reserve ratio, discount and rediscount interest rates, affecting the operations and solvency of commercial banks and other organizations. business position.

(iii) Investment and business activities

Investment and business activities often take place in certain cycles, for example: In the year-end season, the needs for investment, business, and payment for settlement increase sharply (businesses pay salaries, disburse funds, and make payments). debt...) causes the demand for money to increase, putting pressure on the liquidity needs of banks as well as other business units.

(iv) Market fluctuations

Economic crisis, rising inflation... all create great pressure on banks and businesses. In addition, there is also the risk of stock price risk due to customers leaving their shares to be pledged to commercial banks, commodity market risk when prices are low, sellers who suffer losses will not be able to pay. Debts to banks on time, risks when commodity policies change, natural disaster risks, reputation risks, ethical risks of businesses... Can all lead to liquidity risks.

- **Subjective reasons**

Activities from within the business also cause liquidity risk.

(i) Enterprises use loan capital for improper purposes

When businesses use short-term funds for long-term investments, the term of use of capital and capital sources fall into imbalance. At that time, if the profit earned from the investments cannot be balanced with the amount spent and is not enough to pay the interest incurred, liquidity risk will occur.

(ii) Enterprises have not proactively taken appropriate measures to promote inventory consumption

If inventory is not effectively sold, it will lead to potential risks and can even cause businesses to suffer heavy losses, affecting the production and business process of the business. Specifically: If businesses do not promote the consumption of goods, there will be too much inventory, leading to capital abuse, increasing many other costs such as: Storage, management, and preservation costs, negative impact on the cash flow of the business.

(iii) There are no appropriate measures to prevent risks

Some businesses in Vietnam have not proactively introduced measures to prevent liquidity risks, leading to the situation of not being able to meet financial obligations and production and business needs.

5. Solutions to prevent liquidity risks in Vietnamese enterprises

To prevent liquidity risks, Vietnamese businesses need to take the following measures:

(i) Loan capital must be used for the right purpose

Borrowing capital is intended to help businesses buy necessary assets that they cannot pay for immediately. This is important to help businesses survive, develop, expand business activities as well as improve competitiveness in the market.

(ii) Proactively take appropriate measures to promote inventory consumption

Businesses need to build strategies to promote inventory

consumption such as: Creating liquidation programs, promotions, organizing incentive programs with products, building product combos...
(iii) Identify and classify risk levels in the enterprise's management system, evaluate priorities, and possible risks for pre-treatment.
(iv) Analyze and quantify risks in depth, from there create a response plan that best suits actual developments, and at the same time, apply a continuous feedback mechanism to ensure management capacity. Risk values are updated according to the development speed of the business as well as the entire market.
(v) Restructure the portfolio of liabilities and assets, issue more valuable papers, adjust the loan structure, businesses should not be too dependent on bank credit, but should review the budget, adjust revenue and costs...
(vi) To solve the problem of capital shortage when meeting debt payment obligations, businesses should not depend on bank credit, but should review the budget, adjust revenue and costs, such as increasing sales, recovering debts, finding sponsors... to make up for that shortfall.
(vii) Have a plan to restructure the investment portfolio, suspend/recover capital from ineffective investments, affecting profitability, or causing damage to corporate financial resources...
(viii) Restructuring investment portfolios, suspending or withdrawing capital from ineffective investments, affecting profitability or causing financial losses.

6. Conclusion

In the current context, preventing liquidity risks is always the top concern of the finance department and is even more important in difficult times for Vietnamese businesses. Therefore, it is necessary to improve the ability of businesses to prevent liquidity risks in the coming time, helping to ensure the financial health of businesses in the market.

7. References

1. Bruinshoofd WA, Kool CJM. Dutch corporate liquidity management: New evidence on aggregation. Journal of Applied Economics. 2004; 7(2):195-230.
2. Horne J, David A. The liquidity impact of debt management. Southern Economic Journal. 1968; 34(4):526-537.
3. Isshaq Z, Bokpin GA. Corporate liquidity management of listed firms in Ghana. Asian Pacific Journal of Business Administration. 2009; 1(2):189-198.
4. Katerina Lyroudi Ph.D, John Lazaridis Ph.D, The Cash Conversion Cylce and Liquidity Analysis of the Food Industry in Greece. SSRN Electronic Journal, 2000. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=236175