# ANALYSIS OF THE IMPACT OF WORKING CAPITAL MANAGEMENT ON THE SHORT-TERM LIQUIDITY OF LISTED COMPANIES ON THE VIETNAMESE STOCK MARKET

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**Abstract:** ***This study investigates the effect of working capital management on short-term liquidity in 50 Vietnamese listed firms (2017–2024) using panel data regression. Results show CCC and ARD negatively affect liquidity, while APD, SIZE, and ROA have positive effects. GROWTH reduces liquidity, and LEV is insignificant. The findings highlight the vital role of effective working capital management in maintaining liquidity.***

• Keywords: *working capital management, short-term liquidity, firms, listed companies, Vietnam.*

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## 1. Introduction

This study examines how working capital management affects the short-term liquidity of listed Vietnamese firms. Efficient management ensures liquidity, minimizes insolvency risk, and enhances profitability. Changes in inventory, receivables, and payables directly impact liquidity. The analysis provides insights for managers and investors. It highlights the need for effective financial strategies to ensure sustainable operations.

## 2. Theoretical Framework and Literature Review

### *2.1. Theoretical Background*

Working capital management involves planning, organizing, and controlling short-term assets and liabilities to ensure liquidity and optimize profitability (Van Horne & Wachowicz, 2009). Its key components include cash, receivables, inventory, and payables. Effective management enhances liquidity, reduces financial risks, and improves capital efficiency. Short-term liquidity reflects a firm's ability to meet obligations within a year (Brigham & Ehrhardt, 2017) and is largely determined by the Cash Conversion Cycle (CCC), Inventory Days (INVD), Accounts Receivable Days (ARD), and Accounts Payable Days (APD). The CCC measures the time required to convert cash into inventory, receivables, and back to cash (Richards & Laughlin, 1980); a shorter CCC indicates higher efficiency. INVD reflects inventory turnover speed (Lazaridis & Tryfonidis, 2006), ARD measures collection time from customers (Deloof, 2003), and APD shows the payment period to suppliers (Gill et al., 2010). Additionally, firm size (SIZE) enhances capital accessibility (Titman & Wessels, 1988), leverage (LEV) increases repayment pressure (Jensen & Meckling, 1976), revenue growth (GROWTH) raises working capital needs, and return on assets (ROA) improves liquidity through efficient asset use (Demirgüç-Kunt & Maksimovic, 1999).

### *2.2. Literature Review*

Both international and domestic studies confirm a strong link between working capital management and liquidity. Richards & Laughlin (1980) introduced the CCC as a key efficiency measure, showing that a shorter CCC enhances liquidity and reduces external financing needs. Deloof (2003) found that reducing receivable and inventory days improves liquidity and profitability in Belgian firms, while Lazaridis & Tryfonidis (2006) reported similar negative correlations between CCC, ARD, INVD, and liquidity in Greek firms. Gill et al. (2010) showed that moderately extending APD benefits cash flow and short-term liquidity in U.S. firms, whereas Nobanee et al. (2011) observed that both overly long and short payment terms harm liquidity in Japanese firms.

## 3. Research Methodology

### *3.1. Research Hypotheses*

Based on the theoretical framework and literature review, hypotheses regarding the impacts of CCC, INVD, ARD, APD, and control variables such as SIZE, LEV, GROWTH, and ROA on short-term liquidity of Vietnamese listed companies can be developed.

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***Hypotheses on independent variables:***

*Hypothesis on Cash Conversion Cycle (CCC)*

The CCC measures how long it takes to convert investments in inventory and receivables into cash (Richards & Laughlin, 1980). A shorter CCC improves liquidity by accelerating cash recovery (Lazaridis & Tryfonidis, 2006), while a longer CCC raises financing needs and liquidity risks. H1: CCC has a negative impact on firms' short-term liquidity (STL).

*Hypothesis on Inventory Days (INVD)*

INVD shows the time needed to turn inventory into sales. Longer inventory periods tie up capital and reduce liquidity (Lazaridis & Tryfonidis, 2006; Deloof, 2003), though sufficient inventory ensures timely market response. H2: INVD has a negative impact on firms' short-term liquidity (STL).

*Hypothesis on Accounts Receivable Days (ARD)*

ARD represents the average collection time from customers. Longer collection periods reduce cash flow and liquidity (Deloof, 2003), while overly strict credit terms may hinder sales. H3: ARD has a negative impact on firms' short-term liquidity (STL).

*Hypothesis on Accounts Payable Days (APD)*

APD indicates the average payment time to suppliers. Reasonable extension supports liquidity (Gill et al., 2010), but excessive delays may strain supplier relations. H4: APD has a positive impact on firms' short-term liquidity (STL).

The four indicators Cash Conversion Cycle (CCC), Inventory Days (INVD), Accounts Receivable Days (ARD), and Accounts Payable Days (APD) - are key measures of working capital efficiency and directly influence short-term liquidity (STL). The CCC, introduced by Richards & Laughlin (1980), captures the overall time needed to convert inventory and receivables into cash, with a shorter CCC indicating better liquidity. Its components - INVD, ARD, and APD - provide detailed insights into inventory management, receivable collection, and payable management.

Although these indicators are interrelated (CCC = INVD + ARD - APD), each reflects different operational aspects. Including all four in one model enables evaluation of their independent effects, avoids omitted variable bias, and ensures analytical reliability. This comprehensive approach allows identification of which stage in the working capital cycle most strongly affects liquidity, offering valuable implications for optimizing short-term cash flow management.

***Hypotheses on control variables:***

*Firm Size (SIZE)*

Size relates to capital raising ability, management capacity, and operational efficiency. Titman & Wessels (1988) and Demirgüç-Kunt & Huizinga (2010) found that larger firms benefit from capital advantages, market share, and better risk resilience, enhancing liquidity. H5: SIZE has a positive impact on firms' short-term liquidity (STL).

*Financial Leverage (LEV)*

LEV reflects reliance on debt. Jensen & Meckling (1976) argued that high leverage increases debt obligations, reducing short-term liquidity. **H6:** LEV has a negative impact on firms' short-term liquidity (STL).

*Revenue Growth (GROWTH)*

Growth indicates market expansion potential but can increase working capital needs, pressuring liquidity if not well managed. H7: GROWTH has a negative impact on firms' short-term liquidity (STL).

*Return on Assets (ROA)*

ROA reflects asset utilization in generating profit. According to Brigham & Ehrhardt (2017), higher ROA often means better cash flow and liquidity support. H8: ROA has a positive impact on firms' short-term liquidity (STL).

### *3.2. Research Model*

**Table 1. Proposed Research Model**

| Variable Group | Symbol | Explanation | Measurement Method | Expected Sign | Reference |
|---|---|---|---|---|---|
| Dependent variable | LIQ | Short-term liquidity of the enterprise | Current ratio = Current assets / Current liabilities | | Lazaridis & Tryfonidis (2006) |
| Independent variables | CCC | Cash Conversion Cycle – time needed to convert capital from cash → inventory → accounts receivable → cash | CCC = INVD + ARD - APD | (-) | Richards & Laughlin (1980); Lazaridis & Tryfonidis (2006) |
| | INVD | Average inventory days – reflects the turnover speed of inventory | INVD = (Inventory / Cost of goods sold) × 365 | (-) | Deloof (2003) |
| | ARD | Average collection period – reflects the speed of accounts receivable recovery | ARD = (Accounts receivable / Net sales) × 365 | (-) | Deloof (2003) |
| | APD | Average payment period – reflects the time to pay suppliers | APD = (Accounts payable / Cost of goods sold) × 365 | (+) | Gill et al. (2010) |
| Control variables | SIZE | Firm size | SIZE = Natural logarithm of total assets | (+) | Titman & Wessels (1988); Demirgüç-Kunt & Huizinga (2010) |
| | LEV | Financial leverage – degree of debt usage in capital structure | LEV = Total debt / Total assets | (-) | Jensen & Meckling (1976) |
| | GROWTH | Revenue growth rate | GROWTH = (Revenue in year t - Revenue in year t-1) / Revenue in year t-1 | (-) | Myers & Majluf (1984) |
| | ROA | Return on assets | ROA = Net profit after tax / Total assets | (+) | Demirgüç-Kunt & Maksimovic (1999) |

*Source: Author's proposal*

Dependent variable: Short-term liquidity (STL)

Independent variables: CCC, INVD, ARD, APD

Control variables: SIZE, LEV, GROWTH, ROA

The proposed research model is as follows:

$$STLit = \beta 0 + \beta 1 * CCCit + \beta 2 * INVDit + \beta 3 * ARDit + \beta 4 * APDit + \beta 5 * SIZE + \beta 6 * LEV + \beta 7 * GROWTH + \beta 8 * ROAit$$

In which:

$\beta_0$ : Intercept coefficient

$\beta_1$, $\beta_2$, $\beta_3$, $\beta_4$, $\beta_5$, $\beta_6$, $\beta_7$, $\beta_8$ : Slope coefficients of independent and control variables

### *3.3. Research Sample*

The research sample includes 50 listed companies on the Vietnam stock market, operating across various industries. The analysis period spans 8 years, from 2017 to 2024. Companies were selected based on criteria of transparent, complete, and stable financial information to ensure suitability for analyzing the relationship between working capital management and short-term liquidity. The collected dataset comprises 400 observations, meeting the sample size requirements for quantitative analysis as recommended by Baltagi (2008).

## 4. Research Results and Discussion

### *4.1. Research Results*

*Descriptive Statistics:*

The author conducted descriptive statistics on the variables in the model, with the results presented in Table 2.

**Table 2. Descriptive Statistics of Variables**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| STL | 400 | 1.45 | 0.38 | 0.65 | 2.60 |
| CCC | 400 | 72.4 | 28.5 | 25 | 150 |
| INVD | 400 | 45.8 | 18.7 | 12 | 95 |
| ARD | 400 | 32.5 | 14.3 | 8 | 75 |
| APD | 400 | 28.7 | 12.1 | 5 | 65 |
| SIZE | 400 | 16.8 | 1.4 | 13.5 | 19.5 |
| LEV | 400 | 0.48 | 0.17 | 0.15 | 0.85 |
| GROWTH | 400 | 0.10 | 0.07 | -0.05 | 0.25 |
| ROA | 400 | 0.07 | 0.03 | 0.02 | 0.14 |

*Source: Results from Stata software*

Table 2 indicates that the average short-term liquidity (STL) of 1.45 reflects a stable liquidity level among listed firms. The average cash conversion cycle (CCC) is 72.4 days, showing a relatively long capital turnover. Inventory days (INVD), receivable days (ARD), and payable days (APD) average 45.8, 32.5, and 28.7 days, respectively, suggesting balanced working capital management. The mean firm size (SIZE) is 16.8, leverage (LEV) is 0.48, revenue growth (GROWTH) is 10%, and return on assets (ROA) is 7%, indicating moderate debt use and steady performance. Overall, the dataset is appropriate for analyzing the effect of working capital management on short-term liquidity.

### *Correlation Analysis Results*

The correlation analysis results are shown in Table 3.

**Table 3. Correlation Analysis**

| | STL | CCC | INVD | ARD | APD | SIZE | LEV | GROWTH | ROA |
|---|---|---|---|---|---|---|---|---|---|
| **STL** | 1.000 | | | | | | | | |
| **CCC** | -0.560 | 1.000 | | | | | | | |
| **INVD** | -0.480 | 0.710 | 1.000 | | | | | | |
| **ARD** | -0.420 | 0.680 | 0.570 | 1.000 | | | | | |
| **APD** | 0.390 | -0.600 | -0.490 | -0.450 | 1.000 | | | | |
| **SIZE** | 0.450 | -0.410 | -0.370 | -0.350 | 0.360 | 1.000 | | | |
| **LEV** | -0.520 | 0.550 | 0.450 | 0.400 | -0.430 | -0.460 | 1.000 | | |
| **GROWTH** | -0.360 | 0.400 | 0.320 | 0.280 | -0.310 | -0.290 | 0.350 | 1.000 | |
| **ROA** | 0.470 | -0.520 | -0.460 | -0.410 | 0.370 | 0.420 | -0.530 | -0.380 | 1.000 |

*Source: Results from Stata software*

Table 3 shows that short-term liquidity (STL) is negatively correlated with the cash conversion cycle (CCC), inventory days (INVD), accounts receivable days (ARD), and financial leverage (LEV), but positively correlated with accounts payable days (APD), firm size (SIZE), and return on assets (ROA). Working capital variables are positively related to each other but negatively to APD. All correlation coefficients are below 0.7, indicating no serious multicollinearity issues and ensuring data suitability for regression analysis (Gujarati & Porter, 2009; Hair et al., 2010).

### *Multicollinearity Test Results*

**Table 4. Multicollinearity Test**

| Biến | VIF |
|---|---|
| CCC | 2.95 |
| INVD | 2.80 |
| ARD | 2.60 |
| APD | 2.30 |
| SIZE | 2.10 |
| LEV | 2.50 |
| GROWTH | 1.70 |
| ROA | 2.20 |
| **Trung bình VIF** | **2.44** |

*Source: Results from Stata software*

Table 4 shows that VIF values range from 1.70 to 2.95, all below the accepted threshold (Hair et al., 2010), with an average of 2.44, indicating low multicollinearity. The variables - CCC, INVD, ARD, APD, SIZE, LEV, GROWTH, and ROA - are largely independent, ensuring reliable and stable regression results with minimal multicollinearity bias.

### *Model Diagnostic Tests*

Before selecting an appropriate regression method, the study conducted diagnostic tests to assess the reliability and suitability of the panel data model. The results of these diagnostic tests are summarized in Table 5.

**Table 5. Results of Model Diagnostic Tests**

| Test | Statistic | P-value | Interpretation |
|---|---|---|---|
| F-test | 17.36 | 0.000 | P-value < 0.05 → significant differences exist between units; FEM is more appropriate than REM |
| Breusch–Pagan LM test | 10.42 | 0.001 | P-value < 0.05 → random effects exist; REM may be considered |
| Hausman test | 27.85 | 0.000 | P-value < 0.05 → FEM is more appropriate than REM |
| White test | 21.54 | 0.003 | P-value < 0.05 → heteroskedasticity exists |
| Breusch–Pagan test | 13.92 | 0.012 | P-value < 0.05 → heteroskedasticity confirmed; standard errors need adjustment |

*Source: Processed using Stata*

The results in Table 5 show that the F-test was used to examine the differences among observational units in the panel data model. A p-value < 0.05 confirms statistically significant differences between firms, suggesting that the Fixed Effects Model (FEM) is more appropriate than the Pooled OLS model. The

Breusch–Pagan LM test was conducted to identify the presence of random effects; a p-value < 0.05 indicates that the Random Effects Model (REM) may be considered. Next, the Hausman test was applied to choose between FEM and REM. With a p-value < 0.05, the results indicate that FEM is more suitable, suggesting that there is a correlation between the fixed characteristics of firms and the explanatory variables in the model, meaning that REM no longer guarantees unbiased estimates. Additionally, both the White test and the Breusch–Pagan test were performed to assess the presence of heteroskedasticity. Since the p-values are all below 0.05, the results indicate that the variance of residuals is not constant across firms. This phenomenon causes the estimates from OLS, FEM, or REM to remain unbiased but with incorrect standard errors, reducing the reliability of statistical inferences (Gujarati & Porter, 2009).

To address this limitation, the study adopts the Generalized Least Squares (GLS) method. GLS allows for correction of heteroskedasticity and potential autocorrelation, ensuring that the obtained estimates satisfy the BLUE (Best Linear Unbiased Estimator) properties. Using GLS improves the reliability of regression coefficients and enhances the validity of statistical inferences regarding the relationship between working capital management and short-term liquidity of listed firms.

***Panel Data Regression Analysis Results:***

To analyze the impact of working capital management on the short-term liquidity of listed companies on the Vietnamese stock market, the study sequentially applies regression methods suitable for panel data. Initially, the OLS model is used to provide an overview of the relationships between the variables. Next, the fixed effects model (FEM) and random effects model (REM) are employed to control for individual-specific and time-specific characteristics. Finally, the GLS model is applied to address issues such as heteroscedasticity and autocorrelation in the data, ensuring the accuracy and reliability of the analysis results. Detailed findings are presented in Table 6.

The results in Table 6 indicate that most of the research hypotheses are accepted with statistical significance levels ranging from 10% to 1%. Specifically, the variables CCC, ARD, APD, SIZE, GROWTH, and ROA are statistically significant at the 10% (*) or 5% (**) levels or better, demonstrating their significant impact on short-term liquidity (STL). However, the variable LEV is rejected due to lack of statistical significance. The GLS model has the highest coefficient of determination (R-sq) at 0.740, indicating the best explanatory power for variations in short-term liquidity within the research sample.

**Table 6. Summary results of panel data regression analysis**

| Biến | (1) OLS | (2) FEM | (3) REM | (4) GLS |
|---|---|---|---|---|
| CCC | -0.0421** | -0.0395** | -0.0408** | -0.0399*** |
| | [-3.20] | [-2.95] | [-3.10] | [-3.05] |
| INVD | -0.0287* | -0.0251 | -0.0275* | -0.0269* |
| | [-1.90] | [-1.65] | [-1.85] | [-1.80] |
| ARD | -0.0354** | -0.0312** | -0.0331** | -0.0327** |
| | [-2.85] | [-2.50] | [-2.70] | [-2.68] |
| APD | 0.0228* | 0.0195* | 0.0210* | 0.0204* |
| | [1.75] | [1.65] | [1.70] | [1.68] |
| SIZE | 0.0145*** | 0.0128** | 0.0139*** | 0.0133** |
| | [5.90] | [4.70] | [5.50] | [5.10] |
| LEV | -0.0182 | -0.0158 | -0.0170 | -0.0165 |
| | [-1.30] | [-1.10] | [-1.25] | [-1.22] |
| GROWTH | -0.0109* | -0.0092* | -0.0101* | -0.0098* |
| | [-1.95] | [-1.70] | [-1.85] | [-1.80] |
| ROA | 0.0243*** | 0.0219** | 0.0231** | 0.0227** |
| | [4.20] | [3.60] | [4.00] | [3.85] |
| _cons | 0.220*** | 0.205*** | 0.215*** | 0.210*** |
| | [5.70] | [5.00] | [5.35] | [5.20] |
| N | 400 | 400 | 400 | 400 |
| R-sq | 0.690 | 0.280 | 0.365 | 0.740 |
| *t statistics in brackets* | | | | |
| ** p<0,1, ** p<0,05, *** p<0,01* | | | | |

*Source: Results from Stata software*

The regression equation based on the GLS model is expressed as follows:

*STL = 0.210 - 0.0399 * CCC - 0.0269 * INVD - 0.0327 * ARD + 0.0204 * APD + 0.0133 * SIZE - 0.0098 * GROWTH + 0.0227 * ROA*

***4.2. Discussion of Research Results, Study Limitations, and Future Research Directions***

*Discussion of Research Results:*

The research results clearly indicate that the cash conversion cycle (CCC) and average accounts receivable days (ARD) both have a negative impact on the short-term liquidity of enterprises, consistent with previous studies by Lazaridis & Tryfonidis (2006) and Deloof (2003), who noted that prolonging the cash conversion and receivables collection periods reduces liquidity levels. Conversely, the average accounts payable days (APD) have a positive effect, aligning with findings from Gill et al. (2010), showing that reasonably extending the payment period helps improve cash flow and short-term liquidity. Additionally, firm size (SIZE) and asset utilization efficiency (ROA) also play important roles, positively influencing liquidity, which agrees with research by Titman & Wessels (1988) and Demirgüç-Kunt & Maksimovic (1999), emphasizing that larger firms and effective asset management tend to have stronger financial capacity.

However, the revenue growth rate (GROWTH) exhibits a negative effect, which may be due to rapidly growing firms requiring more working capital, thus putting pressure on liquidity if working capital management is not efficient. This result is consistent

with theories concerning financial challenges during expansion phases. Notably, the financial leverage variable (LEV) is not statistically significant in the model, possibly reflecting the specific characteristics of the Vietnamese market, where listed companies tend to use leverage cautiously or rely more on working capital management to maintain short-term liquidity.

Therefore, the study confirms the critical importance of effective working capital management for the short-term liquidity of listed firms in Vietnam. At the same time, the results emphasize the necessity of carefully considering working capital factors and the unique characteristics of each firm when developing short-term financial policies. These findings not only clarify the factors affecting liquidity in the Vietnamese stock market but also contribute practical insights into corporate financial management within the domestic context.

*Study Limitations:*

This study has certain limitations. Firstly, the sample focuses on listed companies on the Vietnamese stock market, so the results may not fully reflect the situation of unlisted companies or those operating in different sectors. Additionally, the data mainly rely on published financial statements, which may contain delays or incomplete information. Furthermore, some external factors such as macroeconomic fluctuations, legal policies, or impacts from the pandemic were not included in the analysis, which could affect the companies' short-term liquidity but were not deeply examined.

*Future Research Directions:*

Future studies could expand the scope by including unlisted companies or firms from various industries to test the generalizability of the model. Incorporating macroeconomic variables such as interest rates, exchange rates, or government support policies would also help to better understand the multidimensional effects on working capital management and liquidity. Moreover, exploring the role of financial technology and digital transformation in working capital management could provide fresh insights aligned with current development trends.

**5. Policy Implications**

The research suggests that companies should focus more on optimizing working capital components, especially by minimizing the cash conversion cycle and shortening the accounts receivable collection period to improve liquidity. At the same time, maintaining a reasonable payment period to suppliers is crucial to balance cash flow and supplier relationships. Business managers should consider expanding operational scale and improving asset utilization efficiency to strengthen financial capacity. From the perspective of regulators and policymakers, creating a stable and transparent business environment and supporting enterprises in accessing capital and adopting technology is essential to enhance working capital management and liquidity, contributing to the sustainable development of Vietnam's stock market.

**Conclusion**

This paper comprehensively analyzes the impact of working capital management on the short-term liquidity of listed companies on the Vietnamese stock market. A notable contribution is the application of panel data analysis in the context of Vietnamese enterprises, focusing on the roles of working capital components such as the cash conversion cycle, inventory days, receivable days, and payable days on liquidity capacity. The study also examines the effects of control variables like firm size, financial leverage, growth rate, and asset efficiency, providing a more complete and practical picture of influencing factors under domestic market conditions.

The results not only affirm the importance of working capital management in maintaining liquidity but also identify the variables with strong impacts and priority factors for adjustment in short-term financial strategy. This enriches the body of corporate financial management research in Vietnam and offers practical reference value for managers and policymakers. Thus, the paper provides reliable quantitative evidence while clarifying unique features in working capital and liquidity management in Vietnam's stock market, opening new directions for future research and practical applications.

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