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FINANCIAL MANAGEMENT OF VIETNAM POSTS AND TELECOMMUNICATIONS GROUP (VNPT)

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Abstract

The main objectives of study is study system financial management of VietNam posts and telecommunications group. The specific objectives of this study are: To identify the profile of the company; To determine the Regulations of financial management system of VietNam posts and telecommunications group in terms of the following: Capital mobilization, Capital management and use, Asset management, Revenue, expense and profit distribution management;

Keywords: *financial management, VietNam posts and telecommunications group, capital*

1. INTRODUCTION

In the background of deeper and wider regional and international economic integration, enterprises have to face with more formidable competition from big multinational economic organizations in the world. In order to adapt to that situation, meeting to demands for economic development and market expansion out of boundary of countries, many countries are incessantly increase scales of businesses, establishing and developing economic groups. Vietnamese enterprises are not out of that trend.

The establishment and development of Vietnamese economic groups both ensure the suitability to the development tendency of global economy and exploit inherent competitive advantages of the country, speeding economic growth of the country. In order to ensure the high efficiency of those economic groups and State-owned enterprises, it is necessary to improve efficiency of financial management system of economic groups. Although this system has taken much progress which has some certain effects on raising financial management efficiency of the economic groups, many troubles and constraints still exist; for example, Financial management policies and measures of the groups are collectivistic, not closing to the actual situation of each State-owned group, which has no small constraint on the financial management effectiveness of economic groups in VietNam.

2. FINANCIAL MANAGEMENT OF VIETNAM POSTS AND TELECOMMUNICATIONS GROUP

2.1. Profile of VNPT

With more than 35,000 employees, advanced telecommunications infrastructure, a service network that covers all 63 provinces and cities, as well as the strong more than 70-year experience, VNPT has always been offering the market many modern posts, telecommunications, and information technology products and services. These high-quality products and services are based on the most advanced technologies and modern telecommunication network, meeting the increasingly diversified demands of customers.

In the areas of Telecommunications and Information Technology, VNPT provides a wide and comprehensive range of products and services, including voice, data, internet, other value-added services deploying on an advanced network infrastructure and many IT solutions.

2.2. Financial management system of VNPT

2.2.1. Capital mobilization in VNPT

a. Forms and principles of capital mobilization

- The parent company is allowed to raise capital for business



activities in the form of issuance of debt instruments, loans from banking institutions, credit organizations, and other financial institutions, from individuals and organizations out of the parent company; from employees and other funding forms in accordance with the law.

- The mobilization of capital for business activities is done according to the principles of self-responsibility of repayment, assurance of debt payment ability and approved plans by the competent authority, assurance of capital using efficiency without changing the ownership of the parent Company, and in compliance with the current regulations of the law on securities, corporate and foreign debt management. Person who approves the capital mobilization plan must be responsible for checking, monitoring, and ensuring the right purposes and objectives and effectiveness of raised capital.

b. Capital raising costs (including interests and raising fees)

- If the parent company is allowed to raise capital with preferential interest rates (eg ODA loans), the interest rate will comply with preferential interest rates. In case that the parent company directly borrows from individuals, economic organizations, the maximum interest rate does not exceed lending rates of commercial banks at the time of applying loan.

- The rates and fees are accounted in accordance with Accounting Standard No. 16 - "Borrowing Costs" issued in Decision No. 165/2002/QĐ-BTC dated on January 31st, 2002 of the Minister of Finance.

c. Authority of approving the capital mobilization plan

The parent company can actively mobilize capital for production and business activities with the index of total debt on charter capital not exceeding 3 times in which:

- Board of Directors decides the mobilization plan when raised capital is greater than the charter capital of the parent company.

- Other mobilization plans will be decided by the parent company's General Director.

- If the parent company expects to raise funds that exceed the charter capital 3 times, it is required to report to the owner for his consideration and decision on the basis of effective mobilization projects.

d. Capital using plan

- The parent company is allowed to change its capital and asset structure to do business effectively, preserving and making capital larger.

- The parent company can harmonize capital, assets among dependent accounting member units, corresponding non-productive units to business tasks assigned by the parent company on the basis of ensuring the following principles:

- + Use assets properly and efficiently.
- + Have no bad influence on business activities.
- + Have no damages.
- + Record the increase or decrease of capital, assets.

- Board of Directors can decide to rotate funds or assets from dependent accounting units to independent accounting units; in case that rotated assets are fixed assets which are fully depreciated, the CEO will make decision. The CEO of the parent company decides to rotate capital, assets of the dependent accounting member units, non-productive units.

- Board of Directors can decide to rotate the assets of its independent accounting subsidiaries, one member limited liability companies by the method of payment.

- The parent company cannot directly withdraw the capital which has been invested in independent accounting subsidiaries, one-member limited liability companies which the parent company is the owner representative. The withdrawal shall be affected only through selling invested equity to other individuals, legal entities. In case of reorganization or adjustment of charter capital in independent accounting member companies and one member limited liability companies, the parent company is allowed to directly withdraw invested capital in these companies on the basis of ensuring the sufficient charter capital and debt payment ability of these companies;

2.2.2. Capital management and use in VNPT

a. Rights and obligations of parent company in capital management and use

* Rights of parent company in capital management and use:

- Parent company is entitled to actively use the capital under that Parent Company manages in business and investment activities.

- In case parent company uses fund contrary to the regulated purpose of fund (temporary use), parent company shall ensure the sufficiency of capital source to meet the expenditure of such fund where necessary.

- Parent company can consider lending capital for member units under internal regulations to conduct the investment and business.

* Obligation of parent company in capital and fund management and use:

- Parent company shall bear responsibility before the owners on capital conservation, development, and effectiveness of use.

- The use of capital to invest in construction shall follow the regulations of the law on management, investment, and construction.

- In case parent company is place an order by the State for regularly and stably supplying its public products and services, parent company shall focus its capital and resources on producing and supplying such public services.

- In case parent company is assigned by the State a special mission, parent company shall focus its capital and resources on performing such mission.

b. Investment out of parent company

* Parent company is entitled to use the assets (including cash, fixed assets, movable assets, intellectual assets, and other

assets) under its management to invest out of parent company. Investment out of parent company shall comply with the regulations of the law, be in line with strategy, arrangement and development plan of parent company and have no impact on the target of its operation and business and production activities of parent company ensure the principle of effective use, conservation, and development of the capital and increase of revenue. Investment out of parent company related to the land shall comply with regulations of the law on land.

* Parent company shall use at least 70% total investment capital in enterprises acting in the fields under main business lines of parent company. Total investment out of parent company (including short-term and long-term investments) shall not exceed the chartered capital of parent company. For the investment of capital contribution in the fields of banking, insurance, security alone, parent company shall only be permitted to invest in one enterprise for one field; investment capital shall not exceed 20% the chartered capital of the institution receiving the contributed capital, but shall ensuring the contributed capital of parent company and subsidiaries shall not exceed 30% chartered capital of the institution receiving the contributed capital; for special cases with investment demand exceeding such regulations, parent company shall submit to Prime Minister for consideration and decision.

* Parent company shall not contribute its capital to buy the stocks of another enterprise whose manager, governor or primary owner of such enterprises are spouse, parent, children, or siblings of members of Board of Management, Board of Control, Board of Directors, and Chief accountant of parent company; not contribute the capital or buy the stocks of risk investment funds, security investment funds or security investment companies.

* Types of investment out of Parent Company including:

- Contribute the capital; buy the stocks to establish the joint stock companies, limited companies, contribute capital to business cooperation agreements without formation of new legal entities.

- Buy the stocks or contribute the capital to the joint stock companies, limited companies, partnership companies already operating.

- Acquire another company.

- Buy public debt, or bond to enjoy interest.

- Other investments under regulations of the law.

* Decisive competence:

The owners decide:

- Approve the supplement to business line or capital investment in member enterprises acting in the fields out of main business lines of Parent company.

- Contribute the capital to establish the foreign-invested joint ventures in Vietnam, invest or contribute the capital to establish the companies in foreign countries, acquire another companies under another economic group; investment out of the company is designed to perform mainly, regularly, stably

the public products and services; decide the remaining financial investment projects out of decisive competence of Management Board.

- Investment projects out of Parent company have the values from 50% chartered capital above;

Management Board decides or assigns for General Director of Parent company to decide:

Investment projects out of Parent company in the range of total financial investment value of Parent company are lower than 50% chartered capital of Parent company. In the scope of hierarchy, General Director can authorize for dependently calculating member units to decide several investments under internal hierarchy of VNPT.

* Management of investment capital out of Parent company:

- Parent company performs the management of invested capital in other enterprises by assigning capital representatives of Parent company in other enterprises to execute rights and obligations of shareholders, capital contributing members.

- Level deciding to invest is also level assigning the representative joining in management, supervision, examination of the use of contributed capital to other enterprises, be responsible for effective use, conservation, and development of the capital; enjoy the profit from contributed capital under regulation of the law. In case representative for capital management is Chairman of Management Board or CEO of VNPT, Management Board will make the decision.

- For enterprises where Parent company hold a portion of shares (holding rate decided by Management Board), Management Board decides not to assign the representative for capital portion invested by Parent company in such enterprises. Management Board implements to monitor the invested capital and its divided profit and assign to whom executing the right of shareholders, capital contributing persons under regulation of the law and Charter of organization and operation of such enterprises.

* Increase or decrease the capital invested by Parent company in other enterprises:

- Increase or decrease of invested capital of Parent company in other enterprises is suitably considered and decided by Management Board in compliance with charter of organization and operation of such enterprises.

- Method of increasing or decreasing the State capital in such enterprises complies with the prevailing regulations of the law and charter of organization and operation of such enterprises.

* Handle the capital of Parent company withdrawing from other enterprises (if any):

State capital is redeemed when there is the decision of decreasing the capital portion of Parent company in other companies, or when such companies dissolve or go bankruptcy; redeem the amount borrowed by employees to buy the stocks in case of capitalization of State owned companies, share value is divided for employees for enjoying dividend, credit sale stocks for poor employees in the

companies are handled as follows:

- Deliver to Parent company when state capital in the companies is decreased or when such companies dissolve or go bankruptcy.
- Deliver redeemed amount to Corporation arrangement support fund borrowed by employees to buy the stocks in case of capitalization of State owned companies, share value is divided for employees for enjoying dividend, credit sale stocks for poor employees in enterprises under member units of the Corporation.

2.2.3. Asset management in VNPT

a. Competence in building and investing fixed asset

- Board of directors decides investing projects that are valued at less or equal to 50% of total assets recorded on the financial statements of the central company published in the latest quarter, but not exceed the highest level of the project in group B as prescribed in law on the management of investing and constructing project.
- Board of directors decides or decentralizes CEO to decide many investing projects that are under decisive competence of the Board of directors.
- Projects which are larger than allocated level of the Board of Directors, the owner of central company will decide.
- The sequence and procedures for investments are made under the provisions of law on managing investment and construction projects.

b. Fixed Asset Depreciation

- All existing fixed assets of the central company must be depreciated, including fixed assets no longer in use and awaiting liquidation, except for the fixed assets of the public welfare, housing.
- The fixed assets which have been fully depreciated but are still worth using in production and business activities are not depreciated.
- After the Board of directors adopted depreciation method, CEO decides specific depreciation rates, depreciation rates must be offset tangible and intangible depreciation of fixed assets and not less than minimum depreciation rate prescribed by the Ministry of Finance.
- Depreciation of fixed assets used in production is accounted for costs in production in period, depreciation of fixed assets no longer in use and awaiting liquidation accounted for other costs.
- Central company consistent management focused depreciation of fixed assets dependent accounting unit to serve reinvestment.
- The construction works which have been completed and put into use but have not settled work's value yet shall be temporarily recorded value of fixed assets on temporary price or prices approved estimates for depreciation. After the settlement value of the project is approved, it must adjust the value of fixed assets on the settlement value.

c. For rent, mortgage, assets mortgage

- * Central company has rights to do business for rent, mortgage, assets mortgage based on regulation about effecting, preserving, and improving capital under the provisions of the Civil Code and other provisions of related law.
- * Authority to decide the lease, mortgage, pledge assets of the central company:
 - Board of directors decides rent, mortgage, and asset pledge contracts which are worth more than the charter capital of the central company.
 - The lease, mortgage, pledge assets contracts with a lower level are decided by the General Director of Central company or are decentralized for member uni/dependent accounting units to decide.
- * The use of the assets for rent, mortgage, and pledge has to comply with the provisions of the Civil Code and other concerned regulations of the State.

d. Assets Inventory

- * Time to conduct Asset Inventory:
 - Periodically the end of each fiscal year, before the book closing for financial reporting year.
 - When making decisions split, merger, consolidation, change of ownership.
 - After natural disasters, sabotage or for any reason that is causing asset volatility.
 - According to the guidelines of State.
- * Inventory assets are fixed assets and long term investments, liquid assets and short-term investments are held parent company inventory, determine the amount of assets, liabilities reconciliation to be recovered pay.
- * Director General promulgate regulations on inventory procedures to guide the inventory of assets in the central company.
- * For assets surplus or deficit, irrecoverable debts, overdue discovered during the inventory process should be clearly defined causes and responsibilities of those involved and the amount of compensation determined in accordance with the material. The accounting treatment for the difference by increasing or decreasing the value of the inventory of assets made in accordance with the laws applicable to each specific case.

e. Receivable management

- * Responsibilities of the central company in the receivables management:
 - Develop and promulgate regulations on management of receivables, assignment and determine the collective responsibility of individuals in monitoring and recovery, payment of debts.
 - Open record book debts by debtors; monthly shall classify debts (debts rotation, bad debts, creditors are unlikely to

recover) and urge debt recovery. The losses due to irrecoverable determine the cause, extent, responsibility, and remedial measures.

- To be entitled to sell the debts as stipulated by law, including debts of term, doubtful debts, and creditors are unlikely to recover, to recover the funds. Price debts agreed upon by the parties.

- Debt doubtful that the overdue payment in accordance with contractual or other commitments or undue payments but debtors are unlikely to pay under the provisions of the law on debts doubtful. The parent company must make provision for debts doubtful.

* Handling debts cannot be recovered:

- The central company is responsible for dealing with debts are not recoverable under the management of receivables of the central company and the relevant provisions of law. Total debt cannot be recovered, after deducting the compensation of individuals; groups concerned are offset by the provision for doubtful debts, financial reserves. If there is a lack of cost accounting on the business of the central company.

- Debt does not have the ability to recover after such treatment, the central company remains on track to account for off balance sheet accounting and recovery organizations. The proceeds are recorded as other income of the central company.

- Decentralized processing doubtful debts, creditors are unlikely to recover:

+ Board decide or devolve upon Director - General doubtful debts, creditors are unlikely to recover;

+ Unless treated timely debt inability to recall the Board, Chief Executive Officer responsible for similar cases of dishonest reporting the financial position of the central company. Unless treated promptly because the resulting loss of state funds in the parent company shall be responsible to the owner.

2.2.4. Management of revenues, expenses, and profit distribution in VNPT

a. Management of revenues

According to regulations, the Ministry of Finance shall stipulate the conditions and the time of determination of operating revenue in the economic group.

b. Management of Expenses

The central company must closely manage expenses to reduce expenses and production expenses to increase profits in the following management measures:

- Develop, promulgate, and implement economic norms - in accordance with technical-economic characteristics - technical, industry, business, organization, and management model, the level of the parent company equipped.

- Popular norm until the implementation, public employees in the parent company for implementation and monitoring and supervision. In case of failure to fulfill the norms, increase the cost of the analysis of the causes and responsibilities for

handling according to law. If due to subjective causes damages. Board of Directors determines the compensation prescribed by law and are responsible for their own decisions.

- Periodically organize production expense analysis, expense of products and services of the parent company in order to detect weak points, poor management, these factors increase the expenses, expenses of products and services to with timely solutions.

- The decentralized authorization for units of VNPT in management expenses are expressed in the Charter and the organization and activities of the Financial Regulation unit and other documents in accordance with the provisions VNPT law.

- For expenditures regime, who decided to improper payments, such person shall be refunded. VNPT unit of the excess expenditure decentralization and accountability must be approved spending VNPT consider the weather and handling

c. Profit Distribution

The net profit of the central company is:

* Offsetted losses last year under the provisions of the Law on Corporate Income Tax.

* Maximum deduction of 10% of taxable income each year to fund establishment and development of science and technology under the provisions of the Law on Corporate Income Tax. Rate fund development of science and technology by the parent company annual Board decision.

* The net profit of the central company after losses to offset previous years, fund development of science and technology under the provisions of the Law on Corporate Income Tax and Corporate Income tax is distributed as follows:

- Sharing amongst members in associates in accordance with the contract (if any).

- Compensate the losses of the previous years have expired are deducted pre-tax profits (if any).

- 10% of the financial reserve fund, if the fund balance equal to 25% of the charter capital is not deducted again.

- The remaining funds after setting the proportional distribution between state capital investment in the parent company and the parent company capital mobilized by the annual average.

Capital of the parent company is mobilized amount raised by the parent company to issue bonds, treasury bills, loans from organizations and individuals at home and abroad on the basis of the parent company is solely responsible for paying all principal and interest to the lending commitments, excluding loans guaranteed by the Government, the Ministry of Finance, the loan interest subsidy.

* Profit divided by equity capital raised is distributed as follows:

- The minimum 30% to fund development of the parent company.

- Quote maximum 5% bonus fund management unit operating parent company, the level of a year does not exceed the level of 500 million dongs to complete the task of the management board of the Company and rank business results. This is done under the guidance of the Ministry of Finance.

- Number profit remaining after deduction and welfare funds are added to fund the development of the parent company.

*Quote Bonus and welfare fund, when rationing made profit after tax but two bonus and welfare fund is low due to profit after tax divided by equity capital raised little or no deduction shall be bonus and welfare fund as follows:

- Two of Fund may be deducted a maximum 3-month salary if the central company is classified as A and to the budget during the year higher than or equal to the previous year.

- Fund may deduct a maximum of two months' salary 1.5 implementation if the central company and the number of class A to the budget during the year than last year or the number of class B to the budget during the year high than or equal to the previous year.

- Cited by 1 two maximum funds paid salary for the remaining results of classification (classification is done). Sources of additional bonus and welfare fund.

- Incurred profit is partly added into investment and development fund.

- The profits are divided according to the capital state.

The deduction for each fund is decided by the Board of Directors, after consulting the Executive Committee of the Vietnam Post and Telecommunications Group.

* Profit divided by state capital investments is made under the guidance of the Ministry of Finance.

3. CONCLUSION

Through studying the financial management system of VNPT, capital mobilization of VNPT's subsidiaries meet many difficult and limited. To extend the capital mobilization of VNPT, it is required to focus on handling the main problems as follows: In general, perform the capitalization for VNPT and foster the listing in the security market; For VNPT itself,

set the instruction frame including target, limit, loan procedure... instead of approval for each case in the current time; Parallel with the extension of capital mobilization regime for subsidiaries of VNPT, it is required to cooperate synchronously with the strengthening of supervision, administration regime and the system of final criteria on effectiveness, the extension of capital mobilization regime for member units under the Group can become true and obtain the achievement as expected. Under condition of limited budget resources, financial management system provides investment out of main business operations to VNPT which is 30% of total capital source is too large, leading to widespread investment without efficiency. To correct the limitations of investment in the outside VNPT, it is required to re-assess the capital, assets of VNPT accurately and re-structure the group toward centralized objectives as increasing the financial management efficiency of VNPT in new situation. Raise the role in advising, moderating, supervising related parties to investment decisions, project sponsorship, and distribution policies in inner VNPT.

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