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Factors Influencing Corporate Financial Performance: Empirical Evidence from the Textile and Garment Industry in Vietnam

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Abstract

Business is an important entity in every economy with its role in job creation, budget contribution, and national output. It can be said that enterprises are also one of the leading units that play a key role in implementing digital transformation, grasping science and technology, and improving labor productivity. Developing a team of enterprises that are both strong in quantity and strong in quality is an urgent requirement in many countries, including Vietnam. Vietnam is a developing country and home to many textile and garment enterprises operating due to the advantages of cheap labor and a large market, the textile and garment industry is capable of creating many jobs for the economy. Studying the factors affecting corporate financial performance across 250 textile and garment enterprises in Hanoi capital and Bac Ninh province, the research results show that when enterprises have the ability to mobilize capital, the cost is cheap, appropriate, and optimal, most businesses often achieve higher business efficiency and financial performance. In contrast, enterprises that are difficult to raise capital in the economy often achieve low financial efficiency and financial performance. The study also confirms the role of human capital in enterprises, enterprises with high human capital often achieve high profits.

Keywords: Firm Performance, Enterprise, Capital, Human Resource

JEL Classification Code: D22, D24, D25

1. Introduction

Enterprises are the source of jobs for the economy and at the same time make many important contributions to the national budget. Through the process of job creation, businesses have the ability to improve production capacity, create output for the country, and at the same time improve labor productivity for workers and the country. It can be said that business plays an important role in any economic activity in most countries.

To help businesses make more contributions to socio-economic development, the governments of countries always create favorable conditions in the business environment to help businesses have the most favorable business conditions, and finally, businesses can earn more profits or high financial efficiency. When the business has a lot of profit, it is possible to use the profits to reinvest and continue to have more jobs and other contributions to the country in the near future.

For Vietnam, economic reforms, through the policy of institutional reform and international economic integration, have helped the country achieve many important achievements in economic development. From a low-income country, Vietnam has entered the group of middle-income countries, the poverty rate has decreased sharply, foreign trade activities have been expanded, and economic growth has been high. To do this, the role of business cannot be ignored. The number of businesses has reached nearly 1 million, and start-up activities to create jobs are encouraged from students to farmers, and employees. It can be said that enterprises have made very important contributions to Vietnam's economic development achievements in recent years.

To evaluate more specifically the financial performance of the enterprise, in this study, we evaluate the factors affecting the financial performance of the enterprise through

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a specific study in Hanoi and the province. Bac Ninh is a locality with fast economic development and a relatively diverse business community. Through the study, the research results provide the Vietnamese government and scholars with empirical evidence of business operations in Vietnam.

In addition to the introduction, the remainder of this study consists of, part 2 discussing previous studies, and part 3 discussing data sources and research methods. Next, the study presents the results and discusses the results and general conclusions of the study.

2. Literature Review

One of the early studies of Vătavu (2015) established the relationship between capital structure and financial performance in 196 Romanian companies listed on the Bucharest Stock Exchange and operating in the manufacturing sector for a period of 8 years (2003–2010). Cross-sectional regression analysis. The capital structure indicators show long-term debt and short-term debt, total debt and total equity, while return on assets and return on equity are performance proxies. Previous studies have shown that tangible assets, taxes, risk, liquidity, and inflation are the determinants of capital structure in Romanian manufacturing firms. As long as these factors have an important impact on financial decisions, they should be included in the analysis as they are expected to affect performance as well. The results indicate that performance in Romanian companies is higher when they avoid debt and operate on equity. However, it seems that manufacturing companies do not have enough internal capital to make profitable investments and are not using their assets efficiently. During times of tax increases and inflation, profitable companies divest part of their assets to reduce costs. There is an indication of risk-taking behavior in manufacturing companies. This shows that they prefer to take out loans when they have financial difficulties, high business risks, or when they can't pay their debts due to a lack of cash. Due to the lack of data on long-term debt ratios, these regression results are not statistically significant. Furthermore, regression models dealing with return on equity explain its reduced volatility.

Ramli et al. (2019) examined the impact of capital structure determinants on a firm's financial performance along with the mediating effect of firm leverage in Malaysia and Indonesia over the period 1990–2010. The authors' results show that several capital structure determinants directly affect a firm's financial performance. The authors also observe that only the Malaysian sample has a significant positive correlation between firm leverage and firm financial performance. Malaysian companies use external financing instead of internal financing to enhance performance. The authors' results also indicate that firm leverage acts as an intermediary in Malaysia but not for the Indonesian sample. Asset structure, growth opportunities, liquidity, non-debt tax shield, and interest are attributes that indirectly affect a firm's leverage on a firm's financial performance. Further analysis for multigroup analysis (MGA) by the method of partial least squares (PLS) is also used to check the equality of the parameter estimates. The authors observe that certain attribute coefficients in the determinants of a firm's capital structure and financial performance are significantly different between Malaysia and Indonesia.

Ullah et al. (2020) analyzed the role of capital structure on the financial performance of 90 textile and garment companies listed on the Pakistan Stock Exchange (PSX) in the period 2008–2017. The dependent variable is the return on equity as a proxy for financial performance. The independent variables are a debt to equity, total debt to total assets, asset turnover ratio, revenue growth, tax, and export growth, while the firm size is considered the control variable. Array data regression technique was used for analysis purposes, and both cross-sectional and time series data were collected for this study. This study used a random effects regression model using Hausman test. The results show that the variable debt-to-equity structure has a negative and statistically significant relationship with financial performance, while the asset turnover ratio and firm performance show that negative relationship and are not statistically significant. Export growth and revenue growth have a significant positive relationship with financial performance; however, firm size has a significant and negative impact on firm performance, supporting our alternative research hypothesis. The remaining variables include tax payable and total debt to total assets ratio, which has a negligible relationship with financial performance (ROE) and confirms agency theory. With better corporate governance, by putting more pressure on managers or increasing manager ownership, institutional investors can reduce their capital, leverage risk, and overall cost of capital. The company helps to improve its financial performance and economic stability of the company.

Lin and Yeh (2020) used a dataset to study how financing is provided by a business group's internal capital markets and how control-enhanced ownership structure is related to investment performance. The authors find that group companies that make greater use of related party transactions to facilitate internal capital markets show a reduced probability of underinvestment. The authors also argue that pyramid (cross) ownership improves (weakens) investment performance suggesting that different types of control-enhancing structures have strongly contrasting effects on investment performance. These findings reveal both the financial advantages and disadvantages of business groups.

García and Herrero (2021) showed that the composition of the board of directors is highly related to the capital structure of the firm and the likelihood of financial distress. This study builds on the complementary propositions of agency theory and gender theory based on sexist behavior. The authors examine whether gender diversity on the board

affects a firm's capital structure (leverage, cost of debt, and debt maturity) and the likelihood of bankruptcy. For a sample of European companies between 2002 and 2019, the authors find that the proportion of female board members is the most influential board characteristic for corporate governance decisions. This characteristic is negatively related to leverage, cost of debt, and debt maturity. The authors also found that having a small and independent board with a high percentage of female members reduces the likelihood of financial hardship. However, dual CEO has no significant impact on the likelihood of financial distress or capital structure decisions.

Tortia (2021) asserted that in most countries, self-financing accumulation in cooperative enterprises uses substantial (but variable) indivisible reserves, which can be understood as common sources of funds, as they are characterized by competition and are not mutually exclusive in their use among the members of the cooperative. The article is structured into two main sections. The first part deals with the dynamic inefficiencies in investment and the problem of lack of capital due to the temporarily truncated vision of members of workers' cooperatives. The combination of different types of reserves, divisible and indivisible, is seen as a possible solution to underinvestment. In the second part, a new multi-layered reserve fund system, both divisible and indivisible, is discussed, showing that each different layer has distinct functions in the face of trade-offs. Between stability and performance: the stability and strength of the legacy depend on indivisible classes, while the efficient allocation of reinvested funds and the financial participation of members member requires divisible reserve classes.

Ulbert et al. (2022) asserted that in the 20th century, the golden ratio was discovered by modern science, including economics, business, and finance. In the financial sector, this ratio is mainly applied to technical analysis, and much less attention is paid to its use to solve corporate financial problems, such as structural decisions. The authors' study collected data on 455 US and European manufacturing and service companies from 2010–2019. The purpose of the investigation is to determine if there are any positive effects of capital structure based on the golden ratio on financial performance and market acceptance. The authors find a significant positive relationship between deviations from the capital structure based on the golden ratio and deviations of the company's revenue, earnings, stock price, and market value data relative to the firm's data. Therefore, indicating capital structure based on the golden ratio can be an effective tool for companies to increase operational efficiency and gain market acceptance. Based on that result, the relationship is more pronounced in the United States than in Europe and stronger for service firms than for manufacturing firms.

Cuevas-Vargas et al. (2022) sought empirical evidence on the impact of capital structure and innovation on the performance of Mexican small and medium-sized manufacturing enterprises (SMEs) and analyze the effects of indirect effects of capital structure to determine the mediating effects of innovation. A quantitative approach and cross-sectional design were applied through the Partial Least Squares Structural Equation Model (PLS-SEM). A simple random sampling technique and a self-administered questionnaire were used to collect data from a sample of 220 managers or business owners in the state of Aguascalientes, Mexico. The results indicate that capital structure has a significant impact on innovation and only an indirect effect on firm performance. Since innovation has proven to be a sufficiently important mediator in this relationship, if SMEs want better performance, they must increase their innovation level. Therefore, decision-makers must pay special attention to reinvesting their profits to increase the level of innovation and the company's operational efficiency.

Wang (2022) studied how capital account liberalization affects technological innovation. The author provides solid evidence that industries that are more dependent on external finance have disproportionately higher innovation performance in economies with more free capital accounts. Among the components of capital account liberalization, although both capital market liberalization and outward FDI by domestic firms have a significant impact on innovation, they also have a significant impact on innovation. While stock market liberalization eases financial constraints by facilitating access to external finance, outward FDI by domestic firms promotes innovative activities by increasing internal financing from foreign operations. Further analysis indicates that the innovation-enhancing effects of capital account liberalization are mainly limited to countries with relatively developed financial systems and good institutional quality, even during the financial crisis period. Specifically, we find solid evidence that capital account liberalization has a positive effect on technological innovation and that these innovation-enhancing effects are stronger for industries that are more dependent on finance. Although capital account liberalization eases corporate financial constraints and subsequently promotes innovation, the authors find that different components of liberalization affect financial constraints differently. Mechanistic analyzes show that while equity market liberalization helps to loosen financial constraints by improving external financing (stock issuance), the lifting of restrictions on foreign direct investment by domestic firms helps to ease financial constraints by enhancing internal financing (profitability). The author also points out that strengthening intra-industry competition and promoting internal corporate governance are other possible mechanisms through which capital account liberalization

affects innovation. In addition, we find that the innovation-promoting effects of capital account liberalization are more pronounced in countries with well-developed financial systems and good institutional quality.

Tang et al. (2022) discussed natural resources, and financial resources through the integration of business regulations. In addition, most empirical studies have used conventional estimation methods. To address research gaps. This paper examines the financing hypothesis by scrutinizing the link between financial development and natural resource rents from 1984 to 2018. Results empirically confirm the hypothesis about financial resources. Business regulations encourage financial development and neutralize the negative consequences of natural resources on financial development. It implies that favorable business regulations will minimize financial losses in ASEAN countries. This condition can be considered necessary for the sustainability of natural resource rent-related advances in financial development, and appropriate policy recommendations can be made.

3. Research Methods

3.1. Data and Conceptual Model

Based on an overview of research and actual observations in Hanoi city and Bac Ninh province, Six influencing factors affect the financial performance of enterprises in these two localities. The selected variables are shown in Figure 1.

The study has 6 research hypotheses, corresponding to 6 independent variables such as capital structure choice, human capital, incentives, customers, government policies as well as integration. The research hypotheses are stated as follows:

H1: *Choosing the right capital structure has a positive effect on the profitability of the business.*

H2: *Firms with high human capital have a positive effect on corporate profits.*

H3: *The incentive mechanism in the enterprise has a positive effect on the profitability of the enterprise.*

H4: *Customers have a positive influence on the profitability of the business.*

H5: *The ability to integrate into the enterprise has a positive effect on the profitability of the enterprise.*

H6: *Government policy has a positive impact on corporate profits.*

3.2. Methodology

The dependent variable in this study is the profitability of the business, and the independent variables are capital structure decisions, human capital, incentives, customers, government regulations, and integration. Through the survey of primary data, the study performed different analyses in SPSS software, and the main analyzes were: descriptive statistics, Cronbach's alpha analysis, EFA analysis, and regression analysis. The results of the regression analysis will be the basis for commenting on the results and, finally the conclusion for this study. After the analysis of 260 samples, the number of valid votes is 250, of which 200 are in Hanoi and 50 in Bac Ninh province.

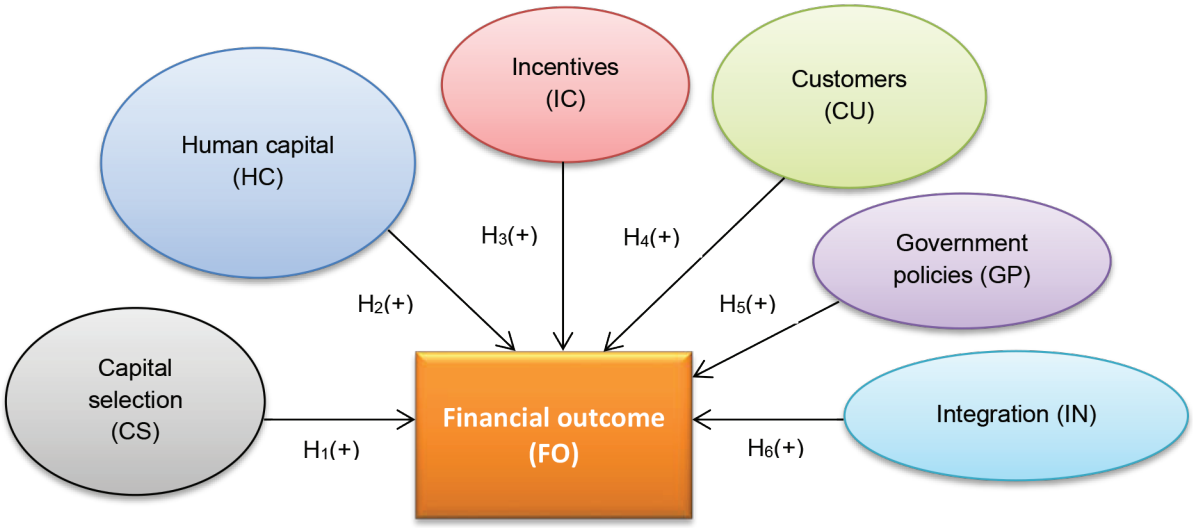

Figure 1: Research Model

4. Results

4.1. Descriptive Statistics

The data set for this analysis is collected from 250 firms in Hanoi, Vietnam, and Bac Ninh, Vietnam. The basic characteristics are presented in Table 1 as follows:

Through the survey, it can be seen that most of the research collections are private enterprises, which shows that private enterprises have an important contribution to the economy of Vietnam. Additionally, the majority of the firms are small and medium-sized, which illustrates that Vietnam's businesses are maturing and that many companies began as start-ups. Additionally, the primary businesses in this study are those involved in manufacturing and trade.

4.2. Cronbach's Alpha Analysis and EFA

To avoid including scales with low reliability in the study, scale reliability analysis seeks to identify a reliable scale to use for EFA analysis. In accordance with earlier research, Cronbach's Alpha coefficient testing for reliability indicates that reliability is present when the value is larger than 0.6, the scale is acceptable when it is greater than or equal to 0.6, and reliability is not present when the value is less than 0.6 (Table 2).

Table 1: Information About the Survey

Own	Quantity	Ratio %
Stock firms	50	25.00%
Private enterprise	140	56.00%
100% foreign capital	48	19.20%
Venture	12	4.80%
Total	250	**100.00%**
Size		
Under 10 employees	102	40.80%
10–50 employees	65	26.00%
50–100 employees	42	16.80%
100–500 employees	31	12.40%
Over 500 employees	10	4.00%
Total	250	**100.00%**
Location		
Hanoi	200	80.00%
Bac Ninh	50	20.00%
Total	250	**100.00%**
Areas		
Retail	20	8.00%
Machining	123	49.20%
Commercial business	87	24.80%
Others	20	8.00%
Total	250	**100.00%**

4.3. EFA Analysis

In EFA exploratory factor analysis, there are a number of binding conditions that the research must satisfy. The first is the KMO = 0.764 test which satisfies the condition > 0.5, so it can be concluded that the exploratory factor analysis is appropriate with the actual data. In addition, the Bartlett test for sig value < 0.05 means that the observed variables are linearly correlated with the representative factor or can predict the research results that can explain the fluctuations of the dependent variable (Table 3). Through the research results, we have Eigenvalue = 1.543 > 1 with a cumulative total variance of 67.434% > 50% (showing the total variance explained), the EFA model is appropriate (Table 4).

4.4. Correlation Matrix

Through correlation analysis, it is shown that all pairs of variables have a correlation coefficient of less than 0.8, so there is no possibility of multicollinearity, and therefore, the regression model is likely to achieve the best state (Table 5).

4.5. Regression Results

Through the research results, it can be seen that the independent variables can explain 52.3% of the change of

Table 2: Scale Analysis

STT	Scale	Number of Scales	Cronbach's Alpha
1	Capital selection	5	0.778
2	Human capital	5	0.758
3	Incentives	4	0.853
4	Customers	5	0.786
5	Government policies	4	0.772
6	Integration	5	0.803

Table 3: The Test of KMO and Bartlett

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.764
Bartlett's Test of Sphericity	Approx. Chi-Square	4112.331
	Sig.	0.000

Table 4: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.322	28.533	28.533	6.322	28.533	28.533	5.764	27.231	27.231
2	3.664	25.432	53.965	3.664	25.432	53.965	3.124	24.775	52.006
3	1.543	18.754	72.719	1.543	18.754	72.719	1.424	15.428	67.434
4	0.587	8.321	81.040						

Table 5: Correlation Matrix

		FO	CS	HC	IC	CU	GP	IN
FO	Pearson Correlation	1						
CS	Pearson Correlation	0.432	1					
HC	Pearson Correlation	0.456	0.321	1				
IC	Pearson Correlation	0.235	0.632	0.331	1			
CU	Pearson Correlation	0.543	0.313	0.421	0.145	1		
GP	Pearson Correlation	0.135	0.394	0.542	0.211	0.213	1	
IN	Pearson Correlation	0.322	0.452	0.124	0.221	0.124	0.124	1

Table 6: Regression Results

Model	R^2	Adjusted R^2	Std.	Durbin- Waston
1	0.542	0.523	0.5063	1.921

Table 7: Regression Results for Coefficients

Model		Unstandardized Coefficient		Standardized Coefficient	*T*	Sig.	Diagnostics	
		Beta	S.E	Beta			Acceptance Level	Beta
1	_cons	0.435	0.467		1.900	0.015		
	CS	0.124	0.065	0.111	2.642	0.006	0.766	1.305
	HC	0.432	0.066	0.342	3.654	0.000	0.743	1.345
	IC	0.433	0.024	0.341	0.234	0.875	0.657	1.522
	CU	0.235	0.077	0.213	0.123	0.987	0.768	1.302
	GP	0.421	0.054	0.354	1.453	0.140	0.798	1.253
	IN	0.323	0.022	0.255	0.789	0.455	0.811	1.233

the dependent variable and meet the set requirements, which means that this study is acceptable to be carried out (Table 6).

The research results in Table 7 show that the choice of capital structure has an impact on the financial performance of the business. That is, when enterprises have the ability to choose appropriate and cheap capital for business activities, enterprises can use capital to expand production and business and become more efficient. When the business

is efficient, the benefits for employees and business owners are improved, and the business is likely to continue to grow in the long run. Indeed, the economic development of the country cannot be without the contribution of the business community, when business development is often associated with the ability to create jobs, contribute to the budget and national output, and help benefit developed countries.

The study also confirmed a positive relationship between human capital and corporate financial performance. That is, when enterprises have high-quality human capital, they have higher business efficiency and higher profits. This reflects that the quality of human resources plays an important role for businesses in particular and the economy in general. Improving the quality of human resources through training, fostering, and improving the quality of health services and people's health care has the potential to improve human capital and has the potential to fundamentally affect the effectiveness of human resources.

5. Conclusion

Businesses are the cell of the economy, playing an important role in job creation, budget contribution, and economic development in each country. Business development plays an important role in promoting national development. Research on factors affecting the financial performance of enterprises has been carried out and, in this study, the author focused on Vietnam. A survey of 250 enterprises in Hanoi and Bac Ninh, which are considered to have a high level of development and a developed business community, revealed that businesses can increase corporate profitability by selecting the right capital structure. Businesses that have the ability to choose a cheap, safe, and timely capital structure, have the ability to be proactive in business and often achieve high profits. In contrast, businesses that do not have access to capital often find it difficult to achieve business efficiency. The study also shows that enterprises with high-quality human resources often have high profits, this is a recommendation for businesses to implement programs to attract quality human resources, capable of implementing development for business in the enterprise.

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