# FACTORS AFFECTING PROFITABILITY OF LISTED COMPANIES IN THE GARMENT AND TEXTILE INDUSTRY IN VIETNAM

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**Abstract:** ***This study examines factors affecting the profitability of listed companies in the garment and textile industry in Vietnam. The sample consists of 37 listed firms on HNX, HOSE and UpCom over 2014 - 2020. Multiple regression models indicate that firm size, cost management, asset employment and utilization, operating cash flows facilitate the profitability of these companies. In contrast, debt ratio, tangible asset investmemt and market position hinder profitability. Export value growth of the garment and textile industry shows negative impact on profitability, reflecting the compliance cost burden to ensure the technical and quality regulations of imported markets and the dependence of the Vietnamese garment and textile enterprises on the global market.***

• Keywords: *profitability, garment and textile industry, listed companies, Vietnam.*

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## 1. Introduction

The garment and textile industry is one of Vietnam's key export sectors, contributing approximately 10-15% to economic growth, creating more than three million jobs annually, and strengthening Vietnam's position in global value chains. As traditional competitive advantages gradually diminish and compliance requirements in importing markets become increasingly stringent, Vietnamese garment and textile firms face mounting pressure to maintain and enhance profitability while ensuring financial sustainability. Therefore, identifying the determinants of profitability in this sector is essential for supporting firm-level financial resilience and sustainable development.

Previous studies on the garment and textile industry include Le and Tran (2024), Phan and Nguyen (2025), Do (2023), Nguyen (2023), and Vu (2025). These studies mainly focus on a limited set of determinants rather than providing a comprehensive assessment of profitability drivers. As most existing research concentrates on firms listed on HNX and HOSE, this study addresses these gaps by expanding the sample to include firms listed on UpCom and by jointly examining internal and industry-specific external determinants of profitability.

## 2. Hypotheses and research model

Profitability is a key financial indicator reflecting a firm's ability to generate returns for investors through business operations. It is influenced by internal factors related to firm-specific characteristics and external factors reflecting macroeconomic conditions and market uncertainties. *Regarding internal factors*, primary determinants include firm size, asset structure, operating cash flows, capital structure, liquidity, and working capital management. Firm size is considered as a critical factor for evaluating and determining firm position and potential growth in a particular industry. Larger firms often benefit from easier access to capital, economies of scale, and stronger market access (Dang et al., 2018; Sjahrial, 2012). Investment in fixed assets reflects production capacity (Barney, 1991), particularly in primary industries such as the garment and textile industry. However, excessive investment in fixed assets may reduce asset turnover and operational flexibility, especially in industries suffering from the rapid changes in technology and market needs such as the garment and textile industry.

Asset utilization efficiency and cost management practices have a positive impact on firm profitability. Effective cost management enables firms to optimize their cost structure and eliminate non-value-adding activities, thereby directly enhancing profitability (Hansen & Mowen, 2014). Sound control of operating costs allows firms to achieve higher returns on assets

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(ROA) and returns on equity (ROE), even in the absence of strong revenue growth (Banker et al., 2011).

The impact of capital structure on profitability has been extensively examined within the framework of Modigliani and Miller's capital structure theory (1963). In emerging markets, where borrowing costs and credit risk premiums are relatively high, empirical evidence largely indicates a negative relationship between financial leverage and profitability (Shubita & Alsawalhah, 2012; Arega et al., 2020). Firms that rely excessively on debt financing may face liquidity constraints and reduce operational flexibility. This argument is particularly relevant to Vietnam's garment and textile industry, which is highly dependent on short-term borrowing and is strongly exposed to fluctuations in interest rates and exchange rates.

In terms of liquidity, firms that maintain a high level of liquidity are better able to meet short-term obligations, thereby ensuring financial stability and potentially enhancing profitability (Makori & Jagongo, 2013). However, excessively high liquidity may adversely affect profitability, as a portion of working capital remains idle and is not efficiently utilized in business operations. The inherent trade-off between liquidity and profitability therefore gives rise to a negative relationship between liquidity and firm profitability (Ehi-Oshio et al., 2013).

Working capital management plays a crucial role in labor-intensive and low-margin industries such as the garment sector, as it enables firms to manage receivables, payables, and inventories in a manner that maximizes operating cash flows (Shin and Soenen, 1998; Deloof, 2003; García-Teruel and Martínez-Solano, 2007). However, empirical evidence on the impact of working capital management on profitability remains inconclusive. Studies by García et al. (2014) and Kasozi (2017) find no statistically significant relationship between working capital management and firm profitability.

Regarding the role of operating cash flows, firm life-cycle theory (Adizes, 1979; Dickinson, 2011) suggests that firms with abundant cash flows from operating activities are typically in a strong growth phase and exhibit higher profitability. Operating cash flow (CFO) also serves as an indicator of a firm's liquidity position and managerial capability (Etim et al., 2022; Christian and Dewi, 2024). Accordingly, higher CFO is expected to enhance firm profitability.

Market position is another key determinant of firm profitability. According to Porter (1980), a strong market position enables firms to reduce competitive pressure and improve financial performance through bargaining power and product differentiation. De and Eeckhout (2017) further demonstrate that firms with greater market power achieve superior profit margins. Given the characteristics of Vietnam's garment supply chain, market position is therefore expected to contribute positively to firm profitability.

Regarding external factors, trade agreements play a critical role in shaping firm performance in the garment and textile industry. Garment firms may experience short-term declines in profitability following trade liberalization due to increased compliance costs related to rules of origin, labor standards, and environmental regulations (Nabeshima et al. 2021). In the context of Vietnam's garment and textile industry, free trade agreements (FTAs) are therefore likely to exert upward pressure on production costs in the short run, while being expected to support export growth and deeper integration into global value chains in the long run.

*The research hypotheses are formulated as follows:*

**H1:** Firm size has a positive effect on the profitability of listed garment and textile firms in Vietnam.

**H2:** Fixed asset investment structure has a significant impact on the profitability of listed garment and textile firms in Vietnam.

**H3:** Operating cash flow (CFO) has a significant impact on the profitability of listed garment and textile firms in Vietnam.

**H4:** Capital structure has a negative effect on the profitability of listed garment and textile firms in Vietnam.

**H5:** Liquidity has a positive effect on the profitability of listed garment and textile firms in Vietnam.

**H6:** Working capital management has a positive effect on the profitability of listed garment and textile firms in Vietnam.

**H7:** Asset utilization efficiency and cost management have a positive effect on the profitability of listed garment and textile firms in Vietnam.

**H8:** Market position has a positive effect on the profitability of listed garment and textile firms in Vietnam.

**H9:** Trade agreements have a significant impact on the profitability of listed garment and textile firms in Vietnam.

## 3. Data and Methodology

This study employs secondary data compiled from the consolidated financial statements of 37 garment and textile firms listed on the HNX, HOSE, and UpCom over the period 2014-2020. Industry-level trade data for Vietnam's garment and textile sector are obtained from the World Bank.

The proposed hypotheses are empirically examined using the following econometric models:

$$Profitability_{i,t} = \beta_{01} + B_1 * X + \varepsilon_1 \quad (1)$$

*Where:*

Profitability is the dependent variable and measured by BEP, ROA và ROE.

B1, B2 , B3 denote the parameter vectors; Xrepresents the vector of independent variables described in Table 1, và $\varepsilon_1$, $\varepsilon_2$, $\varepsilon_3$ are the error terms of models (1), (2), and (3), respectively.

**Table 1: Explanation of variables in empirical models**

| Variable | Meaning | Formula |
|---|---|---|
| ***Dependent variables*** | | |
| ROA | Profitability ratio measuring how efficiently a company uses its assets to generate profit | $ROA = \frac{Net\ Income}{Total\ Assets}$ |
| BEP | Basic earning power, ability to generate earnings from its assets before interest and taxes | $BEP = \frac{EBIT}{Total\ assets}$ |
| ROE | Profitability ratio measures how efficiently a company uses its equity to generate profit | $ROE = \frac{Net\ Income}{Equity}$ |
| ***Explanatory variables*** | | |
| $Tang_{per}$ | Measuring the % of tangible asset (tangibility) over total asset | $Tang_{per} = \frac{Tangible\ Assets}{Total\ assets}$ |
| CFO | Capability of cash flow generating from operating activities | CFO = Inflow from OA - Outflow from OA |
| Hd | Reflecting the capital structure of a company | $Hd = \frac{Total\ Liabilities}{Total\ Assets}$ |
| NWC | Reflecting the net working capital management of business | NWC = (Long-term debts + Equity) - Long-term assets |
| Liquid | The ability to repay short-term obligation based on liquidating current assets | $Liquid = \frac{Current\ Assets}{Current\ Liabilities}$ |
| ROS | Measuring the cost management efficiency of a company | $ROS = \frac{Net\ Income}{Net\ Revenue}$ |
| Aturn | Asset utilization efficiency | $Aturn = \frac{Net\ Revenue}{Total\ assets}$ |
| MSize | Firm Size | Msize = $\ln(Net\ Revenue)$ |
| Market | Indicating market position/market share of a company | Market = $\frac{Net\ Revenue\ of\ Firm\ i\ at\ Year\ T}{Total\ Revenues\ of\ Firm\ i\ at\ Year\ T}$ |
| Trade | The growth rate of export value of the garment and textile industry | Trade = $\frac{Export\ Value_T - Export\ Value_{T-1}}{Export\ Value_T}$ |
| G | Denoting where a firm is listed | $\begin{cases} = 1\ for\ listed\ firms\ on\ HNX\ or\ HOSE \\ = 0\ for\ listed\ firms\ on\ UpCom \end{cases}$ |

## 4. Results and discussion

### *4.1. Overview of profitability of listed companies in the garment and textile industry*

**Table 2: Description of the variables in empirical models**

| Variables | Mean | Std. deviation | Min | Max |
|---|---|---|---|---|
| ROA | .0631297 | .0892324 | -.7923179 | .3923648 |
| BEP | .0612393 | .0808261 | -.777653 | .2592433 |
| ROE | .1482311 | .1818565 | -.1.19179 | .5700387 |
| Tang_per | .2005875 | .1394164 | 0 | .7428897 |
| CFO | 5.86e+10 | 1.41e+11 | -4.89e+11 | 7.67e+11 |
| Hd | .5332343 | .2439131 | 0 | 1.03134 |
| NWC | 1.44e+11 | 3.68e+11 | -2.40e+11 | 2.73e+12 |
| Liquid | 1.788865 | 1.597616 | .2073008 | 10.38259 |
| ROS | .0666279 | .1138467 | -.4520098 | .5957017 |
| Aturn | 1.555672 | .8245883 | .064094 | 4.566988 |
| MSize | 21.07263 | 1.41189 | 23.35807 | 29.90439 |
| Market | .0323214 | .0419385 | .0003167 | .2505434 |
| Trade | .1036392 | .1525205 | 10.13622 | 10.58213 |

The average return on assets (ROA) of listed garment and textile firms in Vietnam during the period 2014-2020 is 6.31%. The economic profitability of assets (BEP) fluctuates around 6.1%, with a standard deviation of 8.082%. The average return on equity (ROE) reaches 14.82%, accompanied by a relatively high standard deviation of 18.18%. Over the study period, listed garment firms exhibit higher returns on equity than returns on assets; however, the substantial dispersion of ROE indicates considerable heterogeneity in profitability across firms.

Fixed asset investment accounts for approximately 20% of total assets, reflecting an asset structure that relies heavily on working capital. The average operating cash flow (CFO) of listed garment firms amounts to VND 58.6 billion, although the range of variation is wide. The highest observed CFO reaches VND 767 billion, whereas the lowest value is -VND 489 billion. The average debt-to-total-assets ratio in the industry is 53.32%. Firms maintain relatively sound liquidity positions, with an average current ratio of 1.788.

The average return on sales (ROS) is 6.66%. Several firms demonstrate strong cost management efficiency, with the highest ROS reaching 59.5%, in sharp contrast to the most severe losses, which correspond to a ROS of -45.2%. In addition, there is substantial variation in asset turnover among listed garment and textile firms in Vietnam, with the highest asset turnover reaching 456% and the lowest only 6.4%.

Firm size also exhibits considerable heterogeneity. The largest firm records net revenue of VND 9,669 billion, nearly 735 times higher than that of the smallest firm (VND 13.15 billion). In terms of market position, the largest firm accounts for approximately 25% of total market revenue, whereas the smallest firm holds only 0.03% market share. Meanwhile, Vietnam's garment and textile exports continue to expand, with an average annual growth rate of approximately 10.3% over the study period.

### *4.2. Factors affecting profitability of listed companies in the garment and textile industry in Vietnam*

**Table 4: Results of GLS Regression (1), (2) and (3)**

| Variables | ROA (1) | BEP (2) | ROE (3) |
|---|---|---|---|
| Tang_per | -.0880338(***) | -.0198657 | -.1410239 (**) |
| Hd | -.137212 (***) | -.0826303(**) | -.2709709 (***) |
| Aturn | . 0207006 (***) | . 0253037(***) | .04299 (***) |
| ROS | .77217 (***) | .3759875 (***) | 1.10043 (***) |
| MSize | .0378324 (***) | .0478561 (***) | .1006652 (***) |
| Liquid | -.0044761 | .0069262 (*) | -.0062202 |
| NWC | -1.02e-13 (***) | -8.31e-14 (***) | -2.29e-13(***) |
| CFO | 8.44e-14 (***) | 7.71e-14 (**) | 7.20e-14 |
| Market | -.4906104 (***) | -.6722374 (***) | -.4452299 |
| Trade | -.042681 (*) | -.086791 (***) | -.0797162 |
| G | -.0168249 (*) | .0076081 | -.0599234 (**) |
| _cons | -.4649971 (*) | -.3311011 | -1.63595 |

*Note:*

*(***), (**), (*) denote p-value at 1%, 5%, 10% respectively.*

*The Hausman test results indicate that the random effects model (REM) is the most appropriate specification for the dataset; however, the presence of heteroskedasticity is detected. Accordingly, the study employs the generalized least squares (GLS) estimator to obtain robust and efficient estimates.*

Table 4 reports the results of hypothesis testing. Overall, the explanatory variables are statistically significant; however, the direction and magnitude of their effects vary across different profitability measures. The regression results indicate that firm size, operating cash flows, asset turnover, and cost management efficiency exert positive effects on profitability. In contrast, leverage, working capital management, market position, and free trade agreements (FTAs) have negative effects on firm profitability. In addition, garment firms listed on the UpCom market exhibit lower profitability than those listed on the HNX and HOSE exchanges.

More specifically, leverage has a negative and statistically significant effect on profitability at p-value < 5% level**, s**uggesting that excessive reliance on debt financing increases interest expenses and financial risk, thereby reducing operational efficiency. Working capital management also shows a strong negative effect on profitability (p-value < 1%), reflecting that excessive investment in short-term assets raises opportunity costs, leads to inefficiencies in working capital allocation, and ultimately weakens firm profitability. These findings are consistent with empirical evidence on working capital management in developing economies.

By contrast, asset turnover has a positive effect on profitability, particularly on ROE**,** underscoring the critical role of asset utilization efficiency in the garment industry. This result is consistent with the current investment structure of Vietnamese garment firms. Both return on sales (ROS) and firm size exert positive effects on profitability at the 1% significance level, indicating that firms with effective cost control and larger scale are better able to exploit economies of scale, thereby enhancing profitability and shareholder value. Net operating cash flow also exhibits a positive association with profitability, highlighting the importance of stable cash flows in supporting growth and improving financial performance among Vietnamese garment firms.

Conversely, market position has a negative effect on ROA and BEP**, s**uggesting that market expansion does not necessarily translate into higher profitability. Large firms may face challenges in managing diversified market segments, which can increase operating costs and reduce efficiency. Similarly, free trade agreements (FTAs) are found to have a negative impact on profitability in the short run, as stringent requirements related to rules of origin, labor standards, and environmental regulations raise compliance costs, thereby reducing the profits of listed garment and textile firms.

## 5. Policy implications for improving the profitability of Vietnamese garment and textile firms

Based on the empirical findings, this study proposes several policy implications to enhance the profitability of Vietnamese garment and textile firms in the context of intensifying competition and increasingly stringent environmental and carbon standards imposed by key export markets.

***First***, policies should encourage firms to shift their strategic focus from scale and

market share expansion toward improving asset utilization efficiency and the quality of growth. Support measures should prioritize productivity enhancement, operational management, and supply chain efficiency rather than promoting extensive growth.

***Second***, given that free trade agreements (FTAs) do not immediately translate into higher profitability, government policies should aim to reduce firms' compliance costs. Requirements related to emissions control, cross-border carbon mechanisms, and green labeling substantially increase production costs in the garment industry. Accordingly, green financial support schemes, such as preferential credit, tax incentives, or subsidies for clean technology, energy efficiency, and emissions management, are essential to help firms meet international standards at reasonable cost.

***Third***, policies promoting the development of domestic supporting industries and supply chains should be strengthened to reduce dependence on imported inputs, which undermines the benefits of FTAs. Establishing an integrated domestic ecosystem for textiles, dyeing, and finishing would not only facilitate compliance with rules of origin but also improve profit margins by shortening production cycles and reducing logistics costs.

***Fourth*****,** policies should support firms in strengthening financial resilience and improving capital structure efficiency. Given the negative impact of high leverage on profitability, regulatory frameworks and financial institutions should encourage longer-term financing instruments, reduce excessive reliance on short-term debt, and promote access to stable funding sources. Developing specialized credit products tailored to the cash-flow characteristics of garment firms, along with enhanced risk-sharing mechanisms, would help mitigate liquidity constraints and financial vulnerability.

***Fifth*****,** policies should promote digital transformation and data-driven management practices within garment and textile firms. Investments in digital technologies such as enterprise resource planning (ERP) systems, supply chain tracking, and data analytics can improve working capital management, cost control, and operational efficiency. Supporting digital adoption through training programs, technology grants, and public-private partnerships would enable firms to enhance productivity and profitability while adapting to increasingly complex global supply chains.

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