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Internal Factors Influencing Firm Profitability in the COVID-19 Pandemic: An Empirical Evidence from Vietnam

Le Thanh HUYEN¹

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Abstract

For each country, the growth of the country is significantly associated with the growth of the manufacturing industry. Especially in the early stages of development, the manufacturing industry has greatly played a great role in creating great added value for society and economic development in that country. Starting from a country with a weak manufacturing background, Vietnam is gradually opening up and integrating into the global economy, which has brought many opportunities for manufacturing enterprises in particular and the enterprise community in general, making Vietnam one of the countries with large production activities in Southeast Asia and Asia. The study evaluates the factors affecting the financial performance of manufacturing enterprises through a case study in Hanoi, Vietnam. Using a survey sample of 235 enterprises operating in production and using quantitative analysis methods, the research results show that: Enterprises with high governance quality are enterprises with high economic efficiency or enterprises with low management capacity have low business efficiency. Moreover, large-scale enterprises often have many advantages in seeking profits and improving business efficiency. Finally, the study has some recommendations to improve corporate governance and growth, create a stronger business community and contribute more to Vietnam's economic development.

Keywords: Hanoi, Performance, Manufacturing Sector, Governance

JEL Classification Code: D24, D25, G25

1. Introduction

The manufacturing industry is one of the main activities in the countries in the world. A country with strong manufacturing activity can create a lot of wealth for that country, thereby putting the country quickly on the path toward prosperous development. In contrast, a country with weak manufacturing activities is where the economy does not have many opportunities to create jobs for the people, economic activities are quiet, and it is difficult to turn that country into a developed economy. The case of East Asian countries shows that if manufacturing becomes strong, the country is more likely to improve productivity, jobs, foreign trade, and ultimately economic growth.

Previous studies have all said that to have a strong production base, the role of manufacturing enterprises becomes urgent (Mai et al., 2021). The success of East Asian countries is associated with the success of large manufacturing enterprises, or it can be said that East Asian countries are places where entrepreneurship can be nurtured and businesses have the opportunity to develop and grow. and have many contributions to local economic growth in particular and the country in general. Therefore, paying attention to the development of enterprises, especially manufacturing enterprises, has become urgent in most countries today.

Vietnam is located in a dynamic economic development area in Southeast Asia. Through the process of development, Vietnam has gradually risen from being one of the poorest countries in the world to becoming a fast-growing country capable of joining the group of emerging countries. The increase in per capita income and the country's ability to attract a lot of domestic and foreign capital flows have made production and business activities develop. The development of the country's economy is based on a favorable business environment, which has made businesses feel secure in conducting production and business, starting a business, and

¹First Author and Corresponding Author. Hoa Binh University, Hanoi, Vietnam [Postal Address: Bui Xuan Phai Street, My Dinh 2 Ward, Nam Tu Liem District, Hanoi, 100000, Vietnam]
Email: thanhhuyen110920@gmail.com

making more contributions to economic development (Ha & Tran, 2021).

Since the beginning of 2020, the world has been experiencing the strong impact of the COVID-19 pandemic, which has fundamentally changed many activities of social life. Businesses operating in the context of the pandemic have become more difficult, causing production costs to increase. Policies on social distancing, social isolation, and vaccination have made the cost burden for businesses, leading to many manufacturing enterprises not having favorable business results. The economic growth of the world and Vietnam has decreased; thereby, it can be seen that the influence of enterprises has a great impact on the production efficiency of enterprises. Recent studies by academics have all suggested that the COVID-19 pandemic is a cause that has a negative impact on the financial performance of businesses (Nguyen, 2022). Through previous studies, the authors confirmed that the factors inside the business are also factors that affect financial performance.

According to the General Statistics Office (2022), in the Survey Report on production and business trends in the first quarter of 2022, only 64% of enterprises have received better production and business activities in the first quarter of 2022 compared to the fourth quarter of 2021 (of which 28% improved and 36% remained stable). Besides, nearly 36% of enterprises said that their production-business situation is becoming more difficult. Thereby showing that the impact of the COVID-19 pandemic is likely to last, and each business needs to have appropriate solutions to optimize production activities and maintain business efficiency.

In this study, the author evaluates the factors affecting business performance in enterprises, especially assessing the impact of the COVID-19 pandemic. In the future, external shocks can continue to happen to any economy, country, or business; through this study, we quantify the impact of the COVID-19 pandemic on businesses, thereby having policy implications for countries in maintaining production activities and resilience to shocks.

As discussed in the introduction, the remaining of the study consists of the following sections: part 2 discusses the literature review, and part 3 discusses data and research methods. Section 3 depicts the results and discusses the results, and finally, the study presents the conclusions and governance implications.

2. Literature Review

Research on enterprises and their business performance has been carried out in a number of studies in the past. The studies all discuss the factors that have an impact on the financial performance of the enterprise, including factors inside the business, or factors outside the business.

The theory of Modigliani and Miller suggests that in a perfect market, the capital structure does not affect firm value. The Modigliani and Miller propositions follow that any financing option, whether using equity or choosing short-term or long-term debt, does not change the value of the firm. That shows that the long-term value of the firm does not change under ideal conditions. However, under non-ideal conditions, the firm value needs to be adjusted to match that non-ideal condition.

In a study on the financial performance of Vietnamese enterprises in the period 2009 to 2018, Vu Hung et al. (2021) suggested that company size, labor productivity, and company growth are factors that have an impact on corporate profits. Smaller companies do not have many advantages in production, market dominance, or cost management, therefore larger companies have higher business efficiency while smaller companies have lower business performance. Additionally, businesses that have high labor productivity have more skilled personnel, which enables them to produce more goods within the same unit of production. A highly productive company's business performance improves with time. Growth companies are also businesses that are experiencing rapid growth and development, can extend their markets, and effectively control their operating expenses. As a result, they generate higher profits. Vu Hung et al. (2021) stated that small and medium enterprises account for a large proportion of the business community in each country, and if small and medium enterprises know how to take advantage of the market, improve worker skills, improve labor productivity and maintain high growth, they can increase their business efficiency and performance.

Farole et al. (2017) conducted a study on European business performance. The author stated the business environment, or an enterprise operating in a country with a favorable business environment and high-quality products can affect the business performance of an enterprise. If the system is effective, the company can boost productivity. Through the research, the author believes that countries, especially low-income countries, need to improve the business environment so that domestic and foreign enterprises can trust the government's policies and set up production and business units.

According to Sumedrea's (2013) research on the impact of human resources on business success, a company's human capital is a key intellectual property. Employees who work for companies with highly intellectually productive human resources may quickly access science and technology, giving the business an advantage over competitors. Since then, Sumedrea (2013) claimed that to increase human capital in businesses, they must simultaneously recruit high-quality and suitable workers while routinely maintaining training and resource development.

In another study conducted in India, Jain (2022) suggested that female participation in leadership has the potential to improve business performance, especially in areas where the role of women is enhanced. The higher the level, the more efficient businesses operating in that area will be. Through the research, it is possible to confirm the role of gender equality in business activities in agreement with the case of India which is on the way to maintaining gender equality, more participation of women in life and businesses, and operational efficiency is improved.

In another study conducted by Boachie and Mensah (2022) on the role of profit management in corporate performance, it was suggested that better earnings management means better business performance. If an enterprise has higher governance quality, combined with good profit management ability, the business performance will improve, which reflects that enterprises with good governance quality often have an advantage over other enterprises with a poorer quality of management. The research results reflect the advantages in enterprises with high management ability, thereby requiring enterprises to always improve their management capacity and team capacity to better meet production and business requirements.

Iwasaki et al. (2022) studied the impact of ownership structure and financial performance in firms in Europe, China, and Russia, and the results show that enterprises with state-oriented ownership structures are often more efficient in business. While foreign ownership or outside ownership often has a positive effect on financial performance, it shows that state capital flows are often inefficient compared to private capital flows and capital flows. foreign. Iwasaki et al. (2022) also emphasized that in enterprises where the owner's participation in management often has a positive impact on the financial performance of that enterprise, this relationship is relatively weak.

Recent research conducted by Cuevas-Vargas et al. (2022) assesses the impact of capital structure on the performance of small and medium-sized manufacturing enterprises in Mexico. Using the PLS-SEM research method on a survey sample of 220 business managers, it is said that capital structure has a direct impact on innovation activities and an indirect impact on financial performance in enterprises. Therefore, to increase financial efficiency in enterprises, enterprises need to constantly increase innovation and technology transfer activities, thereby improving product quality and productivity, and ultimately improving business efficiency. In another relatively typical study, Siriram (2022) said that technological innovation is an activity to help businesses have the ability to create new products. At the same time, non-technological innovation aims to create the strategy, leadership, culture, environment, collaboration, and growth in the organization.

Five hypotheses are to be tested in the theoretical model:

H1: *There exists a positive relationship between the capital structure in firms and business performance.*

H2: *There exists a positive relationship between corporate governance quality and business performance.*

H3: *There exists a positive relationship between human capital and business performance.*

H4: *There exists a positive relationship between female participation and business performance.*

H5: *There exists a positive relationship between company size and business performance.*

3. Data and Methodology

3.1. Data

In this study, we conducted a survey of enterprises in Hanoi to assess the factors affecting business performance. The independent variables in this study include capital structure, corporate governance quality, human capital, female participation, and company size. The study is assessed from June 2021 to September 2020, a hard time of the COVID-19 pandemic in Vietnam.

About the sample size, Slovin's formula (Awino & Kipsang, 2020) and Tabachnick and Fidell (1991), the minimum sample size should be formulated as follows:

$$n \geq 8m + 50$$

In which,

n is the minimum sample size,

m is the number of independent variables

In another study by Hair et al. (1998), the optimal sample size needs a minimum of five times the number of questionnaires, as follows:

$$n \geq 5m$$

In which,

n is the minimum sample size,

m is the number of questionnaires

In this study, there are six scales with 35 observed variables, so the minimum sample size is $35 * 5 = 175$ observations. Thus, we choose a sample size of 235 observations. In addition, the selected sample size is 235 enterprises operating in the manufacturing industry, and these enterprises are still operating and have incurred tax declarations. We design survey questions and send them to business representatives; business representatives can be business leaders or leaders of departments, who have a deep understanding of all activities of the business.

After the survey, we collected 232 questionnaires, of which 3 had no suitable respondents, after screening the

unsuitable votes, the study also used 230 votes, and this is the number of appropriate votes. suitable for subsequent analysis.

3.2. Methodology

Previous studies by Vu Hung et al. (2021), Farole et al. (2017), Sumedrea (2013), Jain (2022), Boachie and Mensah (2022), Iwasaki et al. (2022), and Cuevas-Vargas et al. (2022) and a number of other studies suggest that there is an impact of internal and external factors on the efficiency of the enterprise. Improving business efficiency is an important goal for manufacturing enterprises to help them develop sustainably and demonstrate their contribution to society and the economy. The independent variables in this study include capital structure, corporate governance quality, human capital, female participation, and company size. The model variables are shown in Figure 1.

4. Results and Discussion

4.1. Descriptive Statistics

In this study, after data collection, error handling, and raw data, the remaining sample size is 230. To perform the next steps of analysis, we will use this sample size to practice calculation. Math, with the characteristics presented in Table 1. Table 1 shows the descriptive statistics regarding the data and some main information of data, as follows:

Table 1 shows that, in the survey sample, there are 32.60% of enterprises produce building materials, while 23.47% of enterprises produce steel and finished products, 28.69% enterprises in the manufacturing industry, and the rest are other enterprises. In terms of ownership, most of the enterprises in the survey sample are joint-stock enterprises or private enterprises, while the number of foreign direct investment enterprises and joint venture enterprises accounts for a very small proportion. can see the growth of private and joint-stock enterprises in Vietnam and the contribution of these enterprises to economic activities. Regarding labor, most enterprises in the survey sample have a workforce of fewer than 100 employees, the number of enterprises with more than 200 employees accounts for a very small proportion, partly reflecting enterprises in Vietnam. Most are small and medium-sized enterprises.

4.2. Scale Reliability and Analysis of EFA

As suggested in Hair et al. (1998), scale reliability is the degree to which the measure of a model is consistent. Therefore, all coefficients of Cronbach’s Alpha > 0.6, indicating that exploratory factor analysis (EFA) should be performed, as follows (Table 2):

Table 2 indicates that the variables have an item-total correlation > 0.30, and Cronbach’s alpha coefficient > 0.60. According to Hair et al. (1998), the scale meets the requirements when the total variance extracted is $\geq 50\%$, and Cronbach coefficients of the scales are greater than 0.7.

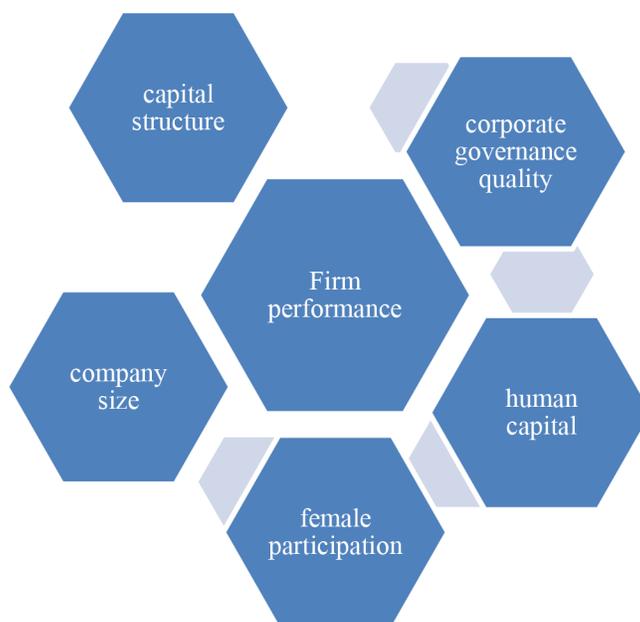


Figure 1: Theoretical Model

Table 1: Characteristics of the Sample

Kinds of Firms	Quantity	Ratio %
Construction materials	75	32.60%
Steel and finished products	54	23.47%
Processing firms	66	28.69%
Others	35	15.21%
Total	230	100.00%
Own	Quantity	Ratio %
Joint stock firms	88	38.20%
Private companies	82	35.65%
Foreign companies	21	9.13%
Venture	39	16.95%
Total	230	100.00%
Size	Quantity	Ratio %
Under 10 employees	65	28.26%
11–49 employees	60	26.08%
50–100 employees	42	18.26%
101–200 employees	34	14.78%
201–500 employees	18	7.82%
Over 500 employees	1	0.43%
Total	230	100.00%
Location	Quantity	Ratio %

Table 2: Scale Reliability

Variables	Number of Observed Variables	Coefficient Correlation of Total Variables	Cronbach's Alpha Coefficients	Cronbach's Alpha If Variable Omitted	The Average Value
Capital structure (CS)	6	0.656	0.867	0.755	3.24
Corporate governance quality (CG)	5	0.456	0.832	0.764	3.34
Human capital (HC)	6	0.567	0.812	0.753	3.45
Female participation (FP)	6	0.644	0.785	0.788	3.22
Company size (SIZE)	6	0.434	0.742	0.688	3.11
Performance	6	0.445	0.755	0.798	3.11

Table 3 depicts the EFA results and the KMO coefficient is 0.848. In this case, EFA is consistent. In addition, the extracted variance is 67.44%, which shows that all factors drawn are explained from the 67.44% variation of the data, and the scales are acceptable.

4.3. Correlation Matrix

Previous studies depict that correlations between all variables should be 0.85 and less, meaning that no multicollinearity exists. According to Table 4, all correlations

Table 3: Matrix Rotation Results in EFA Analysis

	Factor				
	1	2	3	4	5
Enterprises use reasonable capital structure	0.865				
Enterprises use optimal capital structure to optimize production activities	0.855				
Enterprises have the ability to effectively manage capital	0.852				
The enterprise balances between borrowed capital and own capital appropriately	0.832				
Enterprises have the ability to manage capital	0.769				
The enterprise has an appropriate capital structure and debt repayment capacity	0.765				
The enterprise has a strong enough leadership team		0.843			
Enterprises often make appropriate management decisions		0.823			
Businesses often make the right decisions		0.814			
The company's leadership team regularly learns and improves management ability		0.776			
Enterprises regularly improve their governance through adaptability		0.756			
There are enough human resources in the enterprise			0.811		
Human resources in the enterprise have the ability to work independently			0.806		
High cohesion of human resources			0.765		
Human resources in the enterprise are always trained and fostered			0.754		
Human resources in the enterprise have the ability to share work in groups			0.734		
Các chế độ phúc lợi có khả năng kích thích đội ngũ nhân lực cống hiến			0.711		
The company cares about female personnel				0.788	
The company has the policy to encourage women to join the board of directors				0.756	
The company has a policy to encourage women to work				0.752	
The company has a preferential policy for women with some welfare regimes				0.745	
Clear policies for women				0.732	
The company regularly calls for more contributions from women				0.711	
Large-scale companies have many advantages in business					0.754
The company has the ability to become a large company to create business advantages					0.744
The company has a development strategy to create advantages for the company					0.732
The company is in the mature stage and the scale is getting bigger and bigger					0.720
The company has the potential to become a big company shortly					0.701
The company's development direction becomes clear					0.687
Eigenvalue	4.11	3.90	2.54	2.22	2.02
Extracted Variance (%)	18.55	34.78	46.77	57.55	67.44

Table 4: Correlation Coefficients Between Components

Factor	CS	CG	HC	FP	SIZE	Performance
Capital structure (CS)	1.00					
Corporate governance quality (CG)	0.65	1.00				
Human capital (HC)	0.43	0.21	1.00			
Female participation (FP)	0.76	0.43	0.21	1.00		
Company size (SIZE)	0.43	0.22	0.45	0.76	1.00	
Performance	0.64	0.46	0.25	0.43	0.25	1.00

Table 5: Analysis of Variance Results

PARADIGM	Sum of Squared Deviations	Average Deviation	F	Sig.	R-square Adjustment	Durbin-Watson
Regression	33.432	4.987	33.113	0.000	68.865	2.001
Surplus	16.332	0.164				
Total	49.764					

^aIndependent variables: (Constant); ^bDependent variable: Firm performance.

Table 6: Linear Regression Results

Factor	Unnormalized Coefficients		Normalization Coefficient	t	Sig.	Collinear Statistics	
	Beta	S.E	Beta			Tolerance	VIF
(Constant)	0.544	0.332		2.453	0.032		
Capital structure (CS)	0.087	0.066	0.089	0.654	0.675	0.543	1.841
Corporate governance quality (CG)	0.298	0.021	0.356	2.322	0.000	0.765	1.307
Human capital (HC)	0.154	0.023	0.78	0.654	0.676	0.678	1.474
Female participation (FP)	0.235	0.132	0.321	0.456	0.687	0.655	1.526
Company size (SIZE)	0.112	0.043	0.145	2.542	0.000	0.775	1.290

between all variables are under 0.85, meaning that there is no multicollinearity in this model.

Tables 5 and 6 indicate that the statistic $F = 33.113$ and the Sig. value is 0.000, indicating to reject the null hypothesis H_0 . Table 6 indicates the results of the research.

Through the research results, it can be seen that only the quality of governance and the size of the company have an impact on business performance, while the remaining variables have no impact on business performance. The results can be interpreted as follows:

Firstly, corporate governance has a positive effect on the financial performance of manufacturing enterprises in Vietnam, which can be understood as the better corporate governance capacity, the better the business performance.

than. On the contrary, enterprises with lower management capacity have lower financial performance. This can be explained that an enterprise with good governance is an enterprise with a high quality of professional leadership, capable of leading the enterprise to overcome all difficulties to achieve business efficiency. This is supported by Iwasaki et al. (2022) when the author argues that when business owners participate in the direct management process at the company, business performance is improved.

Second, firm size has a positive effect on financial performance. That is, large-scale enterprises have high efficiency, and small-scale enterprises have lower efficiency. Indeed, a large firm is one with lower costs of production because when a firm produces more, it often gains economies

of scale. When an enterprise has a large scale, the enterprise often has many advantages in marketing policies and dominates the market; the more opportunities the enterprise has to develop products and implement its business plans, as well as the ability to application of science and technology in production. As research by Siriram (2022) said, the ability to apply science and technology helps enterprises to create new products and create advantages in production and business in the market.

5. Conclusion

The study was conducted to determine the factors affecting business performance in manufacturing enterprises in Vietnam. Using a survey of about 235 enterprises operating in the manufacturing industry in Hanoi, Vietnam, using quantitative analysis, the author believes that corporate governance has a positive impact on business performance. Moreover, large enterprises often have an advantage in business compared to small enterprises. Through the study, some recommendations are as follows:

First, businesses continue to invest in people and improve governance capacity to further increase business advantages. The more effective the leadership in the business, the more opportunities the business has to grow and thereby make more contributions to shareholders, customers, and society. Second, the State continues to have appropriate policies for small and medium-sized enterprises to encourage enterprises to carry out production and business, and create growth and development opportunities, so that enterprises grow stronger.

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