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THE IMPACT OF LAGGED PROFITABILITY ON THE FINANCIAL PERFORMANCE MEASURED BY THE MARKET VALUE OF FOOD PROCESSING COMPANIES LISTED ON VIETNAM'S STOCK EXCHANGE

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This study focuses on the influence of lagged profitability on financial performance measured by the company's market value in the context of an emerging transitional economy. In order to complete the research goals, the data of 29 listed food manufacturing companies in Vietnam in the period from 2014 to 2019 is used. The data is analysed by using software STATA 14. The empirical results show that both lagged variables including ROA and ROE have a significantly positive impact on financial performance measured by Tobin's Q.

Keywords: Profitability, Financial performance, Market value, Food manufacturing industry

Introduction

Financial performance is an issue attracting the attention from many investors and managers of a company, because it plays an integral role in firm development. Based on improving financial performance, a company can enhance its reputation. Therefore, this is one of the most important goals of managers. However, evaluating result of business operations through ratios calculated by data in financial statement of a company only shows values in the past, it is not the current firm market values, and as a consequence, there is some differences among these ones. In addition, the company's financial statements do not include market value, so they do not adequately meet management's performance evaluation objectives. For the reasons above, economists developed other measurement tools like Tobin's Q, MB, MVA,... of which, Tobin's Q has

been most used by analysts. Moreover, studying the determinants of firm financial performance in terms of time is also also considered by researchers. Specifically, many of them have investigated the effect of lagged profitability on the current firm financial performance. Lagged profit rate or lagged profitability is the firm profitability in the periods preceding the study period (Yazdanfar, 2013). Numerous researchers indicate that lagged profitability significantly affect the current financial performance. Therefore, considering this factor is meaningful to suggesting useful solutions to improve the firm financial performance. In this study, I evaluate the impact of lagged profitability on the firm financial performance (that is measured by the market value).

Vietnam is an agricultural country, so food manufacturing companies play an important role in the

national economic development. To achieve success and become the backbone of the Vietnamese economy, their main goal is to improve financial performance. In this study, listed food producing companies in Vietnam are selected as research subject, thereby finding out the influence of lagged profitability on firm financial performance (that is measured by the market value).

1. Theories and literature review

1.1. Literature review and theories relating to the impact of lagged profitability on the firm financial performance

As one of the first economists to lay a foundation to study the impact of the lagged profitability, Geroski & Jaquemin (1998) and Mueller (1990) established models with consideration of the serial correlations in profitability, in which the lagged variables are a part of dynamic models. On that basis, Margaretha & Supartika (2016) argued that the lagged profitability is able to predict the rate of return for the next fiscal years. Continuing to develop this point of view, a lot of studies have been done to find the relationship between lagged profit rate and financial performance. However, in empirical researches, different research samples give different results.

Numerous studies indicate the correlation between lagged profitability and firm financial performance. Salman and Yazdanfar (2012) concluded that the lagged profit rate has a significant impact on the performance of SMEs in the next year. Based on data of 392 US companies from 2005 to 2013, research of Schmidt (2014) shows that the lagged profitability is a factor that significantly affects the firm financial performance. Ahmad (2015) examined the impact of capital structure on financial performance of 17 non-financial companies listed on Bahrain Bourse from 2009 to 2013. The results of multivariate regression show that the lagged performance (measured by ROE, ROA, EPS and dividend rate (DIYILD) in the past) significantly affect the financial performance of the company over the study research.

Meanwhile, many other studies have found the positive impact of the lagged profitability on the firm financial performance. Isik and Tasgin (2017) surveyed data of 120 manufacturing companies listed on the Borsa Istanbul Stock Exchange between 2005 and 2012. Based on the study of dynamic panel data analysis, authors indicated a significant positive effect of lagged variables on the profitability of the company. Also in 2017, Kristina and Dejan published research on the determinants of profitability of agricultural sector in Hungary, Romania, Bosnia and Herzegovina and Serbia. Panel data in the period from 2011 to 2014 is used for the study. The research results show that profitability of in the past agricultural enterprises in these countries has a significant positive influence on this rate in the future. Similarly, Odusanya, Yinusa and Ilo (2018) researched the factors impacting the profitability of 114 listed companies on the Nigerian stock exchange between 1998 and 2012. The GMM estimation indicates that the lagged variable has a significant positive effect on firm profitability. Despite having the same conclusion about the effect of lagged profitability on the firm financial performance, there is still a difference in the choice of indicators to measure the rate of return of a company among studies. Andreas Stierwald (2010) studied the determinants of firm profitability by making use of data from 961 large firms in Australia from 1995 to 2005. This research uses the variable of lagged profitability (measured by the adjusted accounting profit ratio) as the factor that has a strong positive impact on the profit margin of the firm.

Meanwhile, Serap ÇOBAN (2014) conducted an empirical investigation on the relationship between investment growth and the profitability rate of 137 manufacturing firms listed on the Turkish stock exchange from 1997 to year 2012. By using the S-GMM estimation, the author showed that the lagged profitability (the ratio of operating gross profit to annual revenue in the year of t-1) significantly positively affects current profitability (the ratio of operating gross profit to annual revenue in the year of t).

In 2018, in the process of determining the factors affecting the profitability of firms in Negeria, Ibrahim Abidemi Odusanya, Olumuyiwa Ganiyu Yinusa, Bamidele .M. Ilo surveyed the 1998 - 2012 data of 114 companies listed on the stock exchange. With using the GMM estimation method, the authors showed that the lagged profitability (that is measured by profit before tax and interest on total assets in the years of t-1 and the year of t-2) has a significantly positive effect on the financial performance of the company.

Junnei Liuspita, Edi Purwanto (2019) investigated the determinants of profitability (measured by ROA) of food and beverage companies in Indonesia. To complete their research objectives, the authors have collected information of 12 companies listed on the Indonesian stock exchange (IDX) in the period 2013-2016. The analysis result shows that the profitability of firms is positively affected by firm size, age, growth, productivity, and the lagged profitability (measured by gross profit divided by the sales in the year of t-1).

For the purpose of testing the influence of different factors on corporate profits, Maja Pervan, Ivica Pervan & Marijana Ćurak (2018) established a model with three types: characteristics of the company, characteristics of the industry and macroeconomics. The analysis is done with the data of 9359 companies in the Croatian manufacturing industry between 2006 and 2015. The GMM estimation method, the study finds a significant positive relationship between financial performance (measured by return on total assets in the year of t) and lagged profitability (measured by return on total assets in the year of t-1).

Ozcan Isik & Umit Firat Tasgin (2017) carried out an empirical analysis to determine the factors affecting the profitability of 120 manufacturing companies listed on the Borsa Istanbul Stock Exchange in the period 2005-2012. Their study results from the dynamic panel data model (considering the endogeneity of the variables) show that in addition to variables including firm size, financial

risk, R&D costs, net working capital and firm growth, lagged profitability (measured by ROA in the year of t-1) is an important variable affecting the firm's profitability (measured by ROA in the year of t-1). In other words, the current firm profitability is significantly positively impacted by the firm profitability in the past. Also using the ROA, Kristina Mijić, Daniela Nuševa, Dejan Jakšić (2018) studied the factors affecting the profitability of SMEs in the wholesale and retail sector in the Republic of Serbia. With data collected from the financial statements of 1801 SMEs and 321 large companies, the authors point out the difference in the profitability between two types of firms and the impact of these factors on the profitability of SMEs (measured by ROA), of which lagged variable (measured by lagged ROA) has a positive impact on the profitability of SMEs.

While the majority of studies have shown a positive effect of the return variable on financial performance (measured in terms of profitability), Margaretha and Nina Supartika (2016) pointed out the negative impact of lagged profitability (measured by operating profit margin in the year of t-1) on firm's financial performance (measured by ROA) in their empirical research on factors affecting the profitability of SMEs listed on the stock exchange in Indonesia.

Thus, when the sample is different, or the choice of factors to measure the firm profitability, or the financial performance is different, the research results may not be exactly the same as the previous ones. However, many studies indicate a significant correlation between the lagged profitability and financial performance (measured by the company's profitability).

1.2. Research overview and hypotheses related to profitability and financial performance measured by firm's market value

1.2.1. Financial performance measured by Tobin's Q

Evaluating the firm performance based on groups of indicators determined from the firm's

financial statements reveal only past values, not current market ones of the company, therefore, they are pretty different. Also because financial statements do not demonstrate the firm market value, they do not fully meet management's performance evaluation objectives. For the reason above, economists developed other measurement tools of which, Tobin's Q has been most used by analysts. Researcher James Tobin of Yale University is the one who made Tobin's Q popular, he is considered the creator of this important ratio. However, in fact, it was first proposed by the economist Nicholas Kaldor in 1966. Therefore, some scholars also call it the ratio "Kaldor v". Basically, Tobin's Q reveals the relationship between market value and firm's book value. In other words, this is a tool to consider whether the replacement value of an asset or the market value of a company is overvalued or not. Tobin's Q is chosen by many economists to evaluate the financial performance of companies such as Haniffa and Hudaib (2006), Najid and Abdul Rahman (2011), Bozcuk (2011).

1.2.2. Return on total assets

The return on total assets (ROA) is a measure used by many economists. Stigney (1990) argued that in financial performance analysis, ROA is measured by earning before interest, taxes and irregularities, divided by net tangible assets. According to Yang (2011), ROA is calculated by dividing net income by total assets. It reflects the ability to get return from assets; and indicates the level of managing total asset of listed companies and the reasonability of conditions of use. According to the authors, $EXPORT_{it} = A \times GDP_{it}^{\beta_1} \times GDP_{it}^{\beta_2} \times (POP_{it} * POP_{jt})^{\beta_3}$ the financial performance of companies can be higher when ROA increases. McGuire et al. (1988) also chose ROA as a measure of profitability in their research. Chen (2008) proposed the ROA as the most representative financial indicator; it reflects the size of the company's sales, control of cost and capital; and indicates the results of the firm business activities

and the goal of value maximization that the company pursues.

H01: Return on total assets in the past influences on the current financial performance of the company measured by market value.

1.2.3. Return on equity

In addition to ROA, return on equity (ROE) is also a financial indicator that is used by economists. This is the rate of return that shareholders are most interested in. This is one of the most widely used indicators to evaluate the profitability (Rappaport, 1986), this was also confirmed by Monteiro (2006).

H02: Return on equity in the past influences on the current financial performance of the company measured by market value.

2. Research model and methodology

2.1. Research model

The objective of this research is to determine the effect of lagged profitability on financial performance measured by market value of firms. Although there are many indicators to measure the profitability of companies, this study focuses on the two most used ratios: return on total assets (ROA) and return on capital (ROE). Moreover, Tobin's Q is used to measure firm financial performance.

My basic panel model is in the form:

$$Y_{i,t} = \beta_0 + \beta_1 X_{i,t} + \mu_{i,t}$$

where β_0 is a constant, $X_{i,t}$ is a K-dimensional vector of explanatory variables and $\mu_{i,t}$ is the error term which is further decomposed into the following disturbance terms:

$$\mu_{i,t} = \alpha_i + \varepsilon_{i,t}$$

$$\begin{aligned} & \times (LAN_{it} * LAN_{jt})^{\beta_4} \times INF_{it}^{\beta_5} \times DIS_{ij}^{\beta_6} \times EDIS_{ijt}^{\beta_7} \\ & \times ER_{it}^{\beta_8} \times OPEN_{it}^{\beta_9} \times e^{WTO_{jt}^{\beta_{10}} * APEC_{it}^{\beta_{11}} * \mu_{it}} \end{aligned}$$

Where α_i is individual firm effects and it is constant over the time and $\varepsilon_{i,t}$ is error. Based on previous studies with some adjustments to suit the research scope and sample, the model used in this research is written in the form of the following equation:

Tobin's $Q_{i,t} = \alpha_1 + \beta_1 ROA_{t-1} + \beta_2 ROE_{t-1} + \varepsilon_{i,t}$
 The conceptual framework is built as follows:

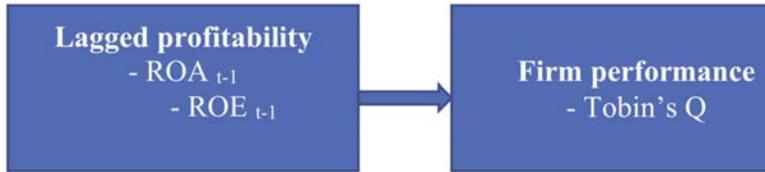


Figure 1: Framework

2.2. Variables measurement

To measure the effect of lagged profitability on financial performance, in this study, financial performance is measured by Tobin's Q, and lagged profitability is evaluated by ROAt-1, ROEt-1

+ Return on total assets ROA

$$ROA = \frac{\text{Net income}}{\text{Total assets}}$$

This is a ratio evaluating the firm profitability, it shows the rate of return on investment in assets. This indicator depends a lot on the business results in the period and the characteristics of the industry.

+ Return on equity ROE

$$ROE = \frac{\text{Net income}}{\text{Equity}}$$

This is the rate of return that shareholders are most interested in. Shareholders expect to get a return on their investment and this ratio is an indicator of the firm performance in terms of accounting. Investors prefer a high ROE and ROE is often positively correlated with the stock price.

+ Tobin's Q

$$\text{Tobin's Q} = \frac{\text{Total market value of firm}}{\text{Total asset value of firm}}$$

Since the replacement cost of total assets is difficult to estimate, another version of the formula is often used by analysts to estimate Tobin's Q ratio. It is as follows:

$$\text{Tobin's Q} = \frac{\text{Equity market value}}{\text{Equity book value}}$$

Basically, a Tobin's Q lower than 1 means that the cost to replace a firm's assets is greater than the value of its stock. This implies that the stock is undervalued. Conversely, when Tobin's Q is greater than 1, a firm's stock is more expensive

than the replacement cost of its assets, which implies that the stock is overvalued. This ratio has a great influence on investors' decisions to pour capital. Companies with Tobin's Q smaller than 1 are more likely to attract capital investors because the firm's market value may increase to match the book value of equity.

2.3. Methodology

2.3.1. Data

The data used mainly in this research is financial statements (including income statement, balance sheet and cash flow statement) of 29 food manufacturing companies listed on Vietnam stock market in the period 2014 - 2019, of which 16 are listed on HOSE, 9 are listed on Upcom and 4 are listed on HNX. Data were published by year and there are 174 observations in the study.

2.3.2. Data processing method

Two descriptive and inference techniques are used for this study to analyze mean values, standard deviation, variances, minimum and maximum values, range, deviation... with the aim of finding the most accurate answer about the existence of a cause-and-effect relationship between lagged profitability and financial performance measured by the market value of food manufacturing companies in Vietnam between 2014 and 2019. Analysing data is done based on using STATA software version 14. Before conducting a regression analysis, a panel unit root test (PUrt) is done in order to ensure the stationarity of data. Then, to find a suitable estimate for the research, pooled OLS estimation is used, followed by the fixed effects model (FEM) and random effect

model (REM). The Fisher test and Chow test are used to determine the appropriate estimate between pooled OLS and FEM, and between OLS and REM. If FEM and REM are more suitable than OLS, Hausman test will be conducted to select the suitable model. Next, some tests are done to check the existence of multicollinearity, heteroskedasticity and the autocorrelation problems. When these problems exist, the regression results are not accurate. The solution to cope with the multicollinearity issue is to remove variables having VIF higher than 10 from the model. For the heteroskedasticity and autocorrelation matters, Cluster regression is used to achieve right research results. Cluster regression method is implemented based on the idea of making adjustments in the estimate to overcome the shortcomings of the data by distinguishing objects in each group.

3. Empirical result

3.1. Descriptive statistics

number reveal a low profitability relating to equity of studied companies. In conclusion, the two ratios ROA and ROE show that, in the research period, although the Vietnamese economy developed quite well with GDP growth rates ranging from 3.78% to 9.88%, a large number of companies in this industry did not take advantage of the favorable macroeconomic conditions. This situation poses an urgent need for researching factors affecting the financial performance of food manufacturing enterprises to propose meaningful solutions to help them to improve their business results.

Although the mean values of ROA_{t-1} and ROE_{t-1} were not high, the mean of Tobin's Q of these companies reached a good level at 1.063748, showing that investors had a good assessment of the potential of Vietnam's food producing industry.

3.2. Panel unit root test (PURT)

The research of Gujarati (2003) indicates that if the research data is not stationary, regression results

Table 1: Descriptive statistics

Variables	Observations	Mean	Std. Dev	Min	Max
Tobin's Q	170	1.063748	.9191421	-.301814	4.970089
ROA_{t-1}	174	.0537996	3.520257	-16.08915	39.97409
ROE_{t-1}	174	-.0042644	2.125131	-27.08949	5.352876

(Result from Stata 14)

Lagged ROA of studied companies fluctuated between -1609 percent and 3997 percent, and the mean value was 5.3 percent. These numbers show that in the study period, although ROA of many companies manufacturing foods was higher than zero, the business operations were not effective, because in point of view of numerous economists, to demonstrate financial strength, the ROA of an enterprise should be at least 7.5%. While the mean of ROA_{t-1} of observations was a positive number, the mean of ROE_{t-1} of 29 food producing companies was only -0.4 percent, and lagged return on equity of these firms experienced a strong fluctuation between -1608 percent and 3997 percent. These

will not be accurate. In order to tackle with this issue, all variables should be tested panel unit root. Because the data in this research is strongly balanced, panel unit root test of Levin, Lin & Chu (2002) is used.

The result show that the data of two independent lagged variables (including ROA_{t-1} and ROE_{t-1}) and dependent variable (Tobin's Q t) is stationary, so this data is suitable for next analysis steps.

3.3. Correlation analysis

Pearson's correlation coefficient in Table 2 shows that there is a positive relationship at the significant level of 5 percent between lagged ROA and Tobin's Q.

Table 2: Correlation matrix

	Tobin's Q	ROA _{t-1}	ROE _{t-1}
Tobin's Q	1.0000		
ROA _{t-1}	0.1747 (0.0227)	1.0000	
ROE _{t-1}	0.0795 (0.3030)	-0.0252 (0.7418)	1.0000

(Result from Stata 14)

3.5. Analysing the impact of lagged profitability on the current financial performance of companies manufacturing foods in Vietnam

The OLS and REM estimations

Table 4: Regression results

Tobin's Q	OLS		FEM		REM	
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
ROA _{t-1}	0.0258404*	0.0140201	0.0230639	0.0142222	0.0258404*	0.0140201
ROE _{t-1}	0.008003	0.0224439	0.0041585	0.0226725	0.008003	0.0224439
cons	1.089689***	0.1458093	1.062577***	0.0444849	1.089689***	0.1458093

(*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$)

(Result from Stata 14)

Meanwhile, between ROE_{t-1} and Tobin's Q there is a insignificant positive correlation.

3.4. Checking for multicollinearity

The existence of multicollinearity affects the accuracy of the estimates, leading to erroneous inferences. (Gujarati, 2003; Green, 2008)

The results of multicollinearity test show that VIF of all variables is less than 10, showing that the variables are suitable for the next research step.

Table 3: VIF result

Robust		
Tobin's Q	Coef.	Std. Err.
ROA _{t-1}	0.0258404***	0.0031492
ROE _{t-1}	0.008003**	0.0037148
cons	1.089689***	0.1449773

(Result from Stata 14)

lead to quite similar conclusions, in which, lagged ROA has a significant effect at the 0.1 level on financial performance measured by market value and lagged ROE does not have a significant impact on the Tobin's Q ratio. Meanwhile, FEM estimation results in a totally different conclusion, both ROA and ROE in the past do not significantly impact the current firm financial performance

The result of Fisher test shows that FEM estimation is more suitable for this research than the one of OLS. Breusch-Pagan indicates that REM estimation is better than that of OLS. Finally, the result of Hausman test is a base for the choice of REM estimation for this research.

To test the existence of heteroskedasticity, Wald test is used, the hypothesis H0 is that there is not the heteroskedasticity problem. However, p-value in the result test is 0.0000, indicating the existence of this issue. Next, Wooldridge test is done, p-value is 0.0431, showing the autocorrelation problem of the

model. To cope with these issues, Cluster regression is used.

Table 5: Cluster regression

Robust		
Tobin's Q	Coef.	Std. Err.
ROA _{t-1}	0.0258404***	0.0031492
ROE _{t-1}	0.008003**	0.0037148
cons	1.089689***	0.1449773

Result of Cluster regression shows that ROA_{t-1} significantly positively influences at the 0.01 level on the firm financial performance measured by market value. Similarly, ROE in the past has a significant positive impact on the current Tobin's Q ratio at the 0.05 level, so both hypotheses H01 and H02 are accepted

4. Discussion, recommendations and conclusions

In conclusion, results of empirical research indicate that lagged ROA and lagged ROE have significant positive impacts on the firm financial performance measured by Tobin's Q ratio. This conclusion is similar to many previous studies like research of Sasivimol Meeamol et al. (2011), Salman & Yazdanfar (2012), Schmidt (2014), Ahmad (2015), Paula Pontes de Campos Rasera (2019). The result of this study are meaningful to both investors and managers of food processing companies.

For investors, companies with Tobin's Q ratio less than 1 is interesting to them because their shares have the potential to increase in value to match their book value. Therefore, when assessing companies with Tobin's Q that are approaching 1, investors should consider the ROA and ROE of the previous year, thereby making the right choice.

For food manufacturing enterprises, when Tobin'Q is less than 1, companies should increase capital by issuing shares. Moreover, when a firm want to enhance its market value compared to its book value, the effective long-term measure for companies is to apply methods to improve its ROA and ROE.

In summary, empirical research has demonstrated that lagged profitability has a positive effect on financial performance measured by market value. In other words, the profitability in the past is used by the capital suppliers as a first basis for determining their investment portfolio and as a tool for companies to build effective business strategies. ♦

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Summary

Bài viết này nghiên cứu ảnh hưởng của tỷ suất sinh lời trong quá khứ đến hiệu quả tài chính được đo lường bằng giá trị thị trường của doanh nghiệp trong bối cảnh nền kinh tế chuyển đổi mới nổi. Để hoàn thành mục tiêu nghiên cứu, tác giả đã khai thác số liệu của 29 công ty niêm yết thuộc ngành sản xuất, chế biến thực phẩm tại Việt Nam trong giai đoạn 2014 - 2019. Dữ liệu được phân tích bằng phần mềm STATA 14. Kết quả nghiên cứu thực nghiệm cho thấy, cả hai biến trễ ROA và ROE đều có tác động dương và có ý nghĩa thống kê đến hiệu quả tài chính được đo lường bằng tỷ suất Tobin's Q.

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