The Relationship Between Sales, General and Administrative Expenses to Revenue Ratio and Profit Quality in Companies Listed on The Vietnamese Stock Market

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Abstract

This study investigates the effect of the selling, general and administrative expenses to revenue ratio on the profit quality ratio of Companies listed on the Vietnamese stock market. Using a balanced panel of 165 firm-year observations from 33 companies during 2020–2024, the study applies Pearson correlation analysis, ordinary least squares, robust regression, and feasible generalized least squares. The findings reveal a positive and statistically significant association between the selling, general and administrative expenses to revenue ratio and the profit quality ratio. The estimated coefficient of 0.1710 remains significant after correcting for heteroskedasticity, indicating that higher the selling, general and administrative expenses to revenue ratio intensity is associated with a higher profit quality ratio and, consequently, lower reported profit quality. The results support the proposed hypothesis and suggest that inefficient selling and administrative expenditure may weaken operating performance and increase financial reporting pressure. The study contributes sector specific evidence from Vietnam and provides practical implications for managers, investors, auditors, and regulators seeking to evaluate cost efficiency and earnings reliability in emerging markets.

Keywords: *The selling, general and administrative expenses to revenue, Profit quality, Finance, Vietnamese enterprises.*

1. INTRODUCTION

Profit quality has become an important concern in accounting and capital market research because reported profit is widely used by investors, creditors, managers, and regulators to assess corporate performance and support economic decisions. Nevertheless, accounting profit does not always fully represent a company's underlying economic performance, since its measurement depends on accounting estimates, recognition choices, and managerial judgment. Dechow, Ge, and Schrand (2010) argue that earnings quality is context dependent and influenced by both firms' fundamental performance and the financial reporting system, while Dichev et al. (2013) emphasize that high quality earnings should provide a sustainable and informative representation of business performance. In this study, profit quality is captured by the profit quality ratio (PQ), an inverse ratio based on the gap between accounting profit and operating cash flow. A higher PQ indicates

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that reported profit is less strongly supported by cash generated from operating activities and therefore reflects lower profit quality. One operating cost factor that may be associated with profit quality is the intensity of selling, general and administrative expenses relative to revenue. These expenses comprise the costs of supporting sales, customer acquisition, marketing, administration, information systems, professional services, and organizational management. The SG&A to revenue ratio therefore indicates the amount of indirect operating expenditure incurred to generate one unit of revenue. A high ratio may be economically justified when firms invest in market development, customer relationships, employee capabilities, or digital infrastructure; however, it may also indicate inefficient resource allocation, excessive administrative capacity, weak cost control, or insufficient revenue generation. Prior research shows that SG&A costs can display asymmetric adjustment to changes in sales and that managerial incentives may influence resource adjustment decisions (Anderson, Banker, & Janakiraman, 2003; Chen et al., 2012). This literature provides useful background for understanding why SG&A expenditure may not always move proportionately with revenue, but the present study does not directly measure asymmetric cost behavior or cost stickiness. Instead, it examines the level of SG&A expenditure relative to revenue. When SG&A expenses rise relative to revenue, firms may experience greater operating-margin pressure, which may be associated with reporting incentives or real operating decisions that affect the reliability of reported earnings. Roychowdhury (2006), for example, provides evidence that managers may alter real business activities, including discretionary expenditures, to avoid reporting losses or earnings declines. Evidence from Vietnam also links selling and administrative cost behavior with earnings management practices (Hong & Thao, 2021), although such evidence should be viewed as contextual rather than as a direct measure of SG&A intensity. This issue is particularly relevant to Vietnamese listed telecommunications companies because they operate in a technology-intensive and highly competitive environment that requires substantial expenditure on advertising, customer acquisition, distribution channels, digital platforms, network support, employees, and administration. If these expenditures fail to generate proportional revenue growth, the resulting cost pressure may be associated with lower reported profit quality. Therefore, this study examines the relationship between the SG&A to revenue ratio and PQ in Vietnamese listed telecommunications companies. The findings are expected to extend the profit quality literature and provide useful evidence for managers, investors, creditors, auditors, and regulators evaluating operating efficiency and financial reporting reliability.

2, LITERATURE REVIEW

Recent accounting research considers profit quality to represent the extent to which reported profit reflects sustainable operating performance and provides reliable information for investors, creditors, and other stakeholders. In emerging markets, profit quality is particularly important because concentrated ownership, weaker regulatory enforcement, financing pressure, and

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information asymmetry may increase managers' incentives to influence reported financial results (Hong et al., 2023; Gokhale & Pillai, 2024).

Aljifri and Elrazaz (2024) demonstrate that earnings management practices reduce earnings quality, while Alrobai et al. (2025) indicate that firm characteristics and ownership structures remain important determinants of earnings quality in emerging stock markets. Within this broader literature, the selling, general and administrative expenses to revenue ratio represents a potentially important but insufficiently examined determinant of profit quality. This ratio reflects the proportion of revenue absorbed by marketing, selling, customer support, managerial, and administrative activities and therefore indicates the amount of indirect operating expenditure required to generate one unit of revenue. A high SG&A to revenue ratio may result from strategic investment in market expansion, employees, information systems, customer relationships, and digital services. However, it may also indicate inefficient cost control, redundant organizational resources, weak revenue generation, or a failure to adjust expenses when revenue declines. Recent research on asymmetric cost behavior provides strong support for examining this issue. Prior research on asymmetric cost behavior provides a useful background for understanding the behavior of selling, general and administrative expenditures. Studies on cost stickiness show that operating costs may respond differently to increases and decreases in business activity because of resource adjustment costs, managerial expectations, and organizational constraints (Ibrahim et al., 2022; Hartlieb & Loy, 2022). However, the present study does not directly measure asymmetric cost behavior or estimate a conventional cost stickiness model. Instead, it focuses on the SG&A to revenue ratio as an indicator of the intensity of selling and administrative expenditure relative to revenue. Accordingly, the cost stickiness literature is used only to provide contextual support for the possibility that SG&A expenditure may not always adjust proportionately to changes in business activity. The empirical analysis therefore concerns the association between SG&A intensity and profit quality rather than the effect of cost stickiness itself. Costa and Habib (2023) also find that sticky operating costs reduce firm value through lower expected cash flows and a higher cost of equity. These findings suggest that when SG&A ratio do not decline proportionately with revenue, the resulting pressure on operating margins may reduce the reliability of accounting profit and increase managerial incentives to influence reported performance.

The relationship may also operate through real business decisions involving selling and administrative expenditure. Liao et al. (2024) find that managers may make unusually deep reductions in selling, general and administrative expenses to avoid earnings shortfalls and that these reductions can be associated with weaker future operating performance. This finding indicates that selling, general and administrative expenses decisions may be used opportunistically to influence current-period profit. Conversely, managers may retain excessive selling and administrative resources despite declining revenue, thereby increasing the selling, general and administrative

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expenses to revenue ratio and creating pressure to conceal deteriorating operating efficiency through accounting adjustments. This mechanism may become more pronounced under uncertain and competitive business conditions. Rigamonti et al. (2024) show that macroeconomic uncertainty is associated with both accrual-based and real earnings management decisions, while evidence from Vietnamese listed firms indicates that external financing needs can encourage earnings manipulation and weaken the effectiveness of corporate governance controls (Hong et al., 2023). More recent research also confirms that cost behavior is closely related to financial reporting quality. El Kamash (2025) documents a positive association between cost stickiness and earnings management, whereas Vatis et al. (2025) show that the relationship between corporate practices, earnings quality, and real earnings management may vary according to firm size.

These issues are especially relevant to Companies listed on the Vietnamese stock market, which incur substantial selling and administrative expenditure to acquire and retain customers, support digital services, operate distribution systems, and manage technologically complex business activities. Nevertheless, existing studies have mainly investigated cost stickiness, earnings management, forecast accuracy, firm value, corporate governance, or sustainability separately. Direct evidence concerning whether the combined selling, general and administrative expenses to revenue ratio affects an overall profit quality ratio remains limited, particularly in the Vietnamese telecommunications sector. Therefore, this study extends the recent literature by investigating whether a higher selling, general and administrative expenses to revenue ratio is associated with a higher profit quality ratio, where a higher ratio represents lower quality reported profit, among Companies listed on the Vietnamese stock market.

Research hypotheses and conceptual model

The selling, general and administrative expenses to revenue ratio reflects the proportion of revenue absorbed by expenditures related to selling activities, marketing, customer acquisition, employee compensation, information systems, corporate management, and administrative support. Although these expenditures may contribute to future growth and organizational capability, an excessively high ratio may indicate weak cost efficiency, inefficient resource allocation, redundant administrative capacity, or insufficient revenue generation. Prior research on asymmetric cost behavior suggests that operating expenditures may not always adjust proportionately to changes in business activity because of resource adjustment costs, managerial expectations, and organizational constraints (Ibrahim et al., 2022; Hartlieb & Loy, 2022). This literature provides a possible contextual explanation for persistent operating cost pressure, but the present study does not directly measure cost stickiness. Instead, the SG&A to revenue ratio is used as an indicator of expenditure intensity. A relatively high SG&A intensity may place pressure on operating margins when additional selling and administrative expenditure is not accompanied by proportional revenue generation, which may in turn be associated with lower profit quality.

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A high SG&A-to-revenue ratio may also be associated with stronger managerial pressure to meet profit targets, avoid earnings declines, or maintain favorable evaluations from investors and creditors. Prior studies document links between operating cost behavior, income smoothing, information risk, and financial reporting outcomes (Habib & Costa, 2022; Costa & Habib, 2023; Li & Sun, 2023). In addition, managers may adjust discretionary SG&A expenditure or other operating decisions in response to reporting incentives (Liao et al., 2024). El Kamash (2025) provides related evidence on cost stickiness and earnings management; however, that mechanism is not directly tested here. Accordingly, the hypothesis in this study concerns the statistical association between SG&A intensity and profit quality rather than the effect of cost stickiness.

This relationship is particularly relevant to Vietnamese listed telecommunications companies because these firms incur substantial expenditures on marketing, customer retention, digital platforms, distribution networks, technical support, and administration. When such expenditures do not generate proportional revenue growth, the resulting increase in SG&A intensity may be associated with lower profit quality. In this study, the profit quality ratio is constructed as an inverse measure, meaning that a higher value represents lower profit quality. Therefore, a higher SG&A to revenue ratio is expected to be positively associated with the profit quality ratio.

Accordingly, the following hypothesis is proposed:

H: The selling, general and administrative expenses to revenue ratio has a positive effect on the profit quality ratio of Vietnamese listed telecommunications companies.

3, METHODOLOGY

Research design

This study adopts a quantitative research design to examine the relationship of the selling, general and administrative expenses to revenue ratio on the profit quality ratio of Companies listed on the Vietnamese stock market. Secondary data are collected from audited annual financial statements, annual reports, and official stock exchange disclosures over the selected research period. The sample includes firms listed on the Ho Chi Minh Stock Exchange and the Hanoi Stock Exchange during the research period. The study uses panel data because it combines cross sectional observations across firms with time series observations across years, thereby improving the number of observations and controlling for unobservable firm specific characteristics. the dataset consists of multiple listed companies observed from 2020 to 2024. The dependent variable is the profit quality ratio, while the principal independent variable is the selling, general and administrative expenses to revenue ratio. Descriptive statistics, correlation analysis, and multivariate regression are employed to analyze the data. Pooled ordinary least squares, followed by appropriate specification and diagnostic tests to select the most suitable model and ensure reliable empirical results.

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The final dataset is organized as firm year observations. Each observation represents one listed company in one financial year. The data are processed and analyzed using Stata software. Stata is used for data cleaning, variable calculation, descriptive statistics, correlation analysis, multicollinearity testing, panel data regression, and diagnostic tests.

Variable measurement

For consistency, the selling, general and administrative expenses to revenue ratio is denoted SG&A throughout the manuscript and is measured as follows: SG&A_it = (Selling expenses_it + General and administrative expenses_it) / Net revenue_it.

The dependent variable is the profit quality ratio, denoted as PQ. In this study, PQ is measured as the absolute difference between accounting profit and operating cash flow, scaled by average total assets. The formula is:

$$PQ = \frac{NPAT\ it - CFOit}{ATA\ it}$$

Where: NPAT is net profit after tax,
CFO is net cash flow from operating activities
ATA is average total assets.

A higher value of PQ indicates a larger gap between accounting profit and operating cash flow, implying lower profit quality.

Research model

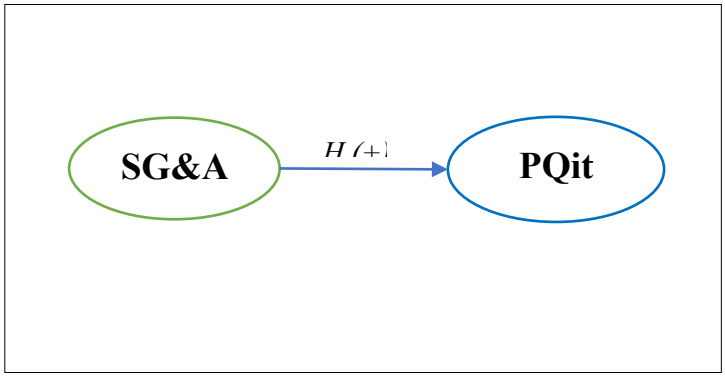

Diagram 3.1: Research model

To examine the direct impact of the selling, general and administrative expenses to revenue ratio on profit quality, the following baseline regression model is proposed:

$$PQ = \beta 0 + \beta 1 SG\&Ait + \varepsilon it$$

Where:

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PQit represents profit quality of firm i in year t
SG&Ait represents the selling, general and administrative expenses to revenue ratio of firm i in year t
εit represents Error term

Data analysis method

The empirical analysis is conducted using Stata software. First, descriptive statistics are used to summarize the main characteristics of the research variables, including mean, standard deviation, minimum, and maximum values. Second, correlation analysis is performed to examine the preliminary relationships among variables. Third, multicollinearity is tested using the variance inflation factor. A low VIF value indicates that multicollinearity is not a serious problem in the regression model.

The baseline association is estimated using pooled ordinary least squares (OLS). The Breusch Pagan/Cook Weisberg test is used to evaluate heteroskedasticity. When heteroskedasticity is detected, the model is re-estimated using heteroskedasticity-robust standard errors, which provide the primary basis for statistical inference. Feasible generalized least squares (FGLS) is also reported as a supplementary robustness comparison to assess the stability of the estimated coefficient.

Diagnostic tests are conducted to evaluate the reliability of the baseline OLS estimates. Multicollinearity is assessed using the variance inflation factor, and heteroskedasticity is examined using the Breusch Pagan/Cook Weisberg test. Because the heteroskedasticity test rejects the null hypothesis of constant variance, robust OLS is used for the main inferential interpretation. The FGLS specification is retained as a supplementary comparison under its stated assumptions.

4. RESULTS AND DISCUSSION

4.1. Sample Structure and Model Specification

This study examines the relationship between the selling, general and administrative expenses to revenue ratio and the profit quality ratio of Companies listed on the Vietnamese stock market. The dataset comprises 165 firm year observations from 33 companies over the five year period from 2020 to 2024. The panel is strongly balanced, indicating that each company has complete observations for all five years. The balanced structure reduces the potential loss of information caused by missing firm-year observations and facilitates consistent comparison across firms and periods.

The empirical model estimated in the current analysis is expressed as follows:

$$PQ = \beta 0 + \beta 1\ SG\&Ait + \varepsilon it$$

Where:

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PQit represents profit quality of firm i in year t
SG&Ait represents the selling, general and administrative expenses to revenue ratio of firm i in year t
εit represents Error term

In this study, a higher value of the profit quality ratio indicates lower profit quality. Therefore, a positive coefficient on (SG&A) is interpreted as evidence that a higher level of selling and administrative expenditure relative to revenue is associated with weaker reported profit quality.

4.2. Correlation Analysis

Table 1 presents the Pearson correlation between the profit quality ratio and the SG&A to revenue ratio.

Table 1: Correlation Matrix

Variables	PQ	SG&A
PQ	1.0000	
SG&A	0.4467	1.0000
p-value	0.0000	

The correlation coefficient between (PQ) and (SG&A) is 0.4467 and is statistically significant at the 1% level. This result indicates a moderate positive relationship between the two variables. Companies with a higher SG&A to revenue ratio tend to report a higher profit quality ratio. Because a higher value of (PQ) represents poorer profit quality, the correlation provides preliminary evidence that increasing SG&A intensity may reduce the quality of reported profit.

The magnitude of the correlation is sufficiently large to indicate an economically relevant relationship but remains below commonly used thresholds for serious collinearity concerns. In addition, because the estimated model contains only one explanatory variable, multicollinearity is not a substantive issue. The variance inflation factor for (SG&A) is 1.00, which confirms that the coefficient is not affected by linear dependence among multiple independent variables.

However, the correlation result should be interpreted only as preliminary evidence. Correlation does not account for firm-specific characteristics, changes over time, or other factors that may be simultaneously related to SG&A intensity and profit quality. The regression analysis is therefore employed to provide a more formal test of the proposed hypothesis.

4.3. Ordinary Least Squares Regression Results

The initial relationship between the SG&A to revenue ratio and the profit quality ratio is estimated using ordinary least squares. The results are presented in Table 2.

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Table 2. Ordinary Least Squares Regression Results

Number of obs = **165**
F(1, 163) = **40.64**
Prob > F = **0.0000**
R-squared = **0.1996**
Adj R-squared = **0.1946**

PQ	Coefficient	Std. err.	t	P>|t|	[95% conf. interval]
SG&A	**.1710499**	**.0268329**	**6.37**	**0.000**	**.1180651 .2240348**
_cons	**-.0274227**	**.0131833**	**-2.08**	**0.039**	**-.0534548 -.0013906**

The coefficient of (SG&A) is 0.1710 and is statistically significant at the 1% level. The positive coefficient indicates that an increase in the SG&A to revenue ratio is associated with an increase in the profit quality ratio. Given the inverse interpretation of the dependent variable, this result means that greater SG&A intensity is associated with lower profit quality.

When (SG&A) is recorded as a decimal ratio, a one percentage point increase in the SG&A to revenue ratio is associated with an increase of approximately 0.00171 in the profit quality ratio. Similarly, a ten percentage point increase in the SG&A to revenue ratio is associated with an increase of approximately 0.0171 in (PQ), holding other factors in the estimated equation constant. This interpretation should be treated cautiously because the model does not yet include control variables.

The model is statistically significant, as shown by the F-statistic of 40.64 and a p value below 0.001. The R-squared value of 0.1996 indicates that approximately 19.96% of the variation in the profit quality ratio is explained by the SG&A to revenue ratio. The adjusted R-squared is 19.46%, which is close to the unadjusted value because the model includes only one explanatory variable.

Although an R-squared of approximately 20% may appear moderate, it is meaningful in a model that examines financial-reporting quality using only one operating cost indicator. Profit quality is associated with a wide range of accounting, governance, financial, and operational factors. Therefore, the unexplained portion of the variation is not unexpected. Nevertheless, the result demonstrates that SG&A intensity alone has a statistically meaningful relationship with the profit quality ratio.

4.4. Diagnostic Tests

4.4.1. Multicollinearity

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The variance inflation factor for (SG&A) is 1.00, with a tolerance value of 1.00. This result indicates the absence of a multicollinearity problem. However, because there is only one independent variable, the VIF result is largely mechanical. Multicollinearity becomes relevant when two or more explanatory variables are included in the same regression model.

4.4.2. Heteroskedasticity

The Breusch–Pagan/Cook–Weisberg test is used to examine whether the error variance is constant across observations. The test produces a chi-square statistic of 33.89 with a p-value below 0.001.

The null hypothesis of constant error variance is therefore rejected. This result confirms the presence of heteroskedasticity in the OLS residuals. Although heteroskedasticity does not cause the OLS coefficient estimate to become biased, it may cause the conventional standard errors, t-statistics, and significance levels to be unreliable. Consequently, the study re-estimates the model using heteroskedasticity-robust standard errors.

4.5. FGLS Estimation

Table 3 reports the feasible generalized least squares (FGLS) estimate as a supplementary comparison with the baseline OLS result.

Table 3. FGLS Regression Results

Coefficients: **generalized least squares**

Panels: **homoscedastic**

Correlation: **no autocorrelation**

Estimated covariances = **1** Number of obs = **165**

Estimated autocorrelations = **0** Number of groups = **33**

Estimated coefficients = **2** Time periods = **5**

Wald chi2(**1**) = **41.13**

Log likelihood = **84.71168** Prob > chi2 = **0.0000**

PQ	Coefficient	Std. err.	z	P>|z|	[95% conf. interval]
SG&A	**.1710499**	**.0266698**	**6.41**	**0.000**	**.1187782 .2233217**
_cons	**-.0274227**	**.0131032**	**-2.09**	**0.036**	**-.0531045 -.001741**

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The FGLS coefficient of SG&A is 0.1710 and is statistically significant at the 1% level ($z = 6.41$, $p < 0.001$). The coefficient is identical in magnitude and direction to the baseline OLS estimate, indicating that the positive association is not sensitive to this supplementary estimator.

The FGLS 95% confidence interval ranges from 0.1188 to 0.2233 and does not include zero. Nevertheless, because the reported FGLS specification assumes homoskedastic panels and no autocorrelation, it is treated as a robustness comparison rather than as the preferred correction for the heteroskedasticity detected in the OLS residuals.

Accordingly, the robust OLS specification reported in the next section is used as the primary basis for statistical inference, while FGLS is retained only to demonstrate the stability of the coefficient sign and magnitude.

4.6. Regression with Robust Standard Errors

Because the Breusch Pagan/Cook Weisberg test indicates heteroskedasticity, the baseline OLS model is re-estimated using heteroskedasticity robust standard errors. The results are reported in Table 4.

Table 4. Robust OLS Regression Results

Linear regression — Number of obs = **165**

F(1, 163) = **7.69**

Prob > F = **0.0062**

R-squared = **0.1996**

PQ	Robust				
	Coefficient	std. err.	t	P>|t|	[95% conf. interval]
SG&A	**.1710499**	**.0616801**	**2.77**	**0.006**	**.0492549 .292845**
_cons	**-.0274227**	**.0164176**	**-1.67**	**0.097**	**-.0598414 .0049959**

After correcting the standard errors for heteroskedasticity, the coefficient of SG&A remains 0.1710, while the robust standard error increases to 0.0617. The coefficient remains statistically significant ($t = 2.77$, $p = 0.006$), confirming a positive association between the SG&A to revenue ratio and PQ.

The 95% robust confidence interval ranges from 0.0493 to 0.2928 and does not include zero. Because the robust OLS specification directly addresses the heteroskedasticity identified by the diagnostic test, it is used as the preferred specification for hypothesis testing and interpretation.

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4.7. Hypothesis Testing

The research hypothesis states:

H: The selling, general and administrative expenses to revenue ratio is positively associated with the profit quality ratio of Vietnamese listed telecommunications companies.

The empirical results consistently show a positive coefficient of 0.1710 across OLS, robust OLS, and FGLS estimations. The coefficient is statistically significant in all three models. In the preferred robust OLS specification, the p-value is 0.006, which is below the 1% significance level. Accordingly, H1 is supported.

Table 5. Summary of Hypothesis Testing

Hypothesis	Expected relationship	Estimated coefficient	p-value based on robust OLS	Decision
H1: SG&A positively affects PQ	Positive	0.1710	0.006	Supported

Because a higher PQ indicates lower profit quality, the empirical finding implies that a higher SG&A to revenue ratio is associated with lower reported profit quality. Nevertheless, the current model identifies a statistically significant association rather than a definitive causal relationship because it does not include additional control variables or firm and year fixed effects. From this result, the estimated regression equation is:

$$PQit = -0.0274 + 0.1710SG\&A_it + \varepsilon_it$$

4.8. Discussion of the Findings

The positive relationship between the SG&A to revenue ratio and the profit quality ratio can first be explained from the perspective of operating efficiency. When selling, general and administrative expenses grow more rapidly than revenue, a greater proportion of revenue is absorbed by indirect operating expenditure. This condition may reflect ineffective marketing activities, inefficient customer acquisition expenditure, excessive administrative capacity, or inadequate cost control. The resulting pressure on operating margins may be associated with weaker sustainability of reported profit.

The finding is consistent with recent cost behavior research, which suggests that operating expenses do not always adjust proportionately to changes in revenue. Ibrahim et al. (2022) show that asymmetric cost behavior is influenced by resource adjustment costs, managerial expectations, and agency related incentives. When revenue declines, managers may retain employees,

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administrative systems, selling networks, or other committed resources because eliminating and rebuilding these resources is costly. This behavior increases the SG&A to revenue ratio and can weaken operating performance.

The result is also consistent with Hartlieb and Loy (2022), who demonstrate that cost stickiness is related to financial reporting decisions and income smoothing behavior. Their findings suggest that operating cost structures and reporting choices are interconnected. When costs remain high despite weakening revenue, managers may face stronger incentives to smooth reported earnings or apply accounting judgment in a manner that reduces the transparency of current performance. Therefore, an increase in the SG&A to revenue ratio may signal not only operational inefficiency but also greater pressure on financial reporting quality.

Habib and Costa (2022) find that cost stickiness is associated with greater stock price crash risk, particularly where the information environment is less transparent. Although stock price crash risk is different from the profit quality ratio examined in this study, both outcomes may arise from information opacity and the delayed disclosure of unfavorable operating conditions. Similarly, Costa and Habib (2023) report that cost stickiness is related to lower firm value through its adverse implications for future cash flows and the cost of equity. These findings support the interpretation that the inefficient retention of selling and administrative resources can have consequences extending beyond short term profitability.

The result is also relevant to the Vietnamese context. Hong et al. (2023) show that financing pressure may encourage earnings management practices among Vietnamese listed companies and that governance mechanisms may become less effective when firms face external financing needs. A high SG&A to revenue ratio may reduce reported margins and increase the need to present favorable financial outcomes to lenders and investors. Under such conditions, managers may have stronger incentives to influence the timing or recognition of accounting items, thereby weakening profit quality.

More recent evidence from El Kamash (2025) also identifies a positive relationship between cost stickiness and earnings management. This result is consistent with the finding of the present study because a rising SG&A to revenue ratio may reflect costs that remain high relative to revenue and create incentives for managers to adjust reported outcomes. However, the present study contributes a different perspective by examining an overall profit quality ratio rather than focusing solely on a particular earnings management measure.

The telecommunications sector provides an especially appropriate context for this relationship. Telecommunications companies incur substantial selling and administrative expenses related to advertising, customer acquisition, sales commissions, retail channels, employee compensation, digital platforms, customer service, and corporate administration. Some of these

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expenses are necessary for long-term growth and technological development. Therefore, a high SG&A ratio does not automatically indicate poor management.

Nevertheless, when the increase in these expenditures is not accompanied by proportional revenue growth, the ratio may indicate that the company is failing to convert operating resources into sustainable income. In such cases, current profit may become more vulnerable to accounting estimates, timing decisions, or short term managerial intervention. The positive coefficient found in this study therefore suggests that, on average, a higher SG&A ratio is associated with weaker reported profit quality among the sampled firms.

5, CONCLUSION

This study examined the relationship between the selling, general and administrative expenses to revenue ratio and the profit quality ratio of Companies listed on the Vietnamese stock market. Using 165 firm-year observations from 33 companies during 2020–2024, the study applied correlation analysis, OLS, robust OLS, and FGLS regression. The findings consistently show that a higher SG&A to revenue ratio is positively associated with PQ, where PQ is measured as the absolute difference between profit after tax and operating cash flow scaled by average total assets. Because a higher PQ indicates lower profit quality, the results suggest that greater SG&A intensity is associated with weaker earnings reliability. The study contributes sector specific evidence from Vietnam and offers implications for managers, investors, auditors, and regulators, while encouraging future research with additional control variables.

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