

Investigate the factors affecting the competitiveness of Vietnam's small and medium businesses (SMEs)

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Abstract

Small and medium businesses play a vital part in a country's economic development. However, the development of enterprises depends on the competitiveness of each enterprise. Enhancing competitiveness in each enterprise is indispensable in the current intense development process. This article implements a survey method for 168 SMEs in Vietnam to find out the factors affecting the competitiveness of enterprises. In this article, the author gives 3 basic factors affecting the competitiveness of enterprises, including Internal factors, Corporate Social responsibility, and Government policies. All factors have a positive impact on the competitiveness of enterprises. Research results show that the state's policy institutions have the most substantial impact on the competitiveness of enterprises. Based on the research results, the authors make policy suggestions for businesses to improve their competitiveness in the current context.

Keywords: SMEs, competitiveness, internal factor, government policies, CSR.

JEL Classification Codes: D0, E2, O1.

1. Introduction

The future prosperity of the economies in general and Vietnam depends significantly on the success of businesses in the economy. Among them, the promotion of entrepreneurship, innovation, and the efficient and timely absorption of capital, technological advances are developed abroad and through international economic integration (Chang et al., 2020). In all these processes, SMEs play a significant role in developing and growing an economy by competitiveness (Domi et al., 2019). The trend of economic integration and the drastic change in science and technology (technology 4.0) makes SMEs in many countries able to become agents in the global market. Those countries are suitable because of internal factors within enterprises and the state's role for SMEs in creating a business environment and supporting SMEs through a series of policies dedicated to this force (Igwe et al., 2018). Vietnam's SME system, a vital force of the private sector, accounts for over 90% of Vietnamese enterprises (Chau & Deng, 2018). SMEs have made an outstanding contribution to the development of the economy, especially since the State implemented the economic renewal policy starting in 1986. With deep and wide international economic integration, Vietnam has signed a series of bilateral and multilateral free trade agreements, especially new trade agreements (Do & Shipton, 2019). Vietnam has become an economic player in the international economy. The system of Vietnamese SMEs operating in production and business under the management of the state is also gradually complying with the general laws in economic integration. International economic integration presents both opportunities and challenges (Chau et al., 2020).

Meanwhile, SMEs face many risks from inside and outside. It is not easy for Vietnamese SMEs to manage risks and improve competitiveness in the setting of integration (Nguyen et al., 2021). The state also plays a significant role for SMEs in competitiveness in international economic integration. This article will take questionnaires from 168 small and medium enterprises in Vietnam to assess the factors affecting the competitiveness of enterprises. Determining the factors affecting competitiveness is very important in making policy suggestions for the government and businesses themselves to improve their competitiveness.

2. Literature review

Competitiveness is a topic of great importance, not only for policymakers but also for business. Despite its importance in many respects, competitiveness still lacks a unified definition. All approaches to microeconomics and macroeconomics have different definitions of competitiveness.

According to Grundy (2006), the only metric of competitiveness is labour productivity. Competitiveness refers to an organization's ability to build, maintain, use, and create new competitive advantages to outperform competitors in terms of productivity and quality, capture a substantial market share, and produce revenue and long-term growth. He also said that if a company only focuses on the two goals of growth and product diversification, it is not a guarantee of long-term success. The most important thing for any company is to build a sustainable competitive advantage. At the heart of Porter's competitive theory is the proposed five-force model. He said that in any business line, there are five influencing factors: (1) Existing company rivalry; (2) the threat of a new entry; (3) the chance of replacement items appearing; (4) the involvement of retail companies; (5) powerful supplier (Narayanan & Fahey, 2005)

According to D'Cruz & Rugman (1993), existing company rivalry; (2) the threat of a new entry; (3) the chance of replacement items appearing; (4) the involvement of retail companies. According to Dunning and Lundan (2008), competitiveness is the ability of an enterprise to supply its products in different markets. Or competitiveness is the ability of a firm to produce a product at an average variable cost lower than its market price. According to Mingaleva et al. (2020), it is essential to identify these factors to improve their competitiveness. These authors argue that the factors that create the improvement of the competitiveness of enterprises include: innovation, international standards, leadership, focus on quality, and responsiveness to competition.

Dobeš et al. (2017) argued that the business climate has a considerable impact on all organizations' performance. According to research, the state is one of the most important components in developing the entrepreneurial legislative framework, establishing the requirements for beginning a business, and regulating competition. The paper presents three selected areas of influence from all regions of the Czech Republic that affect the business environment: business facilitation, financial support, and administrative burdens for the business environment. Baumbach (1967) studied the reality of the US government's support for small businesses and established a separate Small Business Administration in 1974. Four support areas at that time were finance, management and technology, looking for government contracts, and federal grants for research and development. For small businesses that want to export, the government assists using various publications and programs related to international marketing, export financing programs of the Bank, etc. imports and exports, cooperates with private insurers in providing credit insurance for exporters.

According to D'Cruz (1992), enterprise-level competitiveness is defined as the ability to innovate new products, manufacture, and market products that are superior to those offered by competitors, taking into account both price and non-price factors. According to Horstmann & Markusen (1992), a manufacturer is competitive if its average unit cost is equivalent to or lower than that of foreign competitors. According to Fafchamps & Minten, (1999), competitiveness is the ability of a firm can create a product at a lower average variable cost than its market price, i.e. any firm that can generate that output at a lower average variable cost than its market price. Products with similar quality to other enterprises' products, but with lower costs, are considered highly competitive.

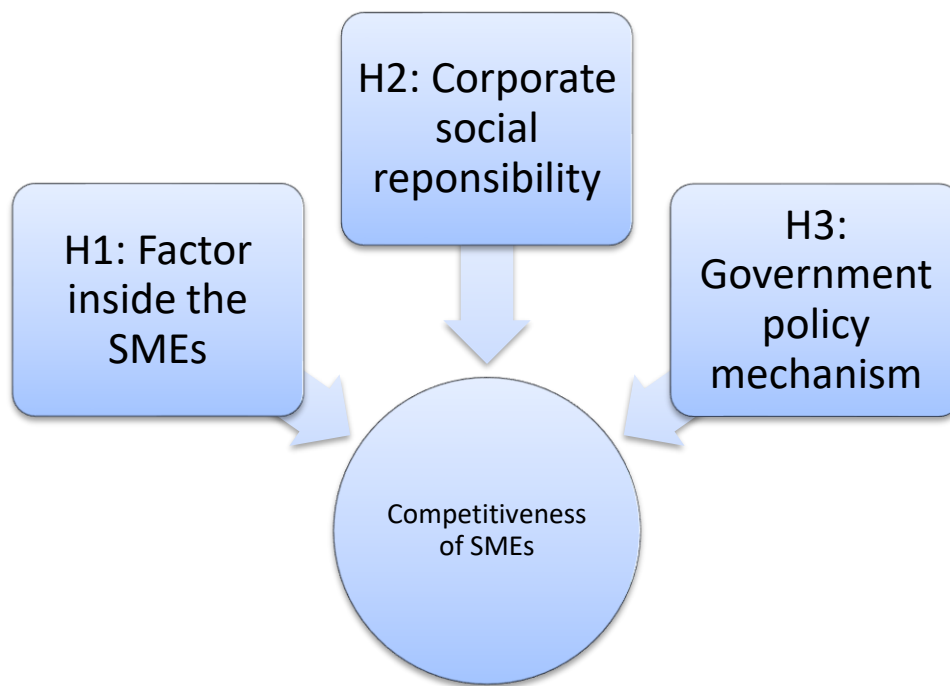
Mechinda et al. (2010) used the regression analysis technique to show the competitiveness of the Koh chang tourist area in Thailand, including cultural heritage and local hotels, food, cleanliness, safety, and location. The research results of Mechinda et al. (2010) also show that there are two different types of infrastructure: public infrastructure and tourism. Tourism infrastructure is a manufactured resource, while public infrastructure is secondary. Furthermore, in this study, the exploratory factor analysis results suggest that local hotels are similar to heritage and culture.

Pavlić (2013) conducted a survey of 500 tourism businesses in 20 European countries. The research results show that the competitiveness of these enterprises is affected by the following factors, (1) Service quality; (2) Price; (3) The value obtained compared to the cost spent; (4) Environmental issues; (5) Social issues; (6) Security. By identifying parameters that determine corporate competitiveness in Latvia, Mingaleva et al. (2020) made a practical contribution. The study is based on a survey of business owners to identify factors affecting the competitiveness of companies in Latvia. The research results have identified some factors affecting the competitiveness of the company, including (1) The ability to utilize resources; (2) Employee working capacity; (3) Financial resources; (4) Business strategy; (5) Impact on the environment; (6) Business capacity compared to competitors; (7) Use of communication networks. This study only uses statistical methods and makes comments based on the average value and determines the factors affecting the competitiveness of enterprises and measures their level through the survey.

Thus, there have been many studies on the competitiveness of enterprises. However, in Vietnam, the research on the competitiveness of enterprises is still very few. Therefore, studying the factors affecting the competitiveness of enterprises is very necessary.

3. Research Method

The author administered questionnaires to 168 small and medium enterprises in Vietnam to examine the factors affecting firm competitiveness. The proposed research model is as follows:



The research hypothesis is put forward as follows:

H1: Internal factors will positively affect the competitiveness of SMEs

H2: Corporate Social responsibility will positively affect the competitiveness of SMEs

H3: Government policies will positively affect the competitiveness of SMEs

The factors are coded in Table 1 to research to evaluate the factors affecting the competitiveness of enterprises:

Table 1: Coding table of variables in the model

	FIB	Internal Factors of the business
1	FIB1	Prices of products and services of enterprises are always competitive compared to competitors
2	FIB2	The prices of products and services of the business are very flexible to suit the needs and income of each customer
3	FIB3	Products and services provided by businesses are affluent and diverse
4	FIB4	Products and services provided by enterprises are always innovative
5	FIB5	The ability to meet the needs and tastes of customers is always guaranteed
6	FIB6	Businesses always respond well to competitors
7	FIB7	Enterprises with an efficient and flexible organizational structure take advantage of the advantages of
8	FIB8	The organizational structure of the enterprise has its characteristics of culture and people
	CSR	Corporate social responsibility
9	CSR1	Businesses pay taxes in full
10	CSR2	The enterprise ensures the legitimate rights and interests of employees
11	CSR3	Enterprises ensure the interests of customers
12	CSR4	Businesses have a good sense of environmental protection and natural resources
	GPM	Government policy mechanism
13	GPM1	Local strategies, visions, and plans to encourage business development
14	GPM2	The business management mechanism (tax, administrative management, service prices) is transparent and clear
	ERC	Enterprise competitiveness
15	ERC1	Enterprise's competitiveness increases its position and image in the market
16	ERC2	Enterprise's competitiveness increases financial efficiency
17	ERC3	Enterprise's competitiveness increases stability and sustainable development in the future

4. Research results

4.1. Check the reliability of the scale

The test results show that the Cronbach's Alpha coefficient of all the scales has a value greater than 0.9 (the lowest in the price competition scale with $\alpha = 0.784$). The correlation coefficient of all variables is more significant than 0.3.

Table 2: Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
FIB1	55.38	73.291	.626	.613	.907
FIB2	55.33	72.210	.691	.701	.905
FIB3	55.39	72.192	.700	.656	.905
FIB4	55.46	72.047	.605	.511	.908
FIB5	55.51	73.054	.589	.460	.908
FIB6	55.71	71.056	.608	.546	.908
FIB7	56.02	71.952	.598	.542	.908
FIB8	55.90	72.949	.536	.526	.910
CSR1	55.79	73.618	.644	.603	.907
CSR2	55.54	70.549	.708	.686	.904
CSR3	55.52	70.922	.639	.627	.906
CSR4	55.22	73.742	.608	.589	.907
GPM1	55.43	73.085	.551	.482	.909
GPM2	55.17	74.044	.568	.476	.909
GPM3	55.46	74.286	.549	.444	.909

4.2. Factor Analysis (EFA)

The analysis for four factors impacting competitiveness (except for the destination environment factor, a dependent intermediate variable) includes 17 observed variables. The factor analysis results showed that the variables were extracted into four groups, with the total variance extracted = 69.69% > 50%, and the scale was accepted. KMO coefficient = 0.831 is in the range of $0.5 \leq \text{KMO} \leq 1$, factor analysis is appropriate. Bartlett test with Sig.= 000, showing high significance.

All Factor loading values of the observed variables are greater than 0.5; Weight differences are all greater than 0.3, so they are accepted

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.858	45.719	45.719	6.858	45.719	45.719	2.914	19.428	19.428
2	1.399	9.325	55.044	1.399	9.325	55.044	2.641	17.609	37.037
3	1.146	7.638	62.682	1.146	7.638	62.682	2.520	16.799	53.836
4	1.051	7.008	69.690	1.051	7.008	69.690	2.378	15.854	69.690
5	.915	6.099	75.790						
6	.672	4.479	80.268						
7	.497	3.315	83.583						
8	.442	2.947	86.530						
9	.402	2.679	89.209						
10	.359	2.396	91.606						
11	.324	2.161	93.766						
12	.315	2.102	95.868						
13	.227	1.514	97.382						
14	.205	1.370	98.752						
15	.187	1.248	100.000						

Extraction Method: Principal Component Analysis.

4.3. KMO and sig coefficient

The exploratory factor analysis for the independent variables reveals that Bartlett's test p-value of 0.000 permits us to reject the null hypothesis H0 (H0: Factor analysis does not match the data). The KMO value of 0.847 indicates that the model is highly relevant.

Table 4: Table KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.882
Approx. Chi-Square		1371.663
Bartlett's Test of Sphericity	df	105
	Sig.	.000

The following table shows the multivariable regression results of factors affecting the quality of competitiveness of enterprises in Vietnam. The degree of influence of the independent variables on the dependent variable is shown through the standardized regression coefficient.

Table 5: Coefficients

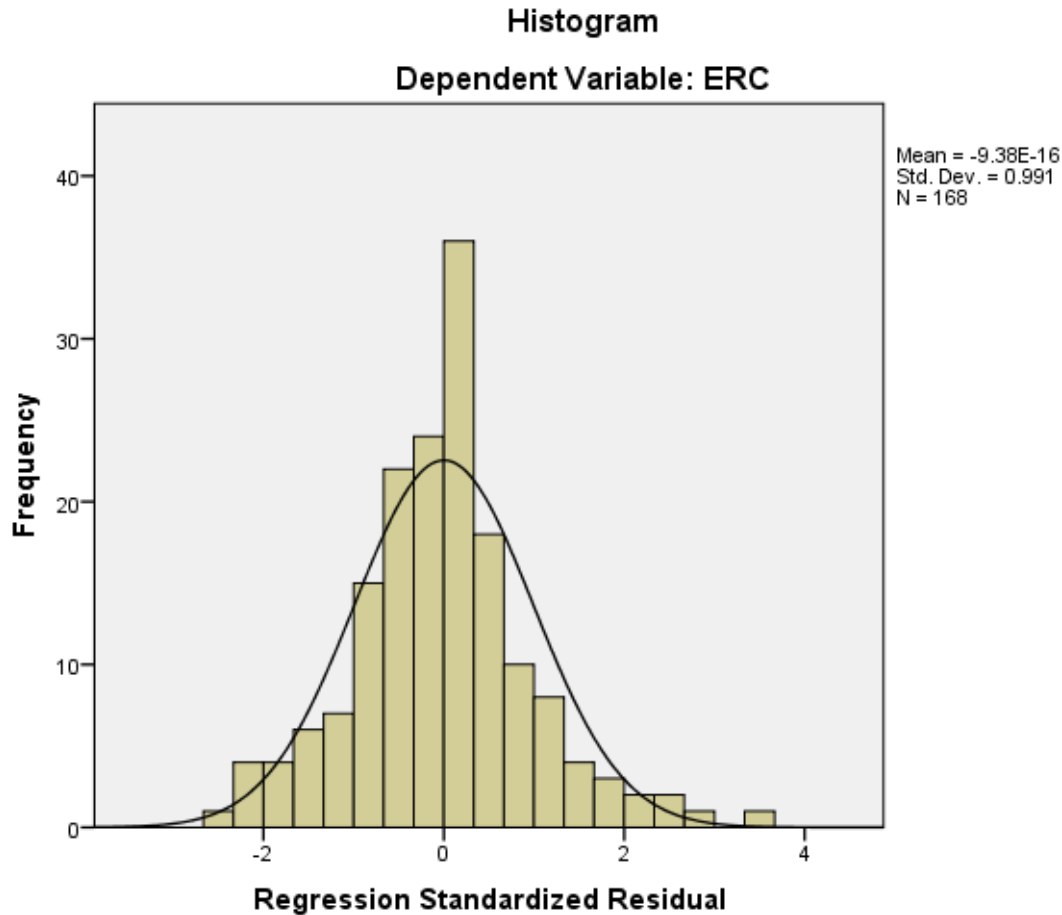
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.799	.276		2.891	.004
1 FIB	.353	.094	.325	3.773	.000
CSR	.031	.087	.031	.359	.720
GPM	.422	.078	.409	5.389	.000

a. Dependent Variable: ERC

Regression results show that all the independent variables included in the model are correlated with the dependent variable (sig value < 0.05). We have a normalized regression model:

We have a normalized regression model

$$\mathbf{ERC = 0.325FIB + 0.031 CRS + 0.409 GPM + e_i}$$



5. Conclusion and some suggested solutions

Research results show three factors affecting the competitiveness of small and medium enterprises in Vietnam. The degree of influence of each element on the competitiveness of enterprises is different. Firstly, state institutions affect enterprises the most, with a regression coefficient of 0.409. The second is the business's internal factors with an influence of 0.325, and the last is the corporate social responsibility activities.

Thus, to improve the competitiveness of enterprises in Vietnam, it is necessary to have state support in terms of institutions and policies. In the process of international economic integration, the state manages enterprises by institutions and policies corresponding to integration conditions, expressed by investment laws, commercial laws, intellectual property laws, etc., foreign investment attraction, administrative reform policies, and investment procedures. There are market management and commercial, service, and investment activities and management only at the macro-level (Hoang et al., 2020). Besides, the state also determines primary balances such as total supply - aggregate demand, import-export. Research and predict well the fluctuations of domestic

and foreign markets to orient and regulate the activities of enterprises. At the same time, using the economic force to solve the situations posed when the market fluctuates wildly. SMEs belong to the common enterprise system of a country. It plays an important role in the economy, so the state's role is still to manage SMEs and the business system in general of the national economy (Fan & Stevenson, 2018). However, with the specific characteristics of the size of SMEs, the difficulties encountered in the process of production and business activities will be great (Nguyen, 2019). Therefore, the government needs institutions, mechanisms, and policies dedicated to this audience. If it is not managed with such a different nature, the difficulties and challenges SMEs will become increasingly more prominent and limit the competitiveness of enterprises. SMEs face challenges in finance, science and technology, human resources, and risks from inflation, from the economic crisis brought about by the negative side of the market economy (Quynh & Huy, 2018). Government regulations and administrative paperwork from the relationship with the system of state management agencies pile up, quickly discouraging SMEs. Meanwhile, the competition is getting fiercer. Although the effect of the competition is excellent, it stimulates the creativity and innovation of SMEs, it is still a challenge for SMEs.

The State's management policy mechanism for SMEs has been gradually improved in recent times. Business motivation has been promoted, and many barriers have been removed, creating favourable conditions for SMEs to operate at home and abroad. The SME Development Department has been established and has some initial activities. Several macro-policy tools have been brought into play, such as the Enterprise Law, Decree 90, the Enterprise Support Fund, and a credit mechanism to support SMEs to increase their competitiveness (Rand & Tarp, 2020). Along with the effects of macro policies, the State also implements cooperation programs and projects with countries and international organizations to support SMEs, specifically: UNIDO's master program to support SMEs; ADB's SME Development Master Program; CIDA's Rural Enterprise Development Project; The European Commission's Vietnam Private Sector Support Program (Ha et al., 2020).

The competitiveness factors of SMEs include both internal and external factors. The external competitiveness of SMEs belongs to the common goal of developing the whole economy, depending on the macro-management of the state. This goal is also part of the overall goal of Vietnam's "Overall strategy of international integration to 2020, vision to 2030" (Trieu et al., 2020) (Le, 2019): Expanding markets, taking advantage of resources to improve the competitiveness of enterprises to improve the competitiveness of the economy, taking advantage of capital, technology, and management knowledge; enhance the competitiveness of the economy, enterprises and products; promoting the development of domestic industries, establishing a higher position in the regional and global production and supply chains.

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