Factors Affecting the Business Performance of the Companies: Evidence from Vietnam Listed Banks

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ABSTRACT — The study was meant to investigate factors affecting the business performance at Vietnam listed joint stock commercial banks. The study aimed at finding out how clientele, source of funds, leadership and promotional strategies, government regulations, macroeconomics factors influenced the business performance of Vietnam listed commercial banks. The study adapted a descriptive research design as a major method of research where questionnaires were used to collect data from a sample of Vietnam listed joint stock commercial banks. Data collection was both primary and secondary data. Primary data was collected using questionnaires distributed to the banks’ employees. They were designed to obtain broad range of answers from respondents which were used to answer the research questions. They comprised of close ended questions and secondary data was gathered from previous studies and annual reports of banks. Descriptive statistics was used to analyze data and the statistical package for social sciences (SPSS 21.0) and advanced Excel were used. Reports were tabulated using frequency tables for clarity. The results established the relationship between business performance as a dependent variable and the independent variables including clientele, and source of funds, promotional strategies and leadership. The study findings showed a great influence of funds and clientele on the performance of commercial banks, followed by promotional strategies. Leadership was found to have less influence on performance of the bank. The study suggests to the financial sector players to maintain a sufficient clientele base and embrace healthy competition. The findings should draw the attention of scholars, the government and the private sector to help in ensuring economic stability of this country as banking is a major sector of the economy.

Keywords — Business Performance (BP), Enterprises (ES), Small and Medium Sized Enterprises (SMES); Vietnam Listed Banks (VLB);

1. INTRODUCTION

Speaking of SMEs refers to the ability to create jobs and income, improve business management skills, and promote entrepreneurship and creativity. In particular, SMEs play an important role in honing Es administration skills and promoting innovation. In addition, SMEs also help build a flexible industrial production system, with close links, exploiting and mobilizing all potentials of localities, creating a healthier competitive market and there are positive spillover effects on the economy. Therefore, promoting the development of SMEs is considered an effective means to mobilize capital as well as other resources for production and business activities, contributing to economic growth and stability socialization.

In the context of today's fiercely competitive market, in order to survive and grow, Es needs to be proactive and actively seek ways to increase profits in a reasonable manner. To do so, the Es owner first needs to have a basic awareness of the factors that affect his Es’ performance. Specifically, profitability is the ratio to measure Es's performance, which is the main aspect of Es's financial statements. Profits of an Es show that Es's ability to generate income over a given period. Profitability is the deciding factor that helps managers develops an effective profitability strategy for Es.

2. THE RESEARCH METHODOLOGY

Objectives

This study conducted to solve two objectives: (1) Analyze the current situation of business and production activities of the listed banks in Vietnam; and (2) Identify the factors that affect the performance of the listed banks in Vietnam.
Data collection
To conduct an estimation of the factors affecting the performance of small and medium-sized Enterprises (SMEs), use secondary data using convenient sampling techniques from the 2021 Financial Statements of 20 banks and the database based on the ES listed on Vietnam's stock market, with the selected analysis criteria in the model. This study uses SPSS 21.0 software to support data analysis. Descriptive statistical methods with criteria such as average, rate, frequency, standard deviation are used to analyze the current situation of production and business activities. Multivariate linear regression analysis was used to identify the factors affecting the performance of banks in Vietnam.

3. LITERATURE REVIEWS

When conducting research on investment, Lei and Chen (2011) said that enterprises make direct investment when it meeting 03 conditions. This is: (i) enterprises must own advantages compared to other businesses: such as scale, technology, marketing network, access to capital with low productivity; (ii) localization: it is more advantageous to use those advantages within an enterprise than to sell it to other businesses or to other businesses; (iii) production in the host country has lower costs than production in the host country.

Lei and Chen (2011) also show the choice decision of Taiwan firm’s investment in Vietnam. Jabri et al (2013) and (2015) also show the determinants of investment in MENA region. This is the basis for my research in this paper. The theory of investment behavior of Jensen (2003) and Jouili (2018) shows that investor behavior is directly affected by: (i) changes in demand; (ii) interest rates; (iii) the level of development of the financial system; (iv) public investment; (v) human resources; (vi) other investment projects in the same industry or in connected industries; (vii) the situation of technology development, the ability to absorb and apply technology; (viii) the stability of the investment environment; (ix) procedural regulations and (x) completeness of information.


Nguyen et al (2020) refer the impact of working capital on profitability of Vietnam firms. Nguyen et al (2020) also note the determinants of enterprises listed on Vietnam Stock Exchange. Xuan (2020), Factors affecting foreign direct investment: Evidence at foreign technology enterprises in Vietnam, referred the main factors influenced the FDI in Vietnam and have evidence from the technology FDI firms. Models enterprise size is a category that reflects the size of the enterprise and the way to organize and arrange the parts that constitute the enterprise. There are many criteria for assessing the size of an enterprise, namely: Scale by capital, scale by number of employees, scale by turnover, scale by profit and so on. In Vietnam, the determination of scale enterprises comply with the provisions of the Government's Decree No. 56/2009 / ND-CP of June 30, 2009, on assistance for the development of small and medium-sized enterprises, which determines the size of enterprises mainly based on Two factors are capital and labor.

A study by Fausto et al. (2013) showed that type of business, age of business owner, number of capital contributors is factors affecting firm size. Meanwhile, Mssimo & Colombo (2015) said that the business activities, the type of import-export business, the number of founding members have significant explanations in the model of factors affecting the size of enterprise capital. The further pointed out that the size of firm capital is affected by the organization's capital contribution, number of employees and the rate of return on total assets of the industry. The gender and age of the person who has the decisive role in the enterprise also has a certain impact on the size of the business.
With studies in Vietnam, Xuan et al. (2020) firms the business sector, type of export business or domestic, the form of business registration has a close relationship with the size of the capital of the business. The factors of business lines, type of business registration, location of production and business establishments, operating time of enterprises, percentage of capital contribution of the organization in the capital structure of the business is the factors that affect the size of the business capital of the business. Through a review of several studies shows, there are many factors affecting the business performance of Es in general and SMES in particular. Baard, VC and Van den Berg, A. (2004), Ari Kokko and Fredrik Sjöholm (2004), Henrik Hansen, John Rand and Finn Tar (2002) have shown that Es size is one of the factors influencing Es business results. According to the studies of Panco, R. and Korn, H. (1999), Henrik Hansen et al. (2002), the age of an Es is a factor affecting the survival and development of an Es. Henrik Hansen et al. (2002), showed that the education level of the Es owner and the Government support policy has an impact on the business performance of SMES. In addition, once again demonstrated the level of access to government support policies affecting the business performance of Es, and the author shows the concern. Social system, revenue growth are also factors affecting business performance.

Therefore, in this study, the above factors were put into the analysis model by the author to determine the factors affecting the business performance of Vietnam Listed Banks. The research model is as follows:

\[ Y = Bo + B1X1 + B2X2 + B3X3 + B4X4 + B5X5 + B6X6 + \varepsilon \]

Where: The dependent variable \( Y \) is rate of return / revenue (ROS - return on sales) of Vietnam Listed Banks. Variables \( X1, X2, X3, X4, X5, \) and \( X6 \) are independent variables (explanatory variables).

Specifically, the research conducted tests of the following hypotheses:

**H1:** The number of Clients that VLB has been received that affects the profitability of the VLB.
H2: The sources of funds of VLB affect its profitability.

H3: The ability of leadership of VLB affects profitability.

H4: The promotional strategies of VLB affect the current profitability.

H5: The regulation government affects the profitability rate.

H6: The macroeconomics factors affect the profitability.

From the nature of the independent variables, the model that tests the influence of factors on the performance of VLB, the author expects the sign of the variables in the model Figure 2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Explanations</th>
<th>Expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>The number of Clients</td>
<td>+</td>
</tr>
<tr>
<td>X2</td>
<td>The sources of funds</td>
<td>+</td>
</tr>
<tr>
<td>X3</td>
<td>The ability of leadership</td>
<td>+</td>
</tr>
<tr>
<td>X4</td>
<td>The promotional strategies</td>
<td>+</td>
</tr>
<tr>
<td>X5</td>
<td>The regulation government</td>
<td>+</td>
</tr>
<tr>
<td>X6</td>
<td>The macroeconomics factors</td>
<td>+</td>
</tr>
</tbody>
</table>

Figure 2: Interpretation of independent variables in a linear regression model
(Source: compiled by the authors)

4. RESEARCH RESULTS

4.1. Factors affecting the business performance of VLB

The results of the linear regression analysis are as follows: (1) Observed significance level Sig. very small (Sig. = 0.00) shows that the security level rejects the Ho hypothesis, which means that there exists a linear relationship between the business performance of VLB (measured by the rate of profit) with at least one of the factors being an independent variable, such a linear regression model is given in accordance with the data;

(2) The $R^2$ value is adjusted smaller than the $R^2$, so it should be used to evaluate the model as more suitable and it does not inflate the model suitability, so $R^2$ the adjusted $= 0.861$ meaning that 86.1% of VCLE’s business performance can be explained by the linear correlation between the profit margin and the independent variables included in the model. The Durbin-Watson coefficient of the model is 1.936, indicating that the model has no autocorrelation phenomenon. In addition, the variance magnification (VIF) of the variables in the model is much smaller than 10, so we conclude that the variables included in the model do not have multi-collinear phenomena.
### Table 1: Regression Results

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Variables</th>
<th>Coefficient (B)</th>
<th>Level of significance (Sig.)</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>0.398</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>The number of clients</td>
<td>X1</td>
<td>0.50</td>
<td>0.000</td>
<td>1.105</td>
</tr>
<tr>
<td>The sources of funds</td>
<td>X2</td>
<td>0.60</td>
<td>0.005</td>
<td>1.061</td>
</tr>
<tr>
<td>The ability of leadership</td>
<td>X3</td>
<td>0.40</td>
<td>0.000</td>
<td>1.203</td>
</tr>
<tr>
<td>The promotional strategies</td>
<td>X4</td>
<td>0.52</td>
<td>0.008</td>
<td>1.084</td>
</tr>
<tr>
<td>The regulation government</td>
<td>X5</td>
<td>0.39</td>
<td>0.002</td>
<td>1.091</td>
</tr>
<tr>
<td>The macroeconomics factors</td>
<td>X6</td>
<td>0.32</td>
<td>0.004</td>
<td>1.052</td>
</tr>
</tbody>
</table>

**Figure 3:** Results of the analysis model of linear regression
(Source: survey data, 2021)

Of the 6 variables included in the model, all 6 explain the change in business performance of VCL as the following functions:

\[ Y = 0.398 + 0.5X1 + 0.6X2 + 0.4X3 + 0.52X4 + 0.39X5 + 0.32X6 + Ei \]

**The number of clients**

In particular, the variable X1 (the number of clients) has a positive effect on the business performance of VLB, showing the importance of this factor to business activities. VLB's business is huge, which fits perfectly with the argument that the author originally made. In fact, the more the banks have clients, the more profit it can get.

**The source of funds**

In addition to the impact of source of funds, the variable X2 is also an important factor positively affecting the efficiency of business activities. Banks that have huge funds can accumulate a lot of capital to finance their business activities as well as new investment projects. At the same time, because they have large funds, these have a lot of advantages, so the performance are also high.

**The ability of leadership**

The variable X3 (the ability of leadership) is also positively correlated to the performance of VLB. The higher the leadership level, the more owners are able to access modern management science methods to help the banks grow more and have more opportunities, while having a broader, more knowledgeable relationship about institutions, more policy regulations.

**The promotional strategies**

When the banks invest more in advertising, they will get more business performance. The variables X4 are positively to the performance of VLB.

**The regulation of government**

The coefficient of factor X5 (the regulation of government) bearing a positive sign (+) indicates that banks have better business efficiency when the Vietnam government have the support regulations. The reason is that banks have monitored by the state and when banks received the better regulations, which contributes to good business performance.

**The macroeconomics factors**

Similarly, the X6 variable also has a positive coefficient with the performance of banks. This proves that sustainable macroeconomics factors also affect VLB's business performance.
4.2. Factors affecting the performance of VLB

The statistical value F in the model has a very small significance level, which is 0.000, showing that the safety level refutes the Ho hypothesis, meaning that the relationship exists. The linearity between the performance of VLB (measured by the ratio of profit/total assets ROA) with at least one of the factors is the independent variable, so the linear regression model is given in accordance with data.

The coefficient of determination of R² is 86.1%, which is quite reasonable, showing that the general fluctuations of the affecting factors explain about 86.1% of the VLB performance.

Specific results of each variable are as follows:

**Number of Clients - X1**

X1 with an estimated value of β1 of 0.50 (sig. 0.0000) shows that, when the number of clients increases by 1%, the ROA will increase to 0.5%. The results of this study of the authors are consistent with the studies of B. Ramasamy (2005). The larger banks will have more clients compared to the small banks. Therefore, the more the clients the banks have, the more the ROA they have.

**The Sources of funds - X2**

The source of fund does significantly affect returns when the value of β2 is very large as 0.6 with the value of sig. (0.005) is much higher than the 5% significance level. This result is consistent with collaborative research between D. Mehari and T. Aemiro (2013). Research shows that banks do mean higher profits when they have the large funds. In contrast, the banks have the small funds that cannot create the large ROA.

**The ability of Leadership - X3**

The ability of leadership has mostly positive effects on profitability with an estimated value of β3 of 0.40 (sig. 0.0000). That is, when the ability of leadership increases by 1%, the ROA will increase to 0.40%. The results of this study are in line with the studies examined by A. Vijayakumar (2011).

According to the World Bank, also in line with modern economic theory, banks are very important for a country's economic growth and development. Banks can promote more jobs than the big firms can. Banks have a smaller scope so it is easier to set up and organize activities. The more effective the banks are, the more likely it is to increase profits.

**The promotional strategies - X4**

The promotional strategies of VLB have a positive impact on profitability at the present time with a β4 coefficient of 0.52 (sig. 0.008). That is, when the promotional strategies banks increases by 1%, the ROA will increase to 0.52%. The results of this study are consistent with the studies of A. Stierwald (2009).

**The regulation government - X5**

The results indicate that the regulation government does affect the profitability of VLB when the significance level (sig. 0.002). Of the estimated value of X5 of this variable is quite large at 0.39. It means that when the regulation government increases 1% and then the ROA of banks will increase 0.39%. This research is different from the one tested by A. Stierwald (2009), AK Salman and D. Yazdanfar (2012) and the research of D. Yazdanfar (2013) shows that the bank's regulation government has negative impact on profits.

**The macroeconomics factors - X6**

The macroeconomics factors that affects profitability with an estimated value of β6 is 0.32 (sig. 0.004). That is, when the VLB macroeconomics factors increases by 1%, the ROA will increase to 0.32%. The results of this study are consistent with previous studies that have been verified by A. Vijayakumar (2011), AK Salman and D. Yazdanfar (2012) and individual research by D. Yazdanfar (2013).
5. CONCLUSION

VLB with the level of investment is large, flexible and very suitable for support the capital for developing economy. VLB is an appropriate and effective way to mobilize resources for the firms and individuals for economic development. Particularly for Vietnam, the development of the current VLB does fully meet the requirements of socio-economic development; VLB often operate with the goal of long term, within a large space. The competitiveness is also very good. The results of the study show that factors such as source of funds, the number of clients, promotional strategies mostly affect to the business performance of VLB. Through the research results, the author expects that the concerned departments and agencies will soon implement action programs to more develop VLB, contributing the capital to the country's socio-economic development.

Using the least squares estimation method in the multivariate regression model, the study estimated and identified the factors affecting the performance of banks including: source of funds, number of clients, promotional strategies, ability of leadership, government regulations, and macroeconomics factors. The research results show that the more VLB has funds, the more effective the activities are. The research results have helped the authors synthesize a number of solutions to enable VLB to improve business performance in the current.

6. REFERENCES