

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

Nguyen Thanh Cong¹, Vu Ngoc Xuan²

¹Member, Economics Committee, Vietnam National Assembly,
2 Doc Lap Street, Ba Dinh Dist, Hanoi, Vietnam
Email: congnt [AT] gmail.com

²Director, Centre for Analysis Forecasting and Sustainable Development,
National Economics University,
207 Giai Phong Street, Hai Ba Trung Dist, Hanoi, Vietnam
Email: xuanvn [AT] neu.edu.vn

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.

Kumar (1994) referred the determinants of export of foreign product in United States of America. Kwiatkowski, Phililips, Schmidt, and Shin (1992) used the time series to test the null hypothesis. Tran (2009), Parker, Phan, Nguyen (2005) shows the relationship between the infrastructure and Investment attraction in Vietnam. There are some research related to Investment in the world such as Loree and Guisinger (1995) showed the determinants of United State FDI. Louail (2019), Mina (2007), Mina (2012), Moosa (2009) refers determinants of foreign direct investment in Arab countries. Nnadi and Soobaroyen (2015) show the financial statement standards and FDI in the Africa. Pricope (2017), Rogmans (2013) refer the FDI and adoption of international financial report standards in poor countries. Pesanran and Shin et al (1997), (1998), (1999) shows that business satisfaction indicates the level of satisfaction of businesses when investing in a country affected by three factors: (i) attribute group about the infrastructure; (ii) attribute group of business policy, service support (SS); (iii) attribute group of living and working environment, also mentioned the impact of national small and medium-sized enterprises on FDI attraction in developing countries.

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.

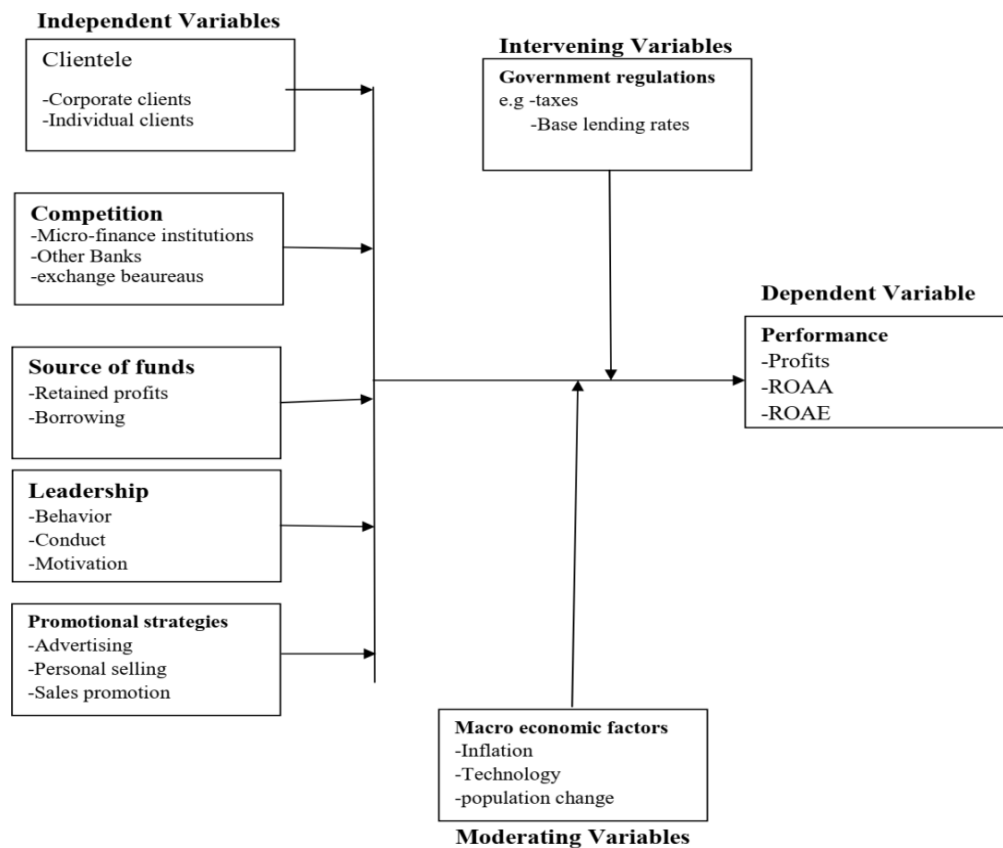


Figure 2.1: Conceptual framework
(Source: complied by authors)

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:

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + \varepsilon$$

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.

<i>Variable</i>	<i>Explanations</i>	<i>Expected</i>
X1	The number of Clients	+
X2	The sources of funds	+
X3	The ability of leadership	+
X4	The promotional strategies	+
X5	The regulation government	+
X6	The macroeconomics factors	+

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.

Criteria	Variables	Coefficient (B)	Level of significance (Sig.)	VIF
Constant		0.398	0.000	
The number of Clients	X1	0.50	0.000	1.105
The sources of funds	X2	0.60	0.005	1.061
The ability of leadership	X3	0.40	0.000	1.203
The promotional strategies	X4	0.52	0.008	1.084
The regulation government	X5	0.39	0.002	1.091
The macroeconomics factors	X6	0.32	0.004	1.052
<i>Sig. F coefficient</i>		<i>0.000</i>		
<i>coefficient R² adjustment</i>		<i>86.10</i>		
<i>Durbin-Watson coefficient</i>		<i>1,936</i>		

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 VCLE 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 the 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 has 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 β_1 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 bank have, the more the ROA they have.

The Sources of funds - X2

The source of fund does significantly affect returns when the value of β_2 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 β_3 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 β_4 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 macro economics factors that affects profitability with an estimated value of β_6 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

1. Ari, K. & Fredrik, S. (2004), "The Internationalization of Vietnamese SMEs, Stockholm School of Economics", *Asian Economic Papers*, Vol.4, No.1, 12-39.
2. Baard, V.C. & Van den Berg, A. (2004), "Interactive Information Consulting System for South African Small Businesses", *South African Journal of Information Management*, Vol.6, No.2, 39-50.
3. Fausto, H. T., Jose, A., Pagan and Julia, P. (2013), 'Star up capital. Microenterprises and technical efficiency in Mexico', *Review of development Economics*, 9, 434-447.
4. Henrik Hansen, John Rand & Finn, T. (2002) "SME Growth and Survival in Vietnam: Did Direct Government Support Matter?", accessed <http://www.vnep.org.vn>
5. Jabri, A. and Brahim, M. (2015). Institutional determinants of foreign direct investment in MENA region: Panel co- integration analysis. *Journal of Applied Business Research (JABR)*, 31(5),2001-2012. <https://doi.org/10.19030/jabr.v31i5.9417>
6. Jabri, A., Guesmi, K., and Abid, I. (2013). Determinants of foreign direct investment in MENA region: Panel co-integration analysis. *The Journal of Applied Business Research*, 29(4), 1103-1109. <https://doi.org/10.19030/jabr.v29i4.7976>
7. Jensen, N. M. (2003). Democratic governance and multinational corporations: Political regimes and inflows of foreign direct investment. *International Organization*, 57(3), 587-616. <https://doi.org/10.1017/S0020818303573040>
8. Jouili, T. (2018). Determinants of foreign investment in maritime nations. *International Journal of Advanced and Applied Sciences*, 5(5), 43-47. <https://doi.org/10.21833/ijaas.2018.05.006>
9. K. Salman & D. Yazdanfar (2012), "Profitability in Swedish SME firms: A quantile regression approach", *International Business Research*, vol. 5, no. 8, 94-106;
10. Kumar, N. (1994). Determinants of export orientation of foreign production by US multinationals: An inter-country analysis. *Journal of International Business Studies*, 25(1), 141-156. <https://doi.org/10.1057/palgrave.jibs.8490196>
11. Kwiatkowski, D., Phillips, P.C., Schmidt, P., and Shin, Y. (1992). Testing the null hypothesis of stationarity against the alternative of a unit root: How sure are we that economic time series have a unit root? *Journal of Econometrics*, 54(1-3), 159-178. [https://doi.org/10.1016/0304-4076\(92\)90104-Y](https://doi.org/10.1016/0304-4076(92)90104-Y)
12. Lei, H.S., Chen, Y.S. (2011), The right tree for the right bird: Location choice decision of Taiwanese firms' FDI in China and Vietnam *International Business Review*, Elsevier, 20 (3), 338-352. <https://doi.org/10.1016/j.ibusrev.2010.10.002>
13. Loree, D.W. and Guisinger, S.E. (1995). Policy and non-policy determinants of US equity foreign direct investment. *Journal of International Business Studies*, 26(2), 281-299. <https://doi.org/10.1057/palgrave.jibs.8490174>
14. Louail, B. (2019). Determinants of foreign direct investment in Arab countries during 1970–2016. *International Journal of Advanced and Applied Sciences*, 6(3), 102-110. <https://doi.org/10.21833/ijaas.2019.03.015>
15. Mehari and T. Aemiro (2013), "Firm specific factors that determine insurance companies' performance in Ethiopia", *European Scientific Journal*, vol. 9, no.10, 245-255.
16. Mina, W. (2007). The location determinants of FDI in the GCC countries. *Journal of Multinational Financial Management*, 17(4), 336-348. <https://doi.org/10.1016/j.mulfin.2007.02.002>
17. Mina, W.M. (2012). The institutional reforms debate and FDI flows to the MENA region: The "best" ensemble. *World Development*, 40(9), 1798-1809. <https://doi.org/10.1016/j.worlddev.2012.04.026>
18. Moosa, I.A. (2009). The determinants of foreign direct investment in MENA countries: An extreme bounds analysis. *Applied Economics Letters*, 16(15), 1559-1563. <https://doi.org/10.1080/13504850701578819>

19. Mssimo, G. and Colombo (2015), 'Start up size- The role of external financing', *Economic Letters*, 88, 107-121.
20. Nguyen, H.A. et al (2020), Impact of Working Capital Management on Firm's Profitability: Empirical Evidence From Vietnam. *Journal of Asian Finance, Economics and Business*, 7(3), 115-125. <https://doi.org/10.13106/jafeb.2020.vol7.no3.115>
21. Nguyen, T. N. L., Nguyen, V.C., (2020). The Determinants of Profitability in Listed Enterprises: A Study from Vietnamese Stock Exchange. *Journal of Asian Finance, Economics and Business*, 7(1), 47-58. <https://doi.org/10.13106/jafeb.2020.vol7.no1.47>
22. Nnadi, M. and Soobaroyen, T. (2015). International financial reporting standards and foreign direct investment: The case of Africa. *Advances in Accounting*, 31(2), 228-238. <https://doi.org/10.1016/j.adiac.2015.09.007>
23. Panco, R., and Korn, H (1999), "Understanding Factors of Organizational Mortality: Considering Alternatives to Firm Failure", accessed <http://www.eaom.org>
24. Parker, S. and Phan, V. Q. and Nguyen, N. A. (2005): Has the US-Vietnam Bilateral Trade Agreement Led to Higher FDI into Vietnam? *International Journal of Applied Economics*, 2 (2), 199-223.
25. Pesaran, M.H. (1997). The role of economic theory in modelling the long run. *The Economic Journal*, 107(440), 178-191. <https://doi.org/10.1111/1468-0297.00151>
26. Pesaran, M.H. and Shin, Y. (1998). An autoregressive distributed-lag modelling approach to cointegration analysis. *Econometric Society Monographs*, 31, 371-413. <https://doi.org/10.1017/CCOL521633230.011>
27. Pesaran, M.H., Shin, Y., and Smith, R. P. (1999). Pooled mean group estimation of dynamic heterogeneous panels. *Journal of the American Statistical Association*, 94(446), 621-634. <https://doi.org/10.1080/01621459.1999.10474156>
28. Pesaran, M.H., Shin, Y., and Smith, R.J. (2001). Bounds testing approaches to the analysis of level relationships. *Journal of Applied Econometrics*, 16(3), 289-326. <https://doi.org/10.1002/jae.616>
29. Pricope, C.F. (2017). The implications of IFRS adoption on foreign direct investment in poor countries. *The Audit Financial Journal*, 15(146), 218-218. <https://doi.org/10.20869/AUDITF/2017/146/218>
30. Ramasamy (2005), "Firm size, ownership and performance in the Malaysian palm oil industry", *Asian Academy of Management Journal of Accounting and Finance*, vol. 1, pp. 81-104;
31. Rogmans, T. (2013). Location and operation mode decision making in the Middle East: A case study approach. *Journal of Strategy and Management*, 6(2),190-206. <https://doi.org/10.1108/17554251311322440>
32. Stierwald (2009), "Determinants of firm profitability-The effect of productivity and its persistence," *Melbourne Institute of Applied Economic and Social Research*, The University of Melbourne;
33. Tran, T. Q. (2009). Sudden Surge in FDI and Infrastructure Bottlenecks: The Case in Vietnam. *ASEAN Economic Bulletin* 26(1), 58-76. <https://www.muse.jhu.edu/article/266539>.
34. Vijayakumar (2011), "An empirical study of firm structure and profitability relationship: The case Of Indian automobile firms," *International Journal of Research in Commerce and Management*, vol. 1, no. 2, 100-108;
35. Vijayakumar (2011), "The determinant of profitability: An empirical investigation using Indian automobile industry," *International Journal of Research in Commerce and Management*, vol. 2, no. 1, 58-64;
36. Xuan, V. N. (2020), Factors affecting foreign direct investment: Evidence at foreign technology enterprises in Vietnam. *International Journal of Advanced and Applied Science*, 07(4), 21-28. <https://doi.org/10.21833/ijaas.2020.04.004>
37. Xuan, V.N. (2020), Determinants of Investment Capital Size: A Case of Small and Medium Sized Enterprises in Vietnam. *Journal of Asian Finance Economics and Business*. <https://doi.org/10.13106/jafeb.2020.vol7.no6.019>