



The Factors Affecting the Performance of Foreign Direct Investment (FDI) Enterprises in Vietnam

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ABSTRACT

In this paper, the author use analytical method of explore factor analysis and regression analysis to determining factors affecting the performance of FDI enterprises in Viet Nam. This paper conducted during the period from March 2013 to March 2015. The research results showed that there were 250 FDI enterprises interviewed and answered about 30 questions but 238 FDI enterprises processed. The researcher had analyzed KMO test, the result of KMO analysis used for multiple regression analysis. The Multiple regression analysis results showed that there were four factors, which included of factors following External factors: Opportunities, threats and internal factors: Weaknesses, Strengths that are components of the SWOT matrix with significance level 5 %. In addition, the research result processed from SPSS 20.0 software. The parameters of the model estimated by Least - Squares Method tested for the model assumption with 5% significance level. At the same time, the result was also a scientific evidence and important for researchers, and policy makers who apply them for developing FDI enterprises in the future. The main objectives of this study were to: 1. The first objective was to analyze and to test some factors that affected the performance of FDI enterprises in Viet Nam. 2. The second objective was to propose recommendations in order to develop the performance of the FDI enterprises in Viet Nam.

Keywords: *SWOT, internal and external factors, FDI and enterprises, Viet Nam.*

1 INTRODUCTION

The relationship between Foreign Direct Investment (FDI) and economic growth has been an interested issue for several decades. In the new growth theory, FDI is an important factor that contributes to economic growth through technology transfer efficiency improvement. FDI affects economic growth in several ways. It is argued that FDI has been a major channel for the access to advanced technologies by recipient countries and hence plays a central role in the technological progress of these countries (Borensztein, E., Gregorio, J.D. and Lee, J.W. (1998).

The purpose of this paper is to explore the impact of Foreign Direct Investment (FDI) on economic growth in Viet Nam. In this study, I use the secondary data and interviewed FDI enterprises. This study covers the time period from 2009-2003. This study attempts to determine empirical impact

of FDI on Viet Nam economy using macro-economic annual time series data. FDI, domestic investment, employment, export and human capital are considered as the endogenous variables for economic growth. The multiple regressions are employed in this study. This study finds that there is a strong and positive impact of FDI on Viet Nam economic growth. Furthermore, the study indicates that human capital, employment and export also have positive and significant impact, while domestic investment has no significant impact on Viet Nam economic growth.

The question is how to help the FDI enterprises to improve its competitive position to resist threats from major competitors and the instability of the economy, and to ensure that the development of FDI enterprises has sustainable development. The above issue is closely related to the topic “The Factors Affecting the Performance of Foreign Direct Investment (FDI) Enterprises in Vietnam” as

a paper for researching in the development of FDI enterprises in Viet Nam.

The research results are to improve FDI enterprises activities, have good policies and support many other services develop them in the future.

2 THEORETICAL FRAMEWORK AND METHODS OF RESEARCH

2.1 Theoretical framework

The corporate planning: As part of the development of strategies and plans to enable the organization to achieve its objectives, then that organization uses a systematic/rigorous process known as corporate planning.

The SWOT alongside PEST/PESTLE used as a basis for the analysis of business and environmental factors.

Set objectives – defining what the organization was going to do; Environmental scanning:

Internal appraisals of the organization's SWOT, this needs to include an assessment of the present situation as well as a portfolio of products/services and an analysis of the product/service life cycle. Analysis of existing strategies, this should determine relevance from the results of an internal/external appraisal. This may include gap analysis, which look at environmental factors.

Strategic Issues defined – key factors in the development of a corporate plan which needs to address by the organization.

Develop new/revised strategies – revised analysis of strategic issues may mean the objectives need to change.

Establish critical success factors – the achievement of objectives and strategy implementation.

Preparation of operational, resource, projects plans for strategy implementation.

Monitoring results – mapping against plans, taking corrective may mean amending objectives /strategies.

The SWOT matrix approach is particularly powerful when the company defines the objective with respect to which the system should be evaluated. In the context of information security, this usually involves agreeing on the system's risk profile, data sensitivity, business goals, and other factors that affect the system's security architecture. SWOT - Analysis is a systematic identification and a strategic decision making operation.

The aim of SWOT is to develop a plan that takes into consideration many different internal and external factors and maximizes the potential of the strengths and opportunities while seeking minimize the impact of the weaknesses and threats.

The internal variables are composed of variables such as: management, structural organization, production and operation, finance and human resources. Internal data is found from inside the company itself, e.g.:

Financial report (balancing, cash-flow, cost benefit, and structural fee)

Human Resources reports (total employees, education, skill, experience, salary, and turn-over).

Operational Activity report

Marketing Activity report

External variables are outside of company control and the company has no power to control these external variables such as:

2.1.1 Macro Variables:

A macro variable is a large social power and can influence all in the micro industry such as: economic, politics and government, culture, demography, environment and technology.

2.1.2 Micro Variables:

Micro variables are those involved in the environment that have a first-hand job in influencing the market industry, through customer bargaining power, supplier bargaining power, new comers threat, competition between similar companies, and substantial product.

However, external data can be collected from outside company resources such as: market analysis, competitor analysis, community analysis, supplier analysis, government analysis, and other important community group analysis.

The logical base idea from SWOT is to maximize strength and opportunity, beside it seeks to minimize weakness and threats. In other words, SWOT - Analysis a situation analysis because Business Practitioners must analyses factors in company strategy (Strength, Weakness, Opportunity, and Threat).

2.2 Methods of research

This study used of quantitative research methods to survey the factors that affecting the performance of foreign direct investment (FDI) enterprises in Viet Nam. The results obtained from quantitative research processed by SPSS statistical software version 20.0.

Quantitative research methods describe and measure the level of occurrences based on numbers and calculations. Moreover, the questions of “how

many?" and "how often?" asked in quantitative studies.

Quantitative research is the collection of numerical data and exhibiting the view of relationship between theory and research as deductive, a predilection for natural science approach, and as having an objectivist conception of social reality. Therefore, this specific form of research uses the quantitative data to analysis.

After preliminary investigations, formal research is done by using quantitative methods questionnaire survey of 250 FDI enterprises operating and answered 30 questions. The reason tested measurement models, model and test research hypotheses.

Data collected were tested by the reliability index (excluding variables with correlation coefficients lower < 0.30 and variable coefficient Cronbach's alpha < 0.60), factor analysis explored (remove the variable low load factor < 0.50). The hypothesis was tested through multiple regression analysis with linear Enter method.

Multiple linear regression attempts to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. Every value of the independent variable x is associated with a value of the dependent variable Y . The population regression line for p explanatory variables X_1, X_2, \dots, X_n is defined to be $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n$. This line describes how the mean response y changes with the explanatory variables. The observed values for Y vary about their means y and are assumed to have the same standard deviation σ . The fitted values b_0, b_1, \dots, b_n estimate the parameters $\beta_0, \beta_1, \dots, \beta_n$ of the population regression line.

3 RESEARCH RESULT

3.1 Descriptive Statistics for the performance of the FDI enterprises

Table 1: Descriptive Statistics for the performance of the FDI enterprises

Questions	N	Min	Max	Mean	Std. Deviation
S3: You are completely to agree the FDI enterprises mainly focus on the industrial sector and construction	238	1.00	5.00	3.1765	.87291
S4: You are completely to agree the FDI enterprises are producing the region's dynamic business and stable	238	1.00	5.00	3.3109	1.56031
S5: You are completely to agree the FDI enterprises have increasingly contributed greatly to the socio-economic development of the country	238	1.00	5.00	3.2689	1.47667
W4: You are completely to agree the FDI has the equipment, technological lines or outdated medium	238	1.00	5.00	3.0000	.88112
W2: You are completely to agree the FDI mainly imported raw materials to value added is not high	238	1.00	5.00	3.0756	.92010
W1: You are completely to agree the FDI mainly focused on machining operations and assembly	238	1.00	5.00	3.2017	.96853
O6: You are completely to agree the Infrastructure development such as transport, postal, internet	238	1.00	5.00	3.1218	.95790
O3: You are completely to agree the Low inflation and interest rates reduced	238	1.00	5.00	3.2227	.80922
O4: You are completely to agree the Exports increase and develop policies to encourage FDI	238	1.00	5.00	3.1008	.88965
O5: You are completely to agree the Viet Nam has a young population and skilled labor	238	1.00	5.00	3.0126	.91624
T1: You are completely to agree the A growing number of competitors	238	2.00	5.00	4.0336	.94071
O1: You are completely to agree the Political stability	238	1.00	5.00	3.2773	.88039
T2: You are completely to agree the risk of macro and microeconomic policies	238	1.00	5.00	3.4160	1.10583
T3: You are completely to agree the Government controls tax of FDI enterprises	238	2.00	5.00	3.6597	1.27857

T4: You are completely to agree the Policy for environment protection	238	1.00	5.00	3.4034	1.33641
S1: You are completely to agree the Enterprise FDI growth in quantity, size and quality	238	1.00	5.00	3.0462	.81259
S2: You are completely to agree the FDI enterprises have produced results good business over the years	238	1.00	5.00	3.2815	1.55373
W3: You are completely to agree the FDI is mainly focused on activities in the sectors use unskilled labor with low labor costs	238	1.00	5.00	3.2983	1.03079
O2: You are completely to agree the Gross domestic product (GDP) increased	238	1.00	5.00	3.2353	.85394
GA1: You are completely to agree the internal factors affecting on the Performance of FDI enterprises in Viet Nam	238	2.00	4.00	3.2773	.58712
GA2: You are completely to agree the external factors affecting on the Performance of FDI enterprises in Viet Nam in Viet Nam	238	2.00	5.00	3.5798	.68122
GA3: You are completely to satisfy about the investment environment of Viet Nam	238	3.00	5.00	3.9454	.65051
Valid N (listwise)	238				

(Source: The researcher's collecting data and SPSS)

3.2 Exploratory Factor Analysis

Test KMO and Bartlett shows two tests that indicate the suitability of your data for structure detection. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a statistic that indicates the proportion of variance in your variables that might be caused by underlying factors. Exploratory Factor Analysis showed that Kaiser-Meyer-Olkin Measure of Sampling Adequacy was statistically significant and high data reliability (KMO = 0.730 > 0.6). This result is very good for data analysis. KMO result showed that Cumulative percentage was

statistically significant and high data reliability is 80.471 % (> 60 percentage).

Structure Matrix for factors of the performance of the FDI enterprises

Results showed that the structure Matrix for the internal – external factors of FDI Enterprises had 4 Components. Component 1 is Opportunities, Component 2 is Threats, Component 3 is strengths, and Component 4 is weaknesses. All of items are more than 0.5.

3.3 Regression analysis for the performance of the FDI enterprises

Table 2: Regression Model Summary analysis about the Performance of Foreign Direct Investment Enterprises in Viet Nam

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.845 ^a	.714	.709	.29509	1.515

a. Predictors: (Constant), X4, X2, X3, X1

b. Dependent Variable: Y

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	50.568	4	12.642	145.180	.000 ^b
1 Residual	20.289	233	.087		
Total	70.858	237			

a. Dependent Variable: Y

b. Predictors: (Constant), X4, X2, X3, X1

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.110	.106		10.465	.000		
X1	.304	.036	.429	8.407	.000	.472	2.119
X2	.160	.022	.308	7.284	.000	.689	1.452
X3	.118	.021	.234	5.588	.000	.699	1.431
X4	.181	.032	.286	5.640	.000	.478	2.091

a. Dependent Variable: Y: the Performance of FDI

(Source: The researcher's collecting data and SPSS)

Component 1 (X1): Opportunity factors

Component 2 (X2): Threat factors

Component 3 (X3): Strength factors

Component 4 (X4): Weakness factors

Table 2 showed that *Adjusted R Square* was statistically significant and high data reliability. In addition, *R Square* reached **70.9 %**. Results showed that all *t value* > 2 was statistically significant and high data reliability. Besides, the regression coefficients were positive. This means that the effects of independent variables in the same direction with the performance of foreign direct investment enterprises in Viet Nam.

4 RECOMMENDATIONS

To continue to attract, promote and improve efficiency of FDI enterprises in the coming years, with 8 priority solutions implemented, namely:

Recommendation 1: Solutions of law and policy

- Viet Nam government continues to review of laws and policies on investment and business in order to modify the contents asynchronously, lack of consistency, add the missing content and eliminate the conditions applicable investment incentives consistent with Viet Nam's commitments to the WTO.
- Viet Nam government continues to amend the regulations are inadequate, unclear procedures related to investment and business. The ministries actively modify or supplement the content of competence (regulation on industry codes, requirements for consular legalization, the report form system, climate control mechanisms, monitoring investment); and recommendations to the Government, the Prime Minister amend and supplement the

regulations under the authority of the Government, the Prime Minister.

- Viet Nam government continues to monitor and supervise the implementation of the law on corporate investment and to promptly detect and deal with problems arising. Expediently promulgate documents guiding the new law, especially the new legislation passed by Congress in the near day related investment and business.
- Viet Nam government continues to issuance of investment incentives for the project construction works welfare (housing, hospitals, schools, cultural and sports) for employees working in the industrial park, export processing zones, hi-tech parks and economic zones.

Recommendation 2: Solutions of planning

- Viet Nam government continues to accelerate the formulation and approval of the plan is missing; periodically reviewed to supplement and adjust the plan was to create backward favorable conditions for investors in identifying and building projects.
- Viet Nam government continues to grasp and uniform implementation of the new provisions of the Law on Investment in the planning, to ensure the construction of the planned sectors and products in accordance with international commitments.

Recommendation 3: Solutions to improve infrastructure

- Viet Nam government continues to conduct a comprehensive review, adjust, approve and announce plans for infrastructure in 2020 as a

basis to attract investment in infrastructure development. The maximum use of resources is for investment in infrastructure development, especially funding the state budget. Be Priority fields of water supply, drainage, sanitation (solid waste management, water ...); highway system, primarily north-south route, two economic corridors Viet Nam-China. improve the quality of rail services, primarily rail north-south highway, rail two economic corridors Viet Nam-China, a railway connecting the major sea port, large mineral deposits with the system national railway, urban rail Hanoi, Ho Chi Minh city; production and use of electricity from renewable energy types such as wind, tidal, thermal energy from the sun; the project areas of telecommunications, information technology.

- Viet Nam government continues to extend lease of the port, object push for investment licenses seaport services, especially logistics (logistics) to enhance the competitiveness of Viet Nam's seaport system; call for greater investment in port sector of the system as Hiep Phuoc, Thi Vai port.

Recommendation 4: Solutions for human resources

- Viet Nam government continues to accelerate the implementation of the overall plan for training to enhance the proportion of trained workers to 60% in 2015. Accordingly, in addition to investment in upgrading the system of vocational training schools is on par region and the world, will develop more vocational schools and training centers from different sources.
- Viet Nam government continues to research adjusting labor-restructuring pace of economic restructuring.
- Viet Nam government continues to implement measures to put Law on amending and supplementing a number of articles of the labor code in real life to prevent the illegal strike, healthy labor relations in the spirit of the labor code, including:
 - + Viet Nam government continues to improve laws and policies on labor, wages fit in the new

situation; strengthen inspection and supervision of the observance of labor legislation for the employer to ensure that working conditions and living standards for workers.

Recommendation 5: Solutions for clearance

Local authorities should strengthen the guidance of authorities take immediate procedures withdraw land acquisition and investment certificates for foreign investment projects can not afford not to deploy or plan to use full use of the land has been allocated for transfer to new investment projects more effectively. At the same time, within their competence, the initiative to organize the cleared land and allocating land to investors according to their commitments, especially large-scale projects that investors are willing to disbursement the project. Research proposal to the Ministry of Planning and Investment plans for dealing with the problems arising in the course of the project, beyond its jurisdiction, to report to the Prime Minister.

Recommendation 6: Solutions of decentralization

Through actual implementation of the decentralization over the past 2 years has exposed some shortcomings, inconsistent, affecting the planning of socio-economic development as a whole. Research is needed to review a comprehensive decentralization policy as currently defined, measures to strengthen the coordination between central and local authorities in the licensing and management of foreign investment projects.

Recommendation 7: Solutions of investment promotion

- Viet Nam government continues to research, motor policy proposals, attract investment for multinational corporations as well as the privacy policy for each group and key partners such as the EU member countries, United States, Japan.
- Viet Nam government continues to quickly complete the construction details of the project (project profiles) for national portfolio foreign investment call 2015-2020 to serve as a basis for calling for investors foreign investment in this project.
- The ministries, branches and provincial-level People's Committee continues to review and update the list of calls for additional investment

consistent with the needs investment and local development planning, sectors and products.

- Look at the construction of legal documents on investment promotion mission to create a legal basis for the unified state management, mechanisms for coordination and implementation of investment promotion activities.
- Viet Nam government continues to organization survey, the study of patterns of investment promotion agencies in the locality to be the basis of the guidelines of the local organizing Investment promotion agencies more efficient.
- Viet Nam government continues to implementation of the program on the national investment promotion in 2015-2020. To rapidly establish investment promotion department in some key areas.

Recommendation 8: To continue to improve institutional system and national administration quality for sustainable development of FDI enterprises.

- Viet Nam government continues to continue to perfect legal system, mechanisms and policies to ensure legal framework for the realization of the Viet Nam Strategy for Sustainable Development of FDI enterprises in the 2011-2020 period (Strategy in short). Focus on improving policies on environmental protection, firstly the Law on Environmental Protection issued in 2005.

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