CSCanada
International Business and Management
Vol. 3, No. 2, 2011, pp. 128-132
DOI:10.3968/j.ibm.1923842820110302.035

ISSN 1923-841X[Print]
ISSN 1923-8428[Online]
www.cscanada.net
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Empirical Analysis on Factors of Enterprise Competitiveness: A Case Study for Small and Medium-Sized Enterprises in Northern Rural Areas of Vietnam

Tran Huu Cuong[1]; Nguyen Hung Anh[2,*]; Chu Thi Kim Loan[3]

[1]Department of Marketing, Faculty of Accounting and Business Management, Hanoi University of Agriculture, Vietnam
[2]Department of Marketing, Faculty of Accounting and Business Management, Hanoi University of Agriculture, Vietnam
[3]Department of Marketing, Faculty of Accounting and Business Management, Hanoi University of Agriculture, Vietnam
[*]Corresponding Author.
Address: Department of Marketing, Faculty of Accounting and Business Management, Hanoi University of Agriculture, Room 429, Administration Building, Trau Quy, Gia Lam, Ha Noi.
Email: nghunganh@gmail.com

Supported by a grant from the TRIG program of Hanoi University of Agriculture awarded to Tran Huu Cuong.

Received 20 September 2011; Accepted 30 October 2011

Abstract

This paper attempted to analyze the competitiveness of small and medium-sized enterprises in northern rural areas of Vietnam under the globalization. By using "Resource Cost Ratio" (RCR coefficient), analysis was conducted at enterprise level to identify evidence of competitive advantages. In order to question which has the most influence on the enterprise's competitiveness, the relationship between RCR and each contributed factor were quantified.

The results of the study revealed no case of competitive enterprises in 2008. Enterprises from Hanoi were less competitive than those from other provinces. Service enterprises were more competitive than the others according to the business sector. In terms of legal form, the more competitive enterprises were the private, state-owned, and limited liability and the less were foreign-invested and joint-stock enterprises. The positive influence of sales of products, revenue losses, and cost of land rent and the negative influence of raw material and energy cost mostly caused the change of the RCR coefficient. The recommendations to enhance competitiveness were the government should abrogate unnecessary formalities in land hiring procedure and the enterprises should adopt advanced marketing practices and upgrade production facilities.

Key words: Competitiveness; Resource cost ratio (RCR); Small and medium-sized enterprises (SMEs)

Tran Huu Cuong, Nguyen Hung Anh, Chu Thi Kim Loan (2011). Empirical Analysis on Factors of Enterprise Competitiveness: A Case Study for Small and Medium-Sized Enterprises in Northern Rural Areas of Vietnam. *International Business and Management, 3*(2), 128-132. Available from: URL: http://www.cscanada.net/index.php/ibm/article/view/j.ibm.1923842820110302.035
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INTRODUCTION

Recently, Vietnam's northern rural areas have made many positive changes. Improved standard of living and quality of rural public services contributed significantly to the development of the country. These successes have been significantly attributed to the small and medium-sized enterprises (SMEs). In such big cities as Hanoi, Bacninh, Binhduong and Haiphong, the business activities of small and medium enterprises in rural areas has brought more than 20% of the total incomes (T. Thuy, 2008). Apart from being a relatively dynamic sector, SMEs have also played an important role in creating jobs, maintaining high mobility of the labor market, and narrowing development gaps among localities in the region.

However, Vietnam's northern rural area SMEs still anticipated tremendous difficulties in both domestic and global markets because they lack a competitive edge over their rivals, especially after WTO accession. Many SMEs experienced high production costs, non-standard quality of products, and low degree of innovativeness. Moreover, capital shortage, out-of-date advance technology, poor management skill, and insufficient market information, hindered these young SMEs to compete effectively. Strengthening SMEs networking with other stakeholders

and developing supporting industries have long been considered as a key to enhance SMEs competitiveness (Vneconomy, 2009).

Given the weaknesses of, and constraints for, there is an urgent need to shed light on factors that influence SMEs competitiveness (growth and dynamism) such as marketing innovativeness, production efficiency, markets extension, and effectiveness of supportive policies, etc.

1. METHODOLOGY

Various researches have analyzed the competitiveness by determining factors and forces from the micro and macro environment that affect the ability of enterprises in serving its customers. Few have used PAM policy matrix and its indicator such as DRC, NPC, EPC, PCR, and DRC… etc. According to N.V.Thanh (2009), the competitiveness of enterprises was evaluated by eight components: capital, market research, targeting segment, marketing strategy, management, R&D, technology, and labor workforce. N.T.Nghia (2007) strongly stated the obstacles of inappropriate management structure as related to ineffective management and cumbrous information system was a radical explanation to the weak competitiveness of SMEs. By pointing out the comparative product advantages and enterprise's market share, V.V.Phuc (2007) has suggested the solution to enhance competitiveness was specifically standardizing each product brand and expanding to the global market.

In this research, the RCR coefficient "Resource Cost Ratio" was employed in order to identify competitiveness evidence as well as concisely specify factors that are most important on the competitiveness of SMEs. The purpose of data collection in the year of 2008 and 2009 was to explain how much the competitiveness had changed after the effects of the domestic economic recession in 2008.

The RCR coefficient is simply measured by the costs of non-tradable domestic inputs (physical capital, land, and labor in the main) divided by total tradable product revenues minus tradable input costs. If the RCR coefficient ranges between 0 and 1, there is evidence of a competitive enterprise. This is because the value of domestic inputs used in production is less than the value of exchange they earned (Bielik, 2004). In addition, the costs of non-tradable domestic inputs are known as the opportunities cost of owned capital, land, labor, and being subsidized by the government. The costs of tradable inputs are those that occur in the production and marketing activities of enterprises.

Most research results were based on the SMEs investigation in northern rural Vietnam in 2009. Total sample was 168 SMEs classified by three different criterions. Geographically, there were 85 SMEs in Hanoi and 83 SMEs of other regions surrounding Hanoi. In term of legal form, there were 16 state-owned, 9 foreign-invested, 35 private, 84 joint stock, and 24 other SMEs (as the number of the limited liability and cooperatives were small). According to business sector, there were 15 agricultural, 89 industrial, 50 service and 14 industrial and service SMEs (Table 1).

Table 1
Analyzed Group of Enterprises

Group of enterprises	Hanoi	Other provinces	Total
Sector			
Agriculture	6	9	15
Industry	40	49	89
Services	32	18	50
Industry & Services	7	7	14
Legal form			
State-owned	7	9	16
Foreign-invested	4	5	9
Private	17	18	35
Joint-stock	47	37	84
Others	10	14	24
Total	85	83	168

Source: Surveying data 2009

In accordance with the Decree 90/2001/ND-CP, the Agency for SME Development introduced new size segmentation in its small and medium-sized development plan for 2006 - 2010 periods. According to the new segmentation, SMEs were categorized into micro enterprises (less than 10 persons), small enterprises (10 to 49 persons), and medium-sized enterprises (50 to 299 persons).

2. RESULTS

In 2008, Vietnam's economy faced its largest recession in five years. According to the Small and Medium-Sized Enterprises Association, about 20% of the total number of SMEs was bankrupted. The other 60% plunged into problems such as a high cost of production, losing target segment, and capital shortage to maintain production and marketing activities. Fortunately, it coincidently occurred that only 20% of the total has lasted the effects because their business performances were not entirely dependent on floating capital.

2.1 The Value of RCR

By the averaged RCR indicator (Table 2), there was no case of competitive enterprise neither in Hanoi nor in other provinces, in different business sectors nor legal forms. The highest value of RCR coefficient in 2008 (1.97 with subsidies and 1.4 without subsidies) was found for the joint-stock. The fact implied large compensation on SME's total tradable cost by the subvention, which changed much on the value of RCR. The smallest influence of subventions was the foreign-invested who rarely have the attention from the government (RCR was 1.26 and 1.03, respectively).

Moving on to the year of 2009, the competitiveness results changed surprisingly. All of the RCR cases showed

competitive enterprises (average RCR with subsidies was 0.85). Similarly was the strong influences of subvention on the SME's competitiveness, that changed most of uncompetitive cases into competitive. The optimal RCR values were seen in the highly competitive state-owned SMEs and services SMEs. Enterprises in other provinces were more competitive than those were in Hanoi (Table 2).

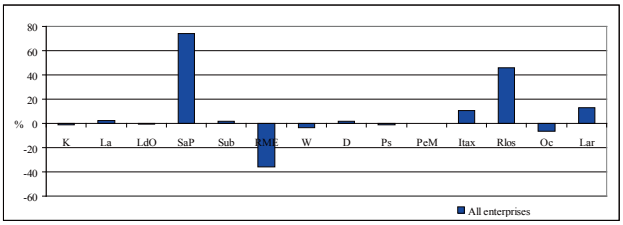
Table 2
The Value of RCR Coefficient

RCR coefficient	2008		2009	
	w/o subsidies	w subsidies	w/o subsidies	w subsidies
All enterprises	1.75	1.28	1.03	0.85
Area				
Hanoi	1.84	1.32	1.06	0.87
Other provinces	1.65	1.23	1.00	0.83
Business sector				
Agriculture	1.80	1.33	1.04	0.87
Industry	1.85	1.32	1.08	0.88
Services	1.58	1.21	0.94	0.79
Industry & Services	1.61	1.21	1.07	0.88
Legal form				
State-owned	1.52	1.11	0.87	0.73
Foreign-invested	1.26	1.03	0.97	0.83
Private	1.62	1.21	0.94	0.79
Joint-stock	1.97	1.40	1.14	0.93
Others	1.47	1.14	0.92	0.78

Source: Surveying data 2009

2.2 The Influence of Contributed Factors on the Change of RCR

All of enterprises. As displayed in Figure 1, the highest influence on the change of RCR between the year 2008 and 2009 was caused by the change of sale of products. The increase of this indicator (1.506%) directly accounted for a 74.14% increase of the RCR value. Another factor that also had much influence on the change of the RCR coefficient was revenue losses. The 26.55% decrease of the losses contributed to the increase of the RCR coefficient by 45.69%. The 35.757% decrease on the change of the RCR was due to the increase of the cost of production, particularly the cost of raw material and energy (as it has increased 0.19%). The small influence of subvention caused the increase of RCR by 1.9%. Taxes and cost of land rent made remarkable portion on the change of the RCR coefficient, which was 10.5% and 12.83% increasingly.



Source: Surveying data 2009
Abbreviation: K-capital owned, La-labor owned, LdO-land owned, SaP-sales of products, Sub- subsidies, RME-raw material and energy, W-wages, D-depreciation, Ps-cost of product sold, PeM-personel management cost, Itax-taxes, Rlos-revenue losses, Oc-other cost, Lar-cost of land rend

Figure 1
Influence of Changes of Selected Factors on the Change of the RCR Coefficient (2009/2008)

Hanoi and other provinces. In the this case, the increase 55.14% on the change of Hanoi SME RCR was caused by 1.37% increase in sales of products. The smaller increase 38.28% and 14.53% on the change of RCR caused by 25.95% decrease of revenue losses and 2.85% decrease of cost of land rent. The cost of raw materials and energy has caused decrease of 12.8% of the RCR coefficient. Continuously, these same factors have also made substantial influence on the RCR coefficient in the case SMEs in other provinces, but with a greater magnitude. Particularly 1.66% increase in the sale of products contributed to a positive 96.2% of the change, and 27.3% decrease in revenue losses increased the RCR coefficient by 54.3%. More clearly was 0.96% increase in the cost of raw materials and energy that decreased the RCR coefficient by even 62.4% (Figure 2).

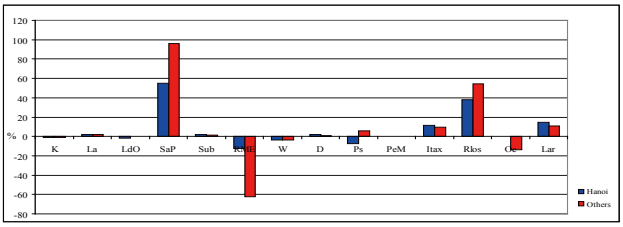


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Figure 2
Influence of Changes of Selected Factors on the Change of the RCR Coefficient (Hanoi and Others)

Business sectors. Previously was the significant influence of the subvention on the change of SMEs competitiveness. However, as demonstrated on Figure 3, the greatest influence on the change of RCR coefficient was caused by the change in the sale of products, particularly the 1.11% increase in the sale of products of both industry and services enterprises increased

the RCR coefficient by 104.1%. Similarly, the 0.9% increase in the cost of raw material and energy of these enterprises decreased the RCR by 89.14%. The positive influence coming from the cost of products sold of the industry SMEs made the increase of RCR coefficient by 10.3%. This type of cost was decreasing in 2009 for most enterprises. Against the previous finding, subsidies only contributed insignificant influence to increase the RCR coefficient by 0.57%, 2.63%, 1.08%, and 1.5% respectively in agriculture, industry, service, and both industry and service enterprise cases.

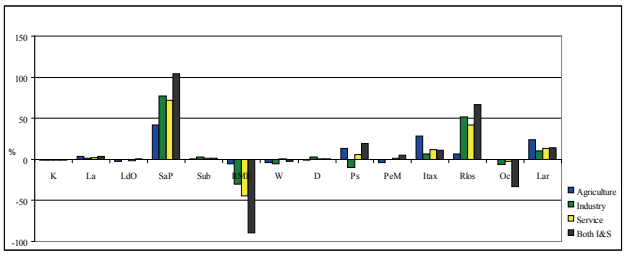

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Figure 3
Influence of Changes of Selected Factors on the Change of the RCR Coefficient (Business sectors)

Legal forms. Figure 4 once again emphasizes the greatest influence on the RCR coefficient was by the sale of product especially in the case of state-owned, foreign-invested, private, joint-stock, and other enterprises. That respectively increased 75.2%, 103.9%, 101%, 56.6%, and 102% on the change of the RCR coefficient. In these SMEs, sales of product in turn increased 1.81%, 1.2%, 1.8%, 1.39%, and 1.41% in 2009 compared to 2008. At the opposite site, causing 88.2% decrease in the RCR coefficient was by 1.3% increase of raw material and energy cost of the foreign-invested. Although the cost of production decreased by 2.5%, the influence of this factor on the change of the RCR still accounted for 66.3% decrease due to private SMEs. The cost of products sold mostly decreased in 2009 compared to 2008, which mostly increased the RCR but not in the case of joint-stock enterprises (decreased RCR by approximate 10%).

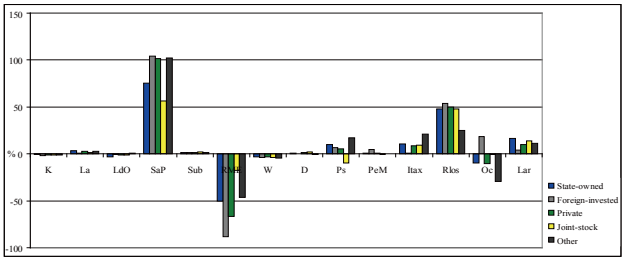

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Figure 4
Influence of Changes of Selected Factors on the Change of the RCR Coefficient (Legal forms)

CONCLUSION

This research selected 168 small and medium-sized enterprises in the northern rural areas of Vietnam and analyzed its competitiveness according to the business environment they partake in and the legal forms that decide different support from the government. The results came out during the suffering of the economic crisis in 2008 when there was no evidence of competitive small and medium enterprises. The findings uncovered the effects of the economic recession by acquiring competitive advantage in production and marketing one year after. The research not only computed the RCR coefficient, but also in determining the factor that influenced the changes of the coefficient as well as the magnitude of its impact. The most influencing factors on the RCR coefficient are the sale of products, cost of production, and revenue losses. The increase in production cost, revenue losses, and cost of land rent mostly cautioned the non-productive and inefficiency that draw SMEs away from competitive advantage. Increased sale of product put a significant help to sustain the value of RCR, which evidenced competitiveness. Suggestions and recommendations is the enhancement of the effectiveness and efficiency of marketing practices adopted. Technology development and transfer are also strongly suggested in order to decrease production cost and ascertain availability of the inputs. Government support and banding out unnecessary land policy are explicitly recommended.

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