

Local Business Environment – Theory, Practice: Case Study in Thanh Hoa Province



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ABSTRACT: The prevailing business environment in a region or locality has a significant impact on the performance of businesses in that region or locality. A healthy business environment can not only enhance the growth and success of businesses, but also enhance their ability to sustain and develop sustainably in the locality. The literature review shows that a small number of empirical studies have examined the local business environment. This study attempts to highlight the factors that make up the business environment in provincial localities, as well as clarify the level of satisfaction that entrepreneurs themselves receive from them. For the purpose of the survey, information was provided by 156 entrepreneurs from Thanh Hoa province, who assessed the level of improvement in the local business environment using a 5-point Likert scale, a type of personal interview scale. Principal component analysis of 6 factors showed that factors related to the economic environment, local legal and institutional environment were assessed to have a higher level of influence on improving the local business environment than the group of factors related to the local science, technology and socio-cultural environment.

KEYWORDS: Local business environment, enterprise, influencing factors.

I. INTRODUCTION

At the beginning of this century, the growing importance of the local business environment for local economic development, as well as development at all other levels, was recognized. The local business environment can be explored from different perspectives and has emerged as an important topic in the creation of the concept of entrepreneurship or entrepreneurial ecosystem. Lawal et al. [17] argue that there are many studies focusing on the institutional perspective of the local business environment [20], the influence of the local business environment on firm performance [7], [25], the uncertainty of the business environment, entrepreneurs' perceptions of the business environment [26], and the factors that predict the success and survival of entrepreneurs [6]. However, there is insufficient evidence - despite the establishment of a satisfactory local business environment - regarding the elements that constitute the "business environment", which are still broad, elusive and difficult to define. Some economic measures that quantify the "business environment" in a geographical area exist, but these measures do not capture the satisfaction factors of entrepreneurs.

This study attempts to examine the business environment in a geographical area (provincial level) and analyze the influence of the constituent elements on the improvement of quality through the evaluation of entrepreneurs. The purpose of this study is to determine the importance and quality of selected elements of the local business environment for the business community from the perspective of the local business community (Thanh Hoa province) in the current context.

The results of the study can be used as a starting point for designing measures and programs aimed at enhancing local entrepreneurship, both for local governments and public agencies, as they can identify variables that are underdeveloped and thus inhibit the development or maintenance of entrepreneurial activities in the area.

The study, apart from the introduction, is structured as follows: The second section presents a literature review, while the third section describes the research methodology. The empirical results are presented in the fourth section, followed by the fifth section, discussion and managerial implications. The study concludes with a brief mention of the weaknesses of the study, and suggestions for further research.

II. LITERATURE REVIEW

Economic growth is more likely when there is an improved business environment and a better quality of life for the community [8]. Areas with a healthy business environment are able to promote business opportunities for their residents and this affects their satisfaction in these areas.

Stakeholders involved in local economic development as well as local leaders in provinces have recognized the importance of an attractive and competitive business environment in transforming the local economy [18]. Therefore, a strong business environment will promote the creation of new businesses as well as the retention of existing businesses [9], leading to the growth of the local economy [11], [18]. The business environment is defined as the sum of factors that influence the development of entrepreneurship. It initially refers to the general economic, social and political factors that influence the desire and ability of individuals to undertake entrepreneurial activities. Later, it refers to the availability of assistance and support services that facilitate the process of entrepreneurship. Tseng [24] also provided another definition that specifically refers to the development of small businesses and argued that the business environment represents the existence of facilities and services in a given geographical area that encourage the creation of new businesses and the growth and development of small businesses. In other words, the business environment refers to the local context where entrepreneurial behavior is encouraged [22], for example, when an area is improved with good infrastructure that facilitates the development of entrepreneurial activities [9], it creates opportunities to promote productivity and competitiveness for local businesses [16].

Sometimes, many factors are found to influence the provincial business environment, such as the responsiveness of local governments to the needs of small businesses, their proximity to urban centers, the support they receive from the local community, and the existence of infrastructure, internet access, business networks, and financial resources [9].

In addition, the business environment in a particular region promotes business formation and the creation of new businesses. In order to achieve the goal of stable economic development, governments, at the national or regional level, need to support the creation of sustainable entrepreneurial ecosystems, which should be a key goal of public policies. Sustainability is an important organic part of the value added by entrepreneurial ecosystems [14].

Very few studies have attempted to assess the business environment of a region because there is no set of characteristics that have been identified to define it [15]. Many researchers often assume that rural entrepreneurs are in a worse position than urban entrepreneurs in terms of funding, access to suppliers, labor force, transportation networks, technology, and support networks [18]. However, the truth is that very few studies have attempted to measure this position [9] and prove their point.

Furthermore, in the document, the term “business environment” is also used interchangeably and is often considered to refer to “business infrastructure”, and recently “business ecosystem”.

In Research appendix, factors belonging to the local business environment are studied from different perspectives to assess the impact on business activities and investment attraction, focusing on the subjective factors of local government management. The factors that are considered the most are factors belonging to the economic environment; legal and institutional environment. Accordingly, the factors studied are related to the characteristics of the business environment with the management of local government such as: economic factors; political and legal factors; factors belonging to the cultural - social environment; natural environment, economic infrastructure factors; science - technology factors; international factors, integration.

III. RESEARCH METHODS

(1) Information collection: The author collected and recorded the collected information to provide basic theories about the business environment for business development of a locality in general, and of Thanh Hoa province in particular.

Quantitative methods and techniques were used to meet the research objectives: Primary data were randomly collected according to the questionnaire form (formula: number of samples to be collected > number of scales; the research sample was designed with 22 scales) through direct distribution of questionnaires and sending them online with 156 valid questionnaires being processed using SPSS software.22.

The survey consists of two parts and includes both open-ended and closed-ended questions related to the personal and business profiles of entrepreneurs, satisfaction with the local business environment and business characteristics. The measurement instrument consisted of a questionnaire consisting of closed-ended questions using a five-point Likert scale (very important - 5, not at all important - 1) regarding satisfaction with business environment factors.

(2) Analysis of collected data: Statistical analysis was performed using SPSS.22 software. Based on the criteria set of local business environment factors affecting business development, the study used the Binary logistic evaluation model for analysis. The binary dependent variable is the perception/evaluation of the improvement of the province's business environment from the business side with two values 0 and 1 (0 means no improvement, 1 means improvement). The independent variables reflecting the components of the local business environment are identified as the factors that have been synthesized above. However,

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because the components of the local business environment contain many factors, the authors assessed the reliability of the scale to eliminate inappropriate factors and performed factor analysis to extract synthetic factors that still reflect the basic nature of these factors before entering the analysis model. Binary logistic function model:

$$E(Y/X) = \frac{e^{(B_0 + B_i X_i)}}{1 + e^{(B_0 + B_i X_i)}} \text{ or the conversion equation is quantified as: } \frac{P(Y=1)}{P(Y=0)} = e^{B_0 + B_i X_i}$$

In there: $E(Y/X)$ is the probability that $Y = 1$ (i.e. the probability that there is an improvement in the local business environment) when the independent variable X_i has specific values. X_i are independent variables reflecting the component environments of the local business environment that have been factor analyzed and extracted to test the suitability of the data.

Through the analytical model, it is possible to see which factors have an impact and influence on improving the local business environment according to the assessment of enterprises. The sign of the B_i coefficient reflects the predicted probability ratio, and if the coefficient is positive, it reflects the probability that the business environment has improved, and vice versa, if the coefficient is negative, it reflects the probability ratio of improving the business environment and the probability of not improving the business environment decreases due to the impact of the factor, from which corresponding conclusions can be drawn.

IV. RESEARCH RESULTS

From primary data, descriptive statistics of the factors of the business environment have shown that the main indicators in the component environmental factors have significant impacts at different levels on production and business activities and enterprise development according to the assessment of the surveyed enterprises. However, the author analyzes the model of assessing the business environment of Thanh Hoa province affecting the development of enterprises in the province to have a more comprehensive view.

A. Testing the Cronbach's Alpha scale

With the variable sets of economic factors; legal and institutional factors; cultural - social factors; technological factors; natural factors, technical infrastructure; international factors and integration. After analyzing and synthesizing in Research appendix, we see: The total correlation coefficient of all measurement variables is suitable with a value greater than 0.3, the Cronbach's Alpha coefficient is greater than 0.6, which is a good measurement scale, meeting the requirements of reliability and validity that can be included in factor analysis.

I. RESULTS OF TESTING THE SCALE OF VARIABLE SETS

No.	Factors	No. of variables	Cronbach's Alpha
1	Economic factors	3	0.806
2	Legal and institutional factors	7	0.869
3	Local socio-cultural factors	3	0.829
4	Technology factor	3	0.880
5	Natural factors, technical infrastructure	3	0.895
6	International factors and integration	3	0.842

(Source: Author's analysis of survey data)

B. Factor analysis (EFA)

The results show that the KMO index of all factor groups is quite high and all > 0.5 , the Bartlett's Test results confirm that the observed variables are correlated with each other and have statistical significance at the level of 0.05 (Sig. = 0.000 $<$ 0.05), so factor analysis is appropriate. In addition, based on the criteria Eigenvalues > 1 and Total variance extracted $> 50\%$ are both guaranteed.

II. RESULTS OF EFA FACTOR ANALYSIS

No	Factors	KMO	Sig.	Eigenvalues	Cumulative
1	Economic factors	0.709	0.00	2.163	72.096 %
2	Legal and institutional factors	0.880	0.00	3.934	56.205 %
3	Local socio-cultural factors	0.718	0.00	2.235	74.504 %

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4	Technology factor	0.736	0.00	2.419	80.617 %
5	Natural factors, technical infrastructure	0.743	0.00	2.478	82.599 %
6	International factors and integration	0.729	0.00	2.286	76.212 %

(Source: Author's analysis of survey data)

C. Regression analysis

Before conducting the regression analysis of 6 extracted factors of 6 groups of factors belonging to MTKD, to check the suitability of the factors included in the model, the author continued to analyze the factors with 6 extracted factors, all 6 factors were significant to be included in the regression model. The results are shown in Table 3.

The regression results show that the groups of factors that have an impact (statistically significant) on improving the MTKD of the province are Economic factors ($B= 1.931, P<0.05$); Legal and institutional factors ($B= 1.634, P<0.05$), Local cultural and social factors ($B= 1.147, P<0.05$); Natural factors, technical infrastructure ($B= 1.386, P<0.05$); International and integration factors ($B= 1.390, P<0.05$), and Technology factors ($B= -0.866, P<0.05$), in which the factors of Economic Environment have the greatest influence on local MTKD, with a prediction accuracy of 89.7%.

III. REGRESSION RESULTS

Factors	B	S.E.	Wald	df	Sig.	Exp(B)
MTKT	1.931	0.717	7.252	1	0.007	6.895
MTPL	1.634	0.652	6.275	1	0.012	5.123
MTVH	1.147	0.527	4.738	1	0.030	3.150
MTTN	1.386	0.518	7.163	1	0.007	4.000
MTHN	1.390	0.604	5.298	1	0.021	4.015
MTKHCHN	-.866	0.424	4.166	1	0.041	0.421
Constant	-22.803	4.344	27.560	1	0.000	0.000

(Source: Author's analysis of survey data)

According to the model of analyzing business environment factors affecting the development of enterprises in the province from primary data, all groups of factors are statistically significant. However, from the synthesis of the above analysis, it can be seen that other factors in the business environment all affect at different levels the improvement of the province's business environment because the limitations of those factors hinder business activities and the development of enterprises.

The factor with the strongest impact on improving the business environment is MTKT, if MTKT increases by 1 unit, while other factors remain unchanged, the level of improvement of the business environment will increase by 6.895 times, or the probability of improving the business environment will increase by 6.895 times.

The factors with the level of impact on improving the business environment are MTPL, MTVH, MTTN, MTHN respectively; the factor with the least impact on improving the business environment is MTKHCHN.

However, the study still cannot conclude that other potential factors do not affect the level of improvement of Thanh Hoa province's business environment in facilitating the development of enterprises in the province. Potential factors will be investigated in subsequent studies.

V. CONCLUSION AND MANAGEMENT IMPLICATIONS

The purpose of the research is to propose arguments as a basis for proposing solutions and recommendations to improve the local business environment to develop Thanh Hoa province's enterprises in the coming time. Affirm the existence of the local business environment, local/provincial competitiveness and the impact of the business environment on business development. Based on the application of analysis and assessment of the current status of factors belonging to the local business environment that have an impact on the development of enterprises in the province.

In addition, the Covid-19 having a comprehensive impact on the Vietnamese economy. Thanh Hoa is a locality that is also heavily affected in many areas of social life and the ability to achieve the goals and socio-economic development of the province. Therefore, in order to contribute to the local economy to overcome difficulties soon, together with the whole country not to miss the beat with the global economic recovery process, local authorities need to identify the key tasks of institutional reform, administrative reform, and improving the business environment.

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From the results of analyzing the impact of factors on improving the business environment in Thanh Hoa province. The solutions implemented by local authorities need to focus on the economic environment, which are contents related to the financial market, policies to support business production activities of enterprises, continue to focus on supporting enterprises to recover production and business, overcome the negative impacts of the Covid-19 pandemic. In addition, local authorities need to consider simplifying administrative procedures according to decentralized capacity, removing barriers to investment and business activities due to overlaps, contradictions, and unreasonable regulations of law; promoting digital transformation in sync with administrative reform; Promote international cooperation activities associated with local reform implementation; research and deploy breakthrough solutions, encourage innovation.

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Research appendix 1

No.	Aspect	Summary	Sources
I Economic environment (MTKT)			
1	Access to business capital	Reflecting the local financial market, support policies impact the production and business activities of enterprises in terms of capital access.	VCCI, Tran Thu Thuy (2018), Galan et al. (2006), Oum and Park (2004); Galan et al. (2007), Sun et al. (2002)
2	Business loan costs	Reflecting the local financial market, support policies affect the production and business activities of enterprises in terms of business borrowing costs.	
3	Business information	Information on input and output markets of products; Information for businesses to expand and connect to new markets; ...	
II Legal and institutional environment (MTPL)			
1	Corruption	The impact of corruption on business	VCCI; Tran Thu Thuy (2018) Nguyen Manh Cuong (2019); Lu et al. (2006), Galan et al. (2007), Dollar et al. (2005),
2	Local administrative procedure reform	Reflecting issues on regulatory reform, administrative procedures related to business activities, transparency and access to information...	
3	Distinction between provincial government and enterprises in accessing provincial resources	Reflects the creation of a fair competitive environment by local governments that affects business operations.	
4	Corruption by local tax officials	Consider specifically in the tax sector the impact of tax officials' harassment on business activities.	
5	Macroeconomic management of provincial government	Reflects the role and management capacity of local authorities in improving local business environment.	
6	Time to complete formal procedures to enter the market	Reflects the level of legal convenience for starting a business and registering a business license.	
7	Time to check and inspect the enterprise	Reflects the time intervention of state management affecting business activities.	
III Cultural and social environment (MTVH)			
1	Policy on developing local labor quality	Evaluate the factors of labor quality development policy affecting business operations.	VCCI, Tran Thu Thuy (2018), Galan et al. (2007)
2	Provincial labor attraction policy	Evaluate labor attraction policy factors affecting business activities.	
3	Mechanism to promote and enhance the role of local business associations	Evaluate the mechanism to promote and enhance the role of local business associations that influence business activities.	
IV Science and Technology Environment (MTKHCN)			
1	Local science and technology services	Evaluation of local science and technology services.	VCCI, Tran Thu Thuy (2018), Michael Porter (2008); Nguyen Manh Cuong (2019); Lu et al. (2006); Jose.I. Galan et al. (2007); Sun et al. (2002); Dollar et al. (2005)
2	Science and technology development policy	Evaluation of local science and technology development policies.	
3	System of local technology research and development agencies and cooperation with enterprises	Assess the impact of the system of local technology research and development agencies on business operations of enterprises.	
V Natural environment, infrastructure factors (MTTN)			
1	Electricity	Assessment of the impact of electricity supply on business operations of enterprises.	VCCI, Tran Thu Thuy (2018), Michael Porter (2008); Nguyen Dinh Tho (2005), Michael Porter
2	Clean water	Assessment of the ability to provide clean water affects the business activities of enterprises.	

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3	Local waste management and environmental sanitation	Evaluate the impact of waste management and environmental sanitation on the production and business activities of enterprises.	(2008); Le Tan Loc and Nguyen Thi Tuyet (2013)
VI	Integration Environment (MTHN)		
1	Provincial Trade Support	Reflects the province's openness to trade support	VCCI, Tran Thu Thuy (2018), Galan et al. (2006), Lu et al. (2006), Oum and Park (2004); Sun et al. (2002).
2	Foreign investment incentive policy	Reflects the province's level of openness in encouraging foreign investment.	
3	Provincial integration capacity	Assessing the provincial integration capacity in establishing local market economic institutions in the integration process.	



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