

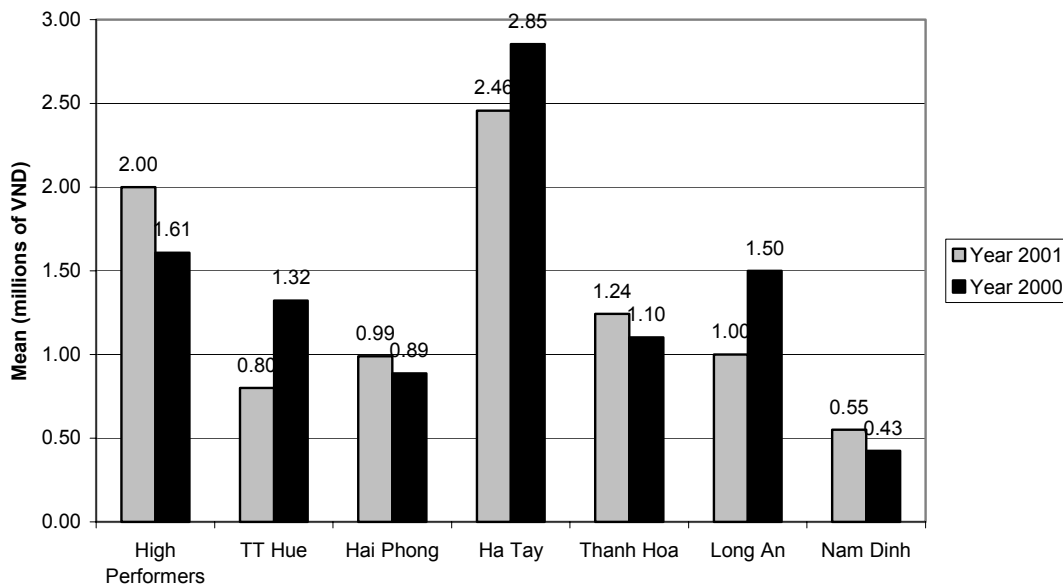
## Chapter 3: Firm performance

In this section, the report compares the business performance of periphery firms to the five high performing provinces, by gauging their reported profitability, sales growth, employment, capital utilization and investment performance. A word of caution is in order on the reliability of the statistics, as these are the 'self-reported' numbers of the few respondents to the mail-out survey, and because of this bias, performance indicators are likely to be higher than in reality. Of course, this upward bias must be balanced against a tendency for firms to keep some of their performance indicators low, so as to avoid attention from the tax collector. As we will see in Chapter 5, negotiations with tax collectors are more frequent in periphery than high performing provinces, so we might expect that periphery provinces may be more likely to under-report their degree of success.<sup>14</sup>

### 3.1. Profit

2001 was a banner year for firms in high performing provinces. They recorded median profits per unit of labor of almost two million VND, almost 25% greater than every periphery province except for Ha Tay, which led the pack. In the year 2000, however, there appeared to be much more parity between periphery and high performers. Ha Tay firms actually were quite a bit more profitable than their more advanced counterparts, perhaps benefiting from diminishing marginal returns in Ha Noi. Similarly, firms in Long An were also not far behind the leaders, despite the large average employment of its firms. Other periphery provinces, especially Nam Dinh and Hai Phong lagged behind the rest (see figure 6).

Figure 6: Median profit per employee



<sup>14</sup> In addition, the survey revealed little about the specific products and services offered by firms in each province. Performance scores for a province may reflect major changes in the international and domestic markets for key products offered by its firms, as some industries tend to be geographically concentrated. For example, if the aquaculture industry faces a bad year, Hai Phong and Da Nang may record worse net results than other provinces. Similar speculations could be made about the food processing sector in Long An, marble producers in Thanh Hoa, the tourist industry in Hue, or textile producers in Nam Dinh.

Another interesting measure of profit is "per investment dollar", to get a sense of the return on capital. This report combines both fixed and variable investment to measure capital. Table 11 displays the indicator known as Incremental Capital Output Ratio (ICOR). This measure allows us to see how much profit was returned for every dollar invested in the private sector of the province. We then can compare the firms that offered the highest payoff, given the risks taken by private sector entrepreneurs. Despite low profit per capita, firms in Thanh Hoa ranked first among secondary provinces, placing them alongside Ha Noi and Binh Duong. Dong Nai, however, was by far the most profitable location for private sector investments in 2001 (although some caution is necessary, as so few firms responded to the profit-related questions in Dong Nai). Firms in Hai Phong and Nam Dinh brought up the rear with a very low return on private investments.

Province	Median	Number	Province	Median	Number
Ha Noi	12.1%	17	Dong Nai	26.4%	4
TT Hue	11.3%	10	Long An	10.1%	5
HCM City	10.7%	8	Nam Dinh	5.9%	11
Hai Phong	2.0%	6	Da Nang	10%	9
Ha Tay	10.8%	6	Binh Duong	11.5%	10

### 3.2. Capacity utilization

This survey suggests that there has been steady improvement in capacity utilization across the country. The provincial high performers recorded 9.2% growth between 1998 and 2001, but still have a great deal of room for business expansion. Hai Phong, Nam Dinh, and Thanh Hoa showed the most growth, by a considerable amount, but this growth meant that Hai Phong and Thanh Hoa firms were pushing up against their capacity ceilings. By contrast, Ha Tay firms (already near 80% capacity) expanded very little over the late 1990s. It should be noted that the importance of capacity ceilings varies across sector. High capacity utilization for the service sector, such as hotels and restaurants, is considered to be very positive. Capacity ceilings are most dangerous for firms in light manufacturing, which means they will be unable to meet marked surges in demand.

Province	At establishment	1998	1999	2000	2001	Percentage growth since 1998
TT Hue	49.9	52.9	56.3	62.3	58.1	9.8
Hai Phong	NA	58.2	55.6	66.7	68.9	18.4
Ha Tay	77.7	79.6	81.8	80.3	80.1	0.7
Thanh Hoa	60.0	67.5	72.5	76.3	80.2	18.7
Long An	57.8	75.2	70.2	77.3	78.8	4.8
Nam Dinh	62.5	57.3	51.9	63.6	67.1	17.1
High Performers (average)	58.7	67.9	68.3	68.2	74.1	9.2

### 3.3. Financial positioning

Once again, there is a great deal of variance among firms with regard to their financial health. Thanh Hoa firms are highly leveraged, with liabilities equivalent to almost 54% of total assets. On the other hand, Ha Tay firms have almost no liabilities, which could lead one to be concerned about the opportunities to acquire bank loans in this province – an issue we will return to later. Long An and Nam Dinh firms also hold very little in the way of liabilities.

Though the median of liabilities to total assets of firms in the high performing provinces is about 25%, there is little pattern across even the high performing provinces in this sample. Binh Duong is highly leveraged, with net assets equivalent to 58% of total assets, while Ha Noi and Dong Nai firms are around 80%. A healthy position depends on the investment climate and future prospects for firms within a province. It is also strongly related to the prospects for growth within the specific sector in which a firm competes. As firms in Binh Duong and Thanh Hoa offered high returns on investment in 2001, high liabilities in 2002 may not be as dangerous as they appear at first glance.

By contrast, Ha Tay and Long An offered high returns for investors in 2001, with firms holding very low liabilities. Interpreting this phenomenon is contingent on the banking sector in these provinces. If loans are easy to come by, and interest rates are low, firms within this province are in very good shape, because their liquidity risk is low. On the other hand, high returns and low liabilities may imply that firms are unable to take advantage of the profitable investment environment, either because they are unable to access the financial markets or they are overly worried about risk. Solving this puzzle requires research beyond the scope of this survey, but we will later learn that firms in Ha Tay have relatively good access to bank loans. Eighty percent of firms in Ha Tay received loans when they applied. Long An, on the other hand, has a more difficult banking environment. Only fifty percent of Long An firms applied successfully for loans, and of those, only large LLCs were likely to receive their full requests. Small firms in Long An complained vehemently about the small size of loans.

Province	Median percentage
TT Hue	66.7%
Hai Phong	62.1%
Ha Tay	92.3%
Thanh Hoa	45.2%
Long An	83.3%
Nam Dinh	81.9%
High Performers (average)	75.4%
Total (average)	76.0%

### 3.4. Employment Growth

Employment growth in the private sector has continued to increase year after year in almost every province. As one might expect, due to the low bases in periphery provinces and diminishing marginal returns to additional units of labor in the high performing provinces, employment growth has been faster in the periphery provinces. The notable exceptions are firms in Long An and Dong Nai, which have actually shed workers since 1998. To some extent at least, this may be a result of the phenomenon Steer and Taussig highlighted, whereby many private firms in the Mekong Delta were adversely affected by both damaging flooding and increased competition from small-scale

foreign-invested firms in the food processing industry. Long An has seen a decline in its food processing companies and also a decline in mean labor per company.<sup>15</sup> By way of comparison, Long An's southern neighbors have had mixed results. Dong Nai shows a similar pattern of average employment per firm decline over time, whereas Binh Duong firms have expanded employment by 25% since 1999.

Province	At establishment	1998	1999	2000	2001	Percentage growth since 1999
TT Hue	19.7	41.7	43.1	49.9	57.4	33.3
Hai Phong	156.1	628.3	541.7	680.9	650.6	20.1
Ha Tay	49.4	50.7	58.3	59.8	80.1	37.3
Thanh Hoa	47.9	67.1	80.0	83.5	111.0	38.8
Long An	90.0	177.3	152.9	152.7	157.4	2.9
Nam Dinh	35.6	31.8	37.0	46.7	42.9	16.1
Dong Nai	105.7	143.8	108.3	98.8	104.3	-3.6
Binh Duong	99.7	157.5	184.7	207.5	231.3	25.2
High Performers (average)	45.8	79.7	83.5	89.6	96.3	15.3
Total (average)	50.5	96.3	105.3	112.9	120.5	14.4

### 3.5. Sales

One highlight for firms in the periphery provinces was sales, as shown in table 15. The median sales growth of their firms over the 1999-2000 period outpaced the high performers significantly. Enterprises in Hai Phong and Thanh Hoa recorded 158% increases over the three-year period. In fact, three out of the four provinces that doubled sales since 1998 were periphery provinces, although sales per unit of labor in the high performers was higher than every periphery province except for Ha Tay. The province with the poorest sales performance of its firms was again Long An, which recorded only 23.8% growth, to bring its firms to 47.1 million VND in sales per unit of labor. The average growth in sales among Long An firms was less than half that for firms in the second lowest periphery province of Nam Dinh.

Long An's low sales growth, however, may be partly explained by regional factors. Historically, the high performing neighboring province of Dong Nai had sales growth and sales per unit of labor very similar to that of Long An. Moreover, every southern province had sales growth below the total sample median. Part of this may be simple mathematics; the periphery provinces in the north and central regions began from lower bases, and thus can very quickly reach high growth rates. This would certainly explain slow growth in Binh Duong and HCM City, where firms have very high median sales. Assuming firms in Long An and Dong Nai are trying to tap into the same southern market as their neighbors, we can understand why growth in sales in the southern provinces are the lowest in the entire sample.

<sup>15</sup> Steer and Taussig (2002).

Table 15: Sales performance (All figures are median)					
Region	Province	Sales per unit of labor 2001 (million VND)	Gross sales in 2001 (million VND)	Sales growth 1998- 2000 (%)	
North	Ha Noi	108.17	2800	87.6	
	Hai Phong	61.03	6325	158.8	
	Ha Tay	100	2500	138.1	
	Nam Dinh	68.5	1929	54.3	
	Total	99.44	2784	114.3	
Central	TT Hue	68.7	2650	59.0	
	Thanh Hoa	80.03	6923.5	158.1	
	Da Nang	60	2402.5	177.6	
	Total	69.9	3350.5	91.39	
South	HCM City	130	6501	75.8	
	Dong Nai	45.45	1432.57	34.3	
	Long An	47.1	1827.5	23.8	
	Binh Duong	79.82	7897	54.3	
	Total	84.24	3653	66.7	
High Performers		96.29	3428	76.5	
Total		85.07	3193.5	86.6	