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The Influence of Competitive Advantage on Financial Performance: A Case Study of SMEs in Vietnam

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Abstract

Profit generation is one of the main goals of small- and medium-sized enterprises (SMEs). SMEs have deployed a number of solutions to increase profits, including solutions to improve their financial advantage. The question is how to help SMEs make better and more effective decisions to improve their competitive advantage in order to improve their financial performance. The aim of this research is to examine the impact of competitive advantage on financial performance in small- and medium-sized enterprises (SMEs) in Hanoi. A survey of 120 accountants, sales staff and boards of directors of SMEs was conducted to collect data. Through quantity methodology, we used Cronbach's Alpha, EFA and correlation analysis to determine the relationship between competitive advantage and dependent variable – financial performance. The results showed that the competitive advantage had a positive relationship with financial performance. There is not, statistically, significant difference in the level of financial performance in SMEs in Hanoi in terms of genders and between the mentioned three groups of job descriptions. From the findings, this study suggests several recommendations to improve financial performance such as increase sales and increase profits. The results are considered as a useful reference for establishing policies to attract customers toward sustainable development of firms.

Keywords: Competitive Advantage, Financial Performance, Accounting, SMEs

JEL Classification Code: G30, M40, B26, M20

1. Introduction

Porter (1980) argued that competition is about gaining market shares. The nature of competition is to find profits, which are higher than the average profit that the enterprise currently has. The result of the competitive process is that profits are averaged in the industry with a deep improvement, leading to a decrease in prices.

When an enterprise has something that other competitors do not have, which means it performs better than competitors, or can do things that other competitors cannot or can hardly do, the enterprise gains a competitive advantage. Competitive advantage is the value that an enterprise brings to its customers that exceeds the cost of creating it (Porter, 1985).

Competitive advantage is what makes an enterprise stand out, while other competitors don't. As a result, enterprises will have better results compared to other enterprises. This is a must-have factor to help the enterprise succeed and survive for a long time, which is different from competitors. Competitive advantages that exist in the enterprise will bring benefits such as cost advantage, bringing benefits far beyond competitive products. As can be seen, this factor helps the enterprise provide high value to its customers. From there, it will be generating greater profits for the enterprise itself.

The financial aspects of the performance have been employed to a greater extent in order to gauge the performance of the businesses not in SMEs, but in also larger firms as they manifest the accomplishment of the economic objectives of the firm (Murphy et al., 1996). Financial performance is

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the degree to which financial goals are being or have been achieved (Pimpong & Laryea, 2016).

Profits are one of the main goals of SMEs. These have deployed a number of solutions to increase profits, including solutions to improve their financial advantage. The question of how to help SMEs make better and more effective decisions to improve their competitive advantage in order to improve their financial performance is not only meaningful to managers, but also a very important topic for researchers.

SMEs have shown the importance of the development strategy of the socialist-oriented market economy in Vietnam. SMEs have contributed over 40% of GDP and created 50% of jobs nationwide. However, in recent years, there has been an increase in the number of SMEs that have been dissolved and shut down due to lack of capital, lack of management skills, or that have not fully exploited the competitive advantages of enterprises.

From the above reasons, it is appropriate and necessary to examine the influence of competitive advantage on financial performance in SMEs.

2. Literature Review

Competitive advantage is one of the important and vital factors for a long-term successful enterprise. As a result, enterprises always develop all their abilities to enhance their competitive advantage, although this is often obstructed or imitated by competitors (Porter, 1985).

Prahalad and Hamel (1990) focus more on the resources, capabilities and capacities of the organizations such as the origin of competitive advantage, rather than on the environment, as mentioned in the traditional method.

According to Feuer and Chaharbaghi (1994), the quantitative competitiveness is measured by profit, capital mobilization, and cash flow in terms of liquidity. Soliman (1998) adds cost, quality, deliverability, reliability, flexibility and creativity as factors that build a competitive position.

Miller and Shamsie (1996) use the resource-based theory to analyze the role of internal resources in firms' performance, in which the resources inside the firm are also the corporate competitive advantage.

Competitiveness of a firm is its ability to achieve its goals. These goals are likely to be expressed in a range of specific conditions (Barney 2002). The success of that firm is having competitive advantage, and it can be measured by both objective and subjective criteria. Objective criteria include return on investment, market share, profit and sales; subjective criteria include reputation with customers, suppliers, competitors and the improvement in provided services quality (Barney 2002).

In the current period, many SMEs have been forced to file for bankruptcy. The reason is that SMEs have not fully utilized their internal strengths and competitive advantage

against other domestic and foreign competitors (Bui & Nguyen, 2016).

SMEs have witnessed strong growth in the quantity and source of revenue pouring into the state budget over the years. However, in terms of the rate of contribution to the budget, it is not high enough in view of the potential development of the SME sector. This is due to a lack of efficiency in business performance and a weak competitive advantage of the community of SMEs when they mainly produce on a small scale for domestic needs only (Nguyen & Tran, 2018).

The two basic factors that denote competitive advantage are the value that customers perceive about a firm's goods or services and its cost of production. Thus, the factors that make up competitive advantage are efficiency, quality, innovation and customer needs respond.

Le and Dang (2018) stated that competitive advantage is the possession of specific values, allowing enterprises to capture business opportunities to gain profits. Competitive advantage arises from the value that firms can create for buyers. This value is the level of willingness that customer pays for goods or services and a higher value appears when the firm sells fairly same utilities as its competitors do yet at a lower price; or provides unique gadgets at a higher price than normal but still satisfies the consumers.

Nguyen and Khoa (2020) applied quantitative research methods with a survey of 350 seafood-exporting enterprises in Kien Giang province. The research results identified eleven key factors affecting the competitiveness of seafood-exporting enterprises, including (1) vision and strategy of leader; (2) human resources management capability; (3) organization capability; (4) customer-responsive marketing capability; (5) relationship management capability; (6) technical capability; (7) competitors reaction capability; (8) business environment adoption capability; (9) financial capability; (10) products and services innovation capability; and (11) branding management. The research results provided the basis to propose some managerial implications to improve the competitiveness of exporting enterprises in the context of the global economic integration.

Do (2020) uses a qualitative research method to analyze the competitive advantages of Vietnamese seafood enterprises. They include (i) geographical advantages, (ii) labor advantages, (iii) attention and support from the Government, and (iv) advantages of import and export taxes and opportunities to expand the seafood export markets when Vietnam joins the new generation of free trade agreements. Based on the research results, the author affirms that, when seafood enterprises take advantage of their competitive advantages, they will significantly contribute to achieving the set goals.

An and Kim (2019) covered 200 companies over the period 2013–2017. The results showed that an increase in

financial performance required ‘economies of scale’, and that companies that concentrated on a small number of items, diversified products into four or more items, or owned two to four suppliers, reaped positive results in financial performance.

The financial performance has been examined in terms of the valuations ratios, profitability ratios, growth rates, liquidity ratios, efficiency ratios, and leverage ratios. Leverage ratios have the most significant impact on the retail companies’ financial performance (Nguyen et al., 2020).

In addition to the above studies, there are theories related to the competitive advantages of enterprises, thereby affecting the financial performance of the firm:

According to the competitive advantages of a nation, an enterprise’s competitive advantage is influenced by the basic national characteristics, including: (i) the conditions of domestic production; (ii) domestic demand conditions; (iii) domestic related and supporting industries; and (iv) the company’s strategy, structure and competitors. These characteristics will create a favorable or difficult environment for domestic firms to compete with foreign firms. In addition, the two external factors of the firm including the impact of the government policy and the opportunities, which also play an important role in creating the attractiveness of the domestic business environment (Porter, 1990).

Porter’s Five Forces theory was introduced by Porter (1980) to analyze the competitive forces that determine the competitive advantage and profitability of each industry. This theory assumes that competitive forces in the industry including: (i) existing competitors of the firm, (ii) potential new competitors, (iii) substitutes, (iv) the power of suppliers, and (v) the power of buyers, will affect the profitability, revenue, and competitive edge of firms in the industry.

Based on Resource-Based Theory, Barney and Hesterly (2006) argued that resources can be tangible or intangible, owned and used by the firm in the process of strategy construction and implementation. Intangible resources can include skills, human capital, organizational capital and information, reputation and relations. All of these resources represent sources owned by the firm. Tangible resources are the number of employees, the size of the total capital of the firm. Intangible resources are the learning orientation and the market orientation of the firm.

The above studies have presented that the competitive advantage factor is affecting financial performance. However, there are no adequate studies on the effects of competitive advantage on the financial performance of SMEs in Hanoi. This research builds on previous research and develops new component attributes of competitive advantage factor; it conducts research design, chooses appropriate research methods for analysis, evaluates and measures the impact of the factor competitive advantage on the financial performance of SMEs in Hanoi.

3. Methodology

Inheriting the results of previous studies and using a qualitative research approach, namely, interviews with selected experts to perform a quantitative research, we have identified competitive advantage (CA) to determine the financial performance of SMEs in Hanoi.

Then, we designed a questionnaire consisting of seven observation variables in a 5-point Likert scale. Dependent variables are measured from 1 “fully disagree” to 5 “fully agree” and independent variables are measured from 1 “without effect” to 5 “strongly” (see Table 1). The collection of data was accomplished through a survey of 150 accountants, sale staffs and boards of directors, for the period 2019–2020, close to this study period. Therefore, their feedback on the influence of competitive advantage on financial performance is considered very appropriate.

Out of 150 questionnaires sent, 130 were received. After checking the information on the returned questionnaires, we had only 120 valid questionnaires with full information for data entry and analysis; the size of this sample was consistent with study of Hair et al. (1998), namely, $n = 5 \times m = 5 \times 7 = 35$. Therefore, the rest of observations for model 1 are 120 surveys (80.0%). Most respondents have a bachelor degree or higher. As can be seen, all participants have at high quality knowledge, and this makes the survey reliable.

We used the exploratory factor and correlation analysis to determine the impact of competitive advantage on financial performance in SMEs in Hanoi.

From the above analysis, we have designed a research model as shown in Figure 1.

4. Results

4.1. Descriptive Statistics

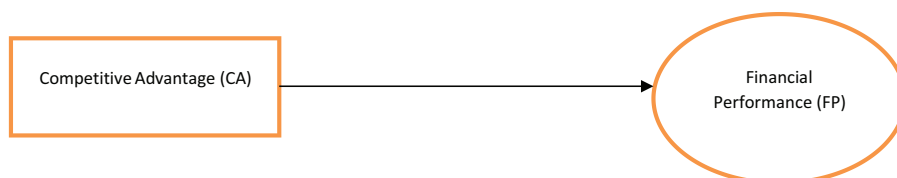
Information on data collected is shown in Table 2. It shows that among the 120 respondents, 38.3% were male while the remaining 74 (61.7%) were female. 75 respondents (62.5%) are 27 years old or younger, and 37.5% were over 27 years old. Accountant staffs accounted for 39.2%, sale staffs 34.2%, while the remaining 26.7% or 32 respondents were on the board of directors. Some 53.3% of the participants have work experiences for 5 years or less, and 46.7% over 5 years. Among the respondents, 52 worked for SMEs in industry and construction sectors, accounting for 43.3%, and 68 worked for commercial and service enterprises, accounting for 56.7%.

4.2. Cronbach’s Alpha

Financial performance and competitive advantage of SMEs have been measured by the Cronbach’s Alpha. Results

Table 1: Attributes of Financial Performance of SMEs and Attributes of Competitive Advantage

Code	Scale	Sources
Financial Performance of SMEs (FP)		
FP1	The profit of the company has increased in the last three years	Mulani et al. (2015), Hindasah and Nuryakin (2020)
FP2	The number of the asset (property) of our company has increased in the last three years	Agbenyo et al. (2018), Hindasah and Nuryakin (2020)
FP3	The number of working capitals has increased in the last three years	Hindasah and Nuryakin (2020)
FP4	The number of sales growths has increased in the last three years	Mulani et al. (2015), Hindasah and Nuryakin (2020)
Competitive Advantage (CA)		
CA1	Geographical advantage	Do (2020)
CA2	Labor advantage	Prahalad and Hamel (1990), Le and Dang (2018), Do (2020)
CA3	Products diversification and the products and provided services quality improvement	Barney (2002), Vu (2018)
CA4	Price	Vu (2018)
CA5	Innovation speed	Vu (2018)
CA6	Reputation with customers, suppliers and competitors	Barney (2002), Vu (2018)
CA7	Market share of the firm	Barney (2002)

**Figure 1:** Research Model

are presented in Table 3. The results also show that attributes of the dependent variables and independent variables have Cronbach's Alpha coefficients that are greater than 0.6, and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the dependent variables and independent variables are statistically significant (Hair et al., 2010; Hoang & Chu, 2008).

4.3. Exploratory Factor Analysis (EFA)

We then conducted Exploratory Factor Analysis (EFA) via the method of extracting coefficients with component and Varimax analyses of the seven observed independent variables. As can be seen in Table 4, the results of the EFA show that $0.5 < KMO = 0.804 < 1$. Bartlett's testimony shows $sig. = 0.000 < 0.05$, which means that all variables are interrelated (Hair et al., 2010; Hoang & Chu, 2008).

After implementing the rotation matrix, we got the following: one determinant with factor load > 0.5 , Eigenvalues > 1 , and the variance explained = 69.498%. It demonstrates that the factor analysis of the research data is appropriate. Through the quality assurance of the scale and the test of the EFA model, one factor that influences the financial performance in SMEs in Hanoi was identified as competitive advantage (CA) (Hair et al., 2010; Hoang & Chu, 2008).

4.4. Correlation Analysis

The results of the correlation matrix are indicated in Table 5. The correlation coefficient of competitive advantage with one dependent variable is greater than 0, reflecting a positive relationship. In addition, values of sig. are less than 0.05, which means that all variables are interrelated (Hair et al., 2010; Hoang & Chu, 2008).

Table 2: Respondents by Gender, Age, Job Description, Work Experience, Business Areas

	Frequency	Percent	Cumulative Percent
Gender			
Male	46	38.3	38.3
Female	74	61.7	100.0
Age			
To 27 years old	75	62.5	62.5
Over 27 years old	45	37.5	100.0
Job Description			
Board of directors	32	26.7	26.7
Accountants	47	39.2	65.8
Sale staffs	41	34.2	100.0
Work Experience			
To 5 years	64	53.3	53.3
Over 5 years	56	46.7	100.0
Business Areas			
Industry and construction	52	43.3	43.3
Commercial and service	68	56.7	100.0
Total	120	100.0	

Table 3: Results of Cronbach's Alpha Testing of Attributes

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Financial Performance of SMEs (FP): Cronbach's Alpha: 0.746				
FP1	11.508	1.781	0.376	0.717
FP2	11.525	1.562	0.523	0.603
FP3	11.433	1.996	0.378	0.710
FP4	11.458	1.881	0.441	0.670
Competitive Advantage (CA): Cronbach's Alpha: 0.863				
CA1	22.61	7.753	0.748	0.826
CA2	22.62	7.902	0.678	0.837
CA3	22.71	8.057	0.689	0.835
CA4	22.58	8.884	0.505	0.860
CA5	22.72	8.306	0.608	0.847
CA6	22.81	8.408	0.585	0.850
CA7	22.91	8.689	0.614	0.846

4.5. Independent T-Test

Comparison of the results of the evaluation of financial performance of SMEs between participants' genders can be seen in Table 6. According to the results, Sig Levene's Test is 0.790, which is more than 0.05. The variance between both genders is not different. Moreover, Sig value $T\text{-Test} = 0.367 > 0.05$, which means that there is not, statistically, significant difference in the level of financial performance of SMEs based on genders (Hair et al., 2010; Hoang & Chu, 2008).

4.6. ANOVA

Anova test was needed to compare the results of the evaluation of financial performance of SMEs between the

Table 4: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.804
Bartlett's Test of Sphericity	Approx. Chi-Square	370.224
	Df	21
	Sig.	0.000

Table 5: Correlations

		FP	CA
FP	Pearson Correlation	1	0.118
	Sig. (2-tailed)		0.020
	N	120	120
CA	Pearson Correlation	0.118	1
	Sig. (2-tailed)	0.020	
	N	120	120

three subjects, including accountants, sale staffs and boards of directors. Table 7 shows that Sig Levene Statistic of 0.880 is more than 0.05, which means that the hypothesis of homogeneity variance among the variable value groups (different job descriptions) has not been violated. Table 8 shows that Sig. = 0.120 is more than 0.05, which indicates that there is no statistically significant difference in the level of financial performance of SMEs between the mentioned three groups of job descriptions (Hair et al., 2010; Hoang & Chu, 2008).

5. Discussion and Conclusion

5.1. Geographical Advantage

Hanoi City is located in the northwest of the center of the Red River delta, located in an area with convenient traffics. Hanoi has a diverse topography, including high mountains, low hills and low-lying plains. Plain terrain occupies most of the city area.

Table 7: Test of Homogeneity of Variances

Levene Statistic	df1	df2	Sig.
0.128	2	117	0.880

Table 8: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0.761	2	0.381	2.162	0.120
Within Groups	20.588	117	0.176		
Total	21.349	119			

Table 6: Differences of Financial Performance of SMEs Between Participants' Genders - Independent Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
FP	Equal variances assumed	0.071	0.790	-0.906	118	0.367	-0.07212	0.07959	-0.22973	0.08548
	Equal variances not assumed			-0.901	93.825	0.370	-0.07212	0.08004	-0.23104	0.08680

Hanoi City has a strategic position and is particularly important for the country's socio-economic development. It is the national political-administrative center; the headquarters of the central agencies of the Communist Party, State and socio-political organizations, diplomatic missions and national organizations; and a major center for culture, education, science and technology, economy and international transactions of the whole country.

Hanoi City has made great progress in socio-economic developments, playing a major role in promoting development of the whole region and the whole country. The growth rate of gross domestic product (GRDP) of Hanoi region has always been maintained at a high level. The mobilization of investment capital in the region is actively promoted by the government.

Compared with neighboring provinces, the number of enterprises in Hanoi City accounted for the highest percentage. The number of registered new businesses in the city increases every year, which contributes a lot to job creation for tens of thousands of workers annually. Enterprises in Hanoi City have good organizational and management capabilities, reflected in the following aspects: (i) qualifications of high management staffs, (ii) enterprises with high organization and management qualifications, and (iii) enterprises with clear and appropriate business strategy planning and operations planning. In addition, the majority of enterprises in Hanoi City have strong financial capacities reflected in their ability to ensure financial resources for their business operations to achieve their goals.

5.2. Labor Advantage

Most students who are from around Hanoi in general, and accounting students in particular, want to stay in Hanoi after graduating to look for better opportunities, or for further study, or to participate in short-term training programs held by the government or other institutions to get qualification for their future work. However, SMEs need to improve competitiveness in retaining the number of employees by promoting measures to improve working conditions and helping them to stay with the company for a long time by attractive, long-term contracts. In addition, SMEs need to systematically analyze the working conditions of managers and employees in the firm. Because human resources directly create products and under the impact of the industrial revolution 4.0, the labor structure, employment, and skills of employees will change drastically.

5.3. Products Diversification and the Products and Provided Services Quality Improvement

One of the solutions to diversify products is to improve the market orientation of enterprises by multi-functional

cooperation. SMEs need to enhance resource-sharing with different functions on a regular basis; freely exchange information about successful and unsuccessful experiences with customers across all functional departments of the firm, which leads to expanding product categories, producing new products or enhancing the functionality of old products.

SMEs owning the main product also need to develop additional accessories or SMEs need to select and develop products, which are suitable for middle-income customers.

SMEs must research and apply new business models. In the digital economy environment, the trend to change from selling tangible products to providing services is clear. In addition to catching up with trends to transform new business models, enterprises could also develop new services from their own traditional business fields (Dang, 2019).

5.4. Price

SMEs need to reduce production costs and offer equal or lower competitive prices than competitors. In addition, SMEs need to use modern technology, low fuel consumption, invest in new and modern technologies, and highly automated lines.

In addition, SMEs need to propose to State agencies to study and propose tax policies (CIT, import and export taxes, etc.), environmental policies, construction policies, etc. so as to reduce input costs, thereby reducing product costs and selling prices.

5.5. Innovation Speed

The world is developing very quickly due to the 4th industrial revolution among other factors, this is having a huge impact on the world economy in general and firm operations in particular in terms of the supply-demand relationship, the development strategy, the method of organization and management, the business model. Thanks to new digital technology for research and development, creative SMEs can outperform long-lasting large enterprises at unprecedented speed regarding quality, speed and method of supplying products, services, product diversification, product innovation, etc. Therefore, the board of directors should be aware of the sharing of vision, which they need to propagate, disseminate for everyone to understand the orientation of the firm, the vision of the managerial staff. In addition, SMEs need to build brands and promote their image.

SMEs need to innovate otherwise, they cannot survive and thrive in a rapidly changing, flexible and highly competitive environment. SMEs need to engage in market research in particular and development research in general. Research and development (R&D) was the investment and development of new research and technology to create new and innovative products, processes and services to meet the needs of customers or of the market better (Dang, 2019).

5.6. Reputation with Customers, Suppliers and Competitors

SMEs should regularly gather critical opinions on how to explain information about customers. In addition, SMEs need to improve the assessment and control of the commitment level in serving customers' needs, regularly measure customers' satisfaction; attach great importance to and pay attention to after-sales services.

Enhancing the market orientation of firms that are competitors is by stimulating the sales department to find out information about competitors, or the actions of them. Because, in the corporate department, the sales department is one of the most market-oriented.

Poter (2001) argued that the Internet had a strong impact on customers' information provision and the relationship between enterprises and suppliers. It was not necessary to change the theory of strategy to deal with the Internet.

SMEs need to conduct a radical digital transformation in the firm, so that they can understand the behavior and expectations of customers and consumers to improve products and services, distribution methods, and guarantee. Through digitized data and information, enterprises can also improve the efficiency of using assets and human resources, increase productivity, and more effectively monitor the production and maintenance of products. Increasing asset efficiency and productivity in the long run was an important determinant of firm competitiveness (Dang, 2019).

5.7. Market Share of the Firm

Development strategies of enterprises need to be changed toward innovation in order to gain competitive advantage and increase market share. A strategy that focuses mainly on cost-cutting will be less effective than a strategy to creatively deliver products and services. In addition, SMEs need to promote research and development as well as market research.

Under the lead of the 4th industrial revolution and among other factors, management, administration, speed and scale of development of enterprises change rapidly. With the development of technology, the time for enterprises to dominate the market is significantly shortened. By applying technology and innovation, a new enterprise can quickly outperform some long-lasting ones in the same industry in a short time with incredible speed and scale.

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