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# The distribution channel, strategic factor and firm performance: Evidence from FDI enterprises

Lan Thi Hoang BUI<sup>1</sup>, Dat Ngoc NGUYEN<sup>2</sup>

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## Abstract

**Purpose:** Research on the development of distribution channels and the strategy will help businesses develop competitiveness in the market. At the same time, the excellent effect of distribution channels and the outstanding implementation of business strategies will help optimize firm performance. Therefore, this study helps to evaluate the influence of distribution channels, and strategy factors on the performance of FDI enterprises in Vietnam. **Research design, data, and methodology:** Research using quantitative method with PLS-SEM model based on 210 samples using Smart-PLS3. software. The survey subjects are corporate managers who understand the strategies, distribution channels, and performance in Vietnamese FDI enterprises. **Results:** The analysis results show that strategy factors have a positive effect on firm performance, and distribution channel also has a positive impact on firm performance. This result also indicates that distribution channels activity as an intermediary between strategy and firm performance. **Conclusion:** The study also gives some policy implications on strategy and distribution channels to improve firm performance. The strategic implementation of finance, human resources, risk, innovation, and diversification of distribution channels are implications for improving firm performance in FDI enterprises. In addition, the research has contributed to the relationship between the distribution channels and firm performance.

**Keywords:** Distribution channel, Strategy, Firm performance, FDI enterprises, Vietnam

**JEL Classification Code:** L25, M11, M21

## 1. Introduction

Concerning an enterprise, the consumption of goods is always an important issue, deciding the existence and development of the business. Especially in the current competitive period, when goods have to be standardized, the quality of goods brought to the market must be guaranteed (Stern & Reve, 1980). Therefore, distribution channels play an essential role in bringing the company's products to most consumers (Weitz & Jap, 1995). A distribution channel is considered valuable when it provides products and services to customers in the best way at the right time, place, and product needs (Nevin, 1995; Stern & Reve, 1980). The reason is that classical discrete distributions are no longer

suitable for large and numerous transactions of enterprises today. Therefore, the formation of distribution channels helps businesses better deploy the process of bringing products to consumers (Frazier, 1983a, 1983b, 1999; Stern & Reve, 1980).

Besides developing distribution channels, to develop a company in both the short and long term, having overall development strategies plays an important role (Felicio & Freire, 2016). The strategy given to help the company achieve its business goals is based on internal and external business assessments (Soltanizadeh, Rasid, Golshan, & Ismail, 2016). Furthermore, the company's strategy will help increase the competitiveness of the business based on the competitive advantages offered, such as cost minimization, differentiation, focus strategy (Porter, 1985). Therefore, it

1 First Author, Lecturer, National Economics University, Hanoi, Vietnam. Email: lanbh@neu.edu.vn

2 Corresponding Author, Lecturer, Foreign Trade University, Hanoi, Vietnam. Email: nguyennhocdat@ftu.edu.vn. [Postal Address: 91 Chua Lang Street, Dong Da, Hanoi, 100000, Vietnam]. Email: nguyennhocdat@ftu.edu.vn

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can be seen that the strategic factor is an essential factor in improving the competitive advantage as well as the operational efficiency of the enterprise.

FDI enterprises play an important role in the economies of developing countries such as Vietnam (Ho, Bui, Nguyen, Dao, & Nguyen, 2021). From 1990 to 2020, Vietnam attracts 7 billion USD annually. In the period 2011 to 2019, FDI enterprises contributed 25.7% to Vietnam's economic growth. In 2010, FDI contributed about 13% of GDP and increased to 19.6% of GDP in 2019. Contributing to the labor force, the number of employees working in FDI enterprises is about 6.1 million people. Regarding average income, the average income of workers in the FDI enterprise sector is about 11.2 million VND/month, which is 1.2 times higher than the average income of the economy.

There have been many studies showing the relationship between distribution channels, strategy factors, and firm performance. Significant studies have shown that developing, diversifying distribution channels and strategy factors will help increase firm performance (Aulakh & Kotabe, 1997; Felício & Freire, 2016). However, studies on strategy or distribution channels are limited in Vietnam, so this study is conducted to show the relationship between strategy factors, distribution channels, and firm performance in enterprises. Strategy factor to firm performance and evaluate the mediating effect of the distribution channel between strategy factor - firm performance in Vietnamese FDI enterprises. The research results will help businesses have sensible policies to improve firm performance through distribution channels and strategy factors.

## 2. Literature reviews

### 2.1. Distribution channels and firm performance

There are many definitions of firm performance, and there is no one specific definition of firm performance due to complex models in organizations (Richard, Devinney, Yip, & Johnson, 2009). Firm performance reflects the efficiency or consumption rate of inputs and outputs in the production and operation processes of the enterprise (Felício & Freire, 2016; Klumpes, 2004). In addition, firm performance is also defined in revenue growth or profit expectations (Waterman & Peters, 1982). Besides, firm performance is also assessed by the firm's share in the competitive market (Wiersema & Bantel, 1992). In this study, firm performance is defined by revenue growth, profit growth, and market share, as well as market competition by Waterman and Peters (1982), and Wiersema and Bantel (1992).

Distribution channels refer to the network used to receive the product from the manufacturer or its creators and ultimately to the end-users. When the distribution channel is

"direct" (direct sales channel), the manufacturer sells directly to the user without an intermediary. When the distribution channel is indirect, the products will be distributed through many channels before reaching the final consumer. The construction of distribution channels aims to serve product market development (McNaughton, 2002; Rosli & Radiah, 2012; Yoon, Song, & Kang, 2021). Distribution channel performance affects the firm performance of all financial as well as non-financial firms (Aulakh & Kotabe, 1997; Felício & Freire, 2016). Many researchers also believe that a good distribution channel will help improve the firm performance of the business (Etgar, 1978). Therefore, the research hypothesis is established as follows:

**H1:** Distribution channels has a positive impact on firm performance

### 2.2. Strategy factor, distribution and firm performance

According to Felício and Freire (2016), strategy factor is the simultaneous use of factors: human resources (using human resources to bring success to the business); channels used (strategy to use the number of channels in the business plan); subscription risk (related to risk management that may occur in the business process), financial resources (a strategy of using financial resources as well as cash flow for a long-term strategy to bring success to the company); and product - service innovation (product innovation aimed at increasing customer satisfaction). Strategy factors play an essential role in improving firm performance (Felício & Freire, 2016). The strategy for distribution channels helps to expand the market of the enterprise not only in production but also in the company (Frazier, 1999). At the same time, the diversification of distribution channels also helps to meet better the needs of customers (Tsai & Yang, 2013). Therefore, the research hypothesis is put forward as follows:

**H2:** Strategy factor has a positive impact on distribution channels

**H3:** Strategy factor has a positive impact on firm performance

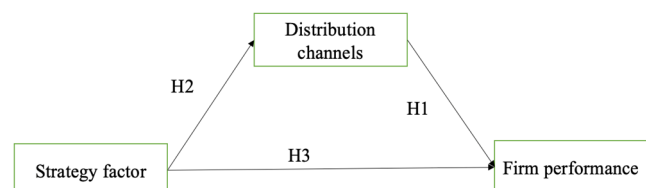


Figure 1: Research model

### 3. Method

#### 3.1. Measurement scales

The three constructs in the research model, including strategy factor, distribution channels, and firm performance, are used scales developed from previous research in literature review. In which: the items of strategy factors are adapted from Felício and Freire (2016); Distribution channels is adapted from Coelho and Easingwood (2005); Frazier (1999). The firm performance adapted from Trainor, Rapp, Beitelspacher, and Schillewaert (2011). The scale all used is Likert scale's five point with 1 point – completely disagree to 5 point – completely agreed (see table 1).

#### 3.2. Data collection

The survey was built through the reverse translation of Brislin (1970) from English to Vietnamese and from Vietnam to English. To ensure a clear and concise questionnaire, the questionnaire was sent to five officials in the enterprise to check and comment on the questionnaire's content before being sent out. After editing the questionnaire contents through five employees in the enterprise, the official survey questionnaire was distributed in the online form (due to the complexity of the COVID-19 pandemic, the direct formation of voting is not feasible). Survey subjects are leaders or managers in enterprises who directly or indirectly manage the distribution channels of the company or the leaders of the enterprise. Data was collected through online questionnaires for FDI enterprises nationwide in Vietnam. Because the number of FDI enterprises in some provinces is not large enough, we surveyed so many regions in Vietnam (the provinces with industrial clusters have many FDI enterprises). The survey results from February 2021 to April 2021 obtained 210 responses. With 210 samples considered suitable for multivariate data analysis (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014; Nguyen, Nguyen, & Nguyen, 2020).

#### 3.3. Data analysis

The collected data will be recoded and put into Smart-PLS software for analysis. The main data analysis method of the study is partial least squares (PLS) with the PLS-SEM model. Testing for the convergence of factors will be performed through the index of outer loading greater than 0.5 and the average variance extracted (AVE) greater than 50%. At the same time, the factor achieved reliability when measuring the path through the observed variables when the composite reliabilities (CR) were greater than 0.7 and Cronbach's Alpha coefficient  $> 0.7$ . In addition, to ensure that the factors must be completely distinguishable, the

discriminant test is based on the quadratic value of AVE, which is larger than the correlation coefficients (Fornell & Larcker, 1981).

### 4. Research results

#### 4.1. Sample characteristics

With 210 samples collected, the proportion of men is higher than that of women (159 men account for 75.7% and 51 women accounts for 24.3%). The age group accounting for the largest proportion is from 31 to 40 years old with 95 people accounting for 45.2%, followed by the group of over 40 years old with 71 people accounting for 33.8%, and finally the group under 30 years old with 44 people accounting for 21%. The education level of the survey respondents is mainly university with 158 people, accounting for 74.8%, followed by the group of graduate students with 50 people, accounting for 23.8%, and finally the college group with three people accounting for 1.4%. In terms of income, 108 respondents accounting for 51.4% having income from 10 to 20 million. It is followed by 85 people accounting for 40.5% with over 20 million; the smallest portion belongs to 17 people accounting for 8.1% with under 10 million.

**Table 1:** Demographic information of respondents (n = 210)

		Frequency	Percent
GENDER	Male	159	75.7
	Female	51	24.3
AGE	<30	44	21
	31-40	95	45.2
	>40	71	33.8
	Colleague	3	1.4
EDUCATION	University	157	74.8
	Post-University	50	23.8
	<10mil	17	8.1
INCOME	10-20mil	108	51.4
	>20mil	85	40.5

#### 4.2. Assessment of the measurement model

The test results for the convergence of the factors showed that the factors all reached the convergence value with the outer loading coefficients all greater than 0.5 and the AVE values were all greater than 50%. In addition, Cronbach's Alpha coefficient is both greater than 0.7 and CR is also greater than 0.7, indicating that all factors are reliable (see Table 2).

**Table 2:** Scales' evaluation

Items	Outer loadings	Cronbach's Alpha
<b>Strategy (CR = 0.896; AVE = 0.634) (adapted from Felício &amp; Freire, 2016)</b>		
• Channels	0.658	0.852
• Financial resources	0.821	
• Human resources	0.846	
• Subscription risk	0.871	
• Innovation	0.767	
<b>Distribution channels (CR = 0.919; AVE = 0.787) (adapted from Coelho &amp; Easingwood, 2005; Frazier, 1999)</b>		
• Variety of channels	0.875	0.864
• Channel integration to attract customers	0.90	
• In general, the distribution channel has a good rating	0.885	
<b>Firm performance (CR = 0.917; AVE = 0.734) (adapted from Trainor et al., 2011)</b>		
• Achieve growth	0.753	0.877
• Achieve profit levels	0.885	
• Market share achieved by the company	0.855	
• Develop many products/services	0.925	

Notes: CR: Composite reliability; AVE: Average variance extracted

The results of the discriminant analysis of the factors are shown in Table 3. The results show that the factors are discriminant when the Square root of AVE is greater than the coefficients correlation. At the same time, the average assessment of factors indicates that all three factors of strategy factors, distribution channels, and firm performance are rated at a reasonable level (mean scores are from 3.90 to 4.15 on a 5-point scale).

**Table 3:** Discriminant validity analysis

	Mean	DIST	PER	STRA
DIST	3.90	0.887*		
PER	4.15	0.522	0.857*	
STRA	3.96	0.409	0.416	0.796*

\* Square root of AVE.

#### 4.4. Hypothesis testing results

The results of the PLS-SEM model analysis show that the Strategy factor has a significant positive effect on the distribution channel ( $\beta=0.409$  and  $p\text{-value}=0.000$ ). Therefore, hypothesis H1 is accepted. When a business has a good company development strategy, it will be the cause to promote the development of distribution channels to meet the planned target. Both the change in financial strategy in

product and technology innovation have forced distribution channels to be transformed positively to create enough capacity for distributing products and services to the market. In addition to resource and innovation strategies, risk prevention strategies also help businesses limit predictable risks. Thereby, companies can adjust distribution channels when facing risks in business activities. The distribution channel system for risk prevention for the distribution channel system is more fully completed and has greater flexibility. The results of this study are consistent with previous studies by Felício and Freire (2016), which both show a positive influence of strategy factor on distribution channels.

At the same time, Strategy factors have a statistically significant positive effect on firm performance ( $\beta=0.243$  and  $p\text{-value}=0.000$ ). Therefore, hypothesis H1 is accepted. The corporate strategy indicates a long-term development vision for the business, with the preparation of financial and human resources to help the company quickly achieve the set plans. The strategy is implemented to increase business revenue and expand market share, increasing the competitiveness of enterprises in the market. The introduction of innovative strategies has resulted in higher business efficiency for enterprises. In more detail, the technological innovation which aims to change a product or service is achieving positive outcomes when it has brought good revenue and met changing market expectations. At the same time, the provision for possible risks in business activities is giving businesses positive signs. Risk measurement or risk control is being taken seriously and effectively. Risk cases have been planned by the enterprise to respond, make the business plan not affected much when these risks occur. Therefore, preparing to measure or predict risks has reduced damage to the business and improved business results. Previous studies also support this finding by Felício and Freire (2016).

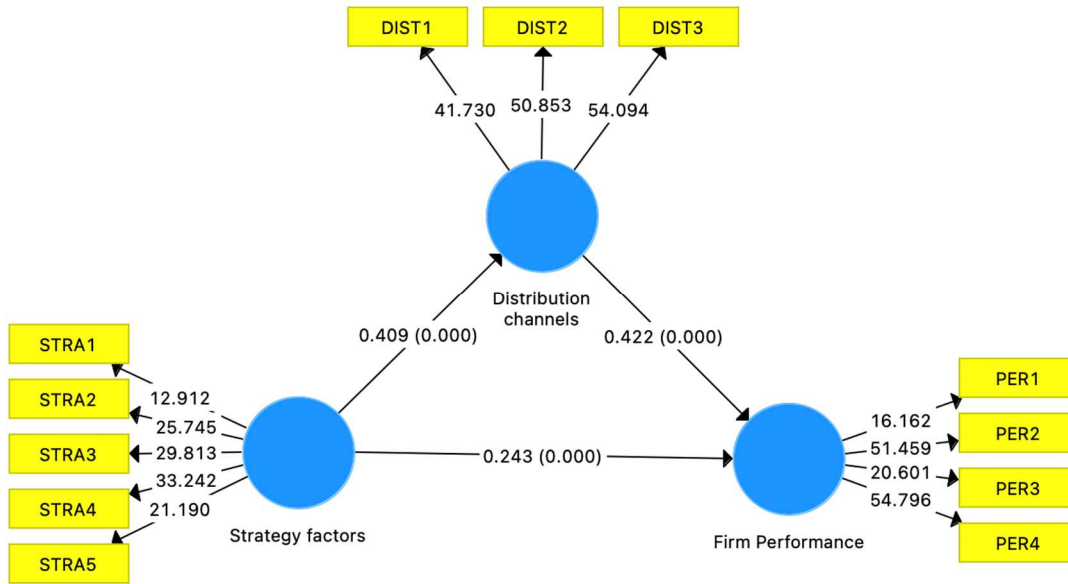
Distribution channels have a statistically significant positive effect on firm performance ( $\beta=0.422$  and  $p\text{-value}=0.000$ ). Therefore, hypothesis H3 is accepted. Developing distribution channels makes firm performance of enterprises increase. In addition, the results of this study also show that distribution channels are mediators between strategy factors - firm performance. We can see that the number of distribution channels increases as well as the diversity of channels to help businesses better distribute their products. These distribution channels make the product sold more to the market, help to increase the revenue as well as the market share of the company. As an intermediate variable, it shows that the strategic factors of a good business promote the development of distribution channels, and distribution channels also increase the firm performance of the company. The results of this study are similar to previous studies by Felício and Freire (2016) when showing the intermediary

role of distribution channels between strategy factors - firm performance. We can see that three factors in the research model have a positive relationship with each other. In particular, the strategic factor plays an initial role in promoting the development of the distribution channel and, at the same time, increasing the firm performance of the company.

**Table 4:** The result of PLS-SEM

Relationship	Beta	T-stats
Distribution channels → Firm Performance	0.422***	7.160
Strategy factors → Distribution channels	0.409***	6.407
Strategy factors → Firm Performance	0.243***	3.436

\*\*\* significant at 1%



**Figure 2:** PLS-SEM result

### 5. Conclusion

Research has shown that surveyed businesses have a good assessment of the business's strategy in the future. At the same time, such strategies also show that promoting distribution channels is also very good for companies. With good preparation for the supply chain as well as a clear development strategy, businesses have also assessed the firm performance at a reasonable level. In particular, through PLS-SEM analysis with 210 samples, it has been demonstrated that the positive influence of strategy factors on distribution channels and firm performance. In addition, the results also indicate the mediating role of distribution channels in the effect of strategy on firm performance. This once again confirms the important role of strategy as well as distribution channels in increasing firm performance. From this result, companies can improve firm performance through two factors strategy and distribution channels in Vietnamese FDI enterprises.

### 6. Implications

#### 6.1. Theoretical implications

Research has shown a positive relationship between strategy factors, distribution channels, and firm performance. This study will further confirm the theory of these relationships in the context of the economy of Vietnam - a developing country with a solid tendency towards international economic integration. The study will be an essential document for the following researchers to add to the theoretical basis for the relationship between strategy factors, distribution channels, and firm performance. Especially, when researchers research developing countries, this will be a necessary reference study in building research models.

#### 6.2. Practical implications

From the results, the positive impact of strategic factors on firm performance will suggest businesses improve firm performance. Focusing on strategy factors will help improve the firm performance of the company. Financial strategies,

or human resources, need to be planned in the long term to create long-term preparation for business activities in the enterprise. At the same time, detailed risk prevention strategies will help businesses deal with bad situations that may occur in the production and business process. This reduces losses for companies when there are timely handling measures when risks arise. In addition, businesses need to have a strategy related to innovation for products/services to improve competitiveness. The change in activities, products, or services will better meet the changing needs of the market as well as customers. In addition, the innovation strategy also makes an imitation of competitors challenging to achieve when the product or service life cycle process is not always long enough for competitors to imitate. Distribution channels have a positive effect on firm performance, helping businesses plan to adjust distribution channels. Expanding distribution channels or diversifying distribution channels will enable companies to increase their ability to distribute to the market. Thereby, it helps to increase the revenue as well as the market share of the FDI enterprises.

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