

# The impact of competitive advantage on corporate financial performance: A study of listed companies on the Vietnamese stock market

**Dinh Thi Tram**

*University of Labour and Social Affairs, Hanoi, Vietnam*

## **Abstract:**

This study aims to assess the impact of competitor accounting on the financial performance of listed enterprises on the stock market in Vietnam. The study used the GLS regression method and the SEM linear structural model, data collected from listed companies on the stock market in Vietnam in the period 2019 - 2023, with 7252 observations. The research results discovered a positive impact of competitive advantage on the financial performance of listed companies on the Vietnamese stock market. In addition, observed variables such as firm age, firm size, and tangibility also have a positive impact on firm financial performance. Therefore, each enterprise listed on the Vietnamese stock market must have competitive capacity to maintain and improve the financial efficiency of the enterprise in a fiercely competitive environment.

**Keywords:** Financial performance, competitive advantage, business.

## **1. INTRODUCTION**

In the production and business process, financial efficiency is the essential goal of enterprises. Through financial efficiency, it will bring benefits to employees, shareholders and society. At that time, improving financial efficiency is a concern not only of business administrators but also of shareholders, investors and state management agencies to ensure sustainable development. For listed companies on the Vietnamese stock market, they are always strongly affected by domestic and global competition. Each company must have the ability to compete to maintain and improve its financial performance.

Considering the relationship between competitive advantage and financial performance of a business, Abeysekara et al. (2019) pointed out that competitive advantage measures the extent to which a company achieves its production, sales, human resources, and financial goals. Many previous studies such as K. Amoako – Gyampah et al. (2008) have suggested that there is a direct relationship between competitive advantage and business performance. Competitive advantage creates superior activities and adds superior value to the business, improves operating performance and enhances the financial performance of the business. Crick, J. M. et al. (2020) studied wine producing businesses in rural New Zealand, and the results showed that there was a relationship between competitor orientation and maintaining financial performance in these businesses.

In Vietnam, Son, T. V. (2023) studied 30 Vietnamese banks from 2008-2020, the research results showed that, when the level of competition increased, banks had lower profits in terms of ROA and ROE but were more efficient in terms of net profit.

Faced with this situation, listed companies on the stock market themselves must create competitive advantages to cope with future uncertainties and the context of continuous integration into the world economy. Business managers need to be provided with and analyze information about competitors, which is the basis for evaluating competitors, an opportunity to learn from competitors, and especially to identify opportunities and challenges for their own business. Creating a competitive advantage over other businesses in the industry is a prerequisite for businesses to improve their financial performance. The main objective of this study is to examine the impact of competitive advantage on the financial performance of listed companies on the Vietnamese stock market in the period 2019 to 2023. In addition, the study considers a number of observed variables such as the company's operating time, company size, and tangibility.

## **2. THEORETICAL BASIS**

### **Some theories**

Stakeholder theory is a perspective on management strategy and ethics, first introduced by (Freeman, 1984). The central idea of this theory is that the success of an organization depends on the relationship between managers and stakeholders such as investors, creditors, employees, customers, suppliers, the state and other entities that are interested in achieving the goals of the business. There are quite a few studies that apply stakeholder theory to explain research results. Stakeholder theory supports that companies with good relationships with stakeholders will be suitable and have many advantages for linking components and creating competitive advantages while improving the financial performance of the business.

### **Competitive advantage**

Competitive advantage is the ability of an organization to perform in one or more ways that are difficult for competitors to imitate now and in the future (Kahreh, et al., 2011). Kahreh et al. (2011), in their study, stated that the aspects that create competitive advantage include cost, quality, time, flexibility, innovation, and responsiveness. According to Wang (2014), competitive advantage is the result of using resources and capabilities of the enterprise in production and business activities, thereby creating superiority over competitors. Competitive advantage refers to the advantage of superior position compared to competitors in the market (Tsao, 2014). According to Tsao (2014), competitive advantage includes market differentiation, innovation, and cost leadership. Market differentiation is establishing uniqueness in the market, innovation is creating attractive modern products compared to competitors. Cost leadership is about accessing cheaper raw materials, achieving economies of scale, adopting recycling processes... With the above views, Potjanajaruwit (2018) pointed out that competitive advantages are divided into three types, including the company's policy of providing the company's products and services at the lowest price in the market, the company's products and services are different from competitors, and the company's products and services meet the needs of customers.

Long-term competitive advantage must be the ability to develop, innovate, and increase the product and service portfolio by adjusting to customer needs, continuously developing technology in a fiercely competitive environment (Ohvaninen & Hietikko, 2012). Therefore, in the long run, competitive advantage is a company's strategy to achieve long-term benefits that competitors cannot surpass through product duplication (Ge et al., 2018). The purpose of competitive advantage is to create and maintain a business's competitiveness compared to competitors, thereby improving the financial performance of the business (Sinaga et al., 2019).

### **Financial performance of the business**

Murphy et al. (1996) stated that financial performance is the result of a business's operations reflected through the implementation of a number of financial indicators of the business. According to Golicic & Smith (2013), the financial performance of a business describes the success of the business in performing and completing work with maximum profit. Financial performance of a company is basically a picture of whether the company meets its economic goals, such as market share or revenue targets (Lirn et al., 2014). Measuring financial performance in financial terms has always been the most popular measurement method in studies on corporate governance in general and accounting in particular (Hudson, 2001). Although a complete assessment of a company's financial performance must take into account a variety of metrics, the most common performance measures used in finance and statistical inference are financial ratios (Farah Naz et Al, 2016). Lau and Sholihin (2005) pointed out that many studies use financial results to reflect the business performance due to certain advantages such as objectivity and convenience. Cash flow, balance sheet, profit and loss, and changes in capital can be the information basis for business managers to make decisions. It is important to understand fundamental analysis and technical analysis, it is necessary to study finance to understand the financial behavior of the company through economics, financial management and accounting (Didin Fatihudin, 2018).

### **The impact of competitive advantage on corporate financial performance**

The results of Munizu (2013) study showed that competitive advantage affects the financial performance of the organization compared to other factors. If the company has competitive advantage, it will create conditions for the company to perform better than its current competitors. In addition, in another study, Majeed (2011) supported the positive influence between competitive advantage and organizational performance. Competitive advantage allows companies to differentiate themselves from their competitors, improve their performance, and create added value for the company (Wang, 2014). Therefore, a company with a competitive advantage will generate more financial performance than other companies. Haseeb, M. et al. (2019), argued that in the post-modern industrialization era, sustainable business performance is crucial for success in a competitive environment and competitive advantage plays an important role for businesses to achieve sustainable financial performance. In a differentiation strategy, a company creates unique, differentiated products that cannot be imitated by competitors. The company gains a competitive advantage, when competitors cannot imitate the company's products, which is also a way to cut costs and improve the financial performance of the business (Rauf et al., 2019). This cost reduction can increase the profit or financial performance of the business (Porter, 1985). Therefore, the author proposes the hypothesis: Competitive advantage has a positive impact on the financial performance of the organization.

### 3. RESEARCH MODEL

#### Research sample

Research data is secondary data collected from financial statements of listed enterprises on the Vietnamese stock market in the period from 2019-2023, with 7252 observations. Data of the above companies is collected from the financial reports of enterprises and Vietstock's data set, as well as synthesized from data sources published on some reputable stock websites such as [cafef.vn](http://cafef.vn) or [cophieu68.com](http://cophieu68.com). The original data will be aggregated and recalculated in the correct way of determining variables, in which some variables will be regressed to get the residuals and initialize new variables accordingly through Stata 14.0 software.

#### Research model

The main objective of this study is to examine the impact of competitive advantage on the financial performance of listed companies on the Vietnamese stock market. In addition, the study considers some observed variables such as the company's operating time, company size, and tangibility. For the financial performance of a company, it is often expressed through achieving goals of market share, revenue or profit. According to Vithessonthi & Racela, (2016), the financial performance of a business is measured through the ROA indicator. As for competitive advantage, it is how a company differentiates itself from its competitors, reduces costs, and improves its financial performance. Competitive advantage comes from asset turnover (Dehning & Stratopoulos, 2002). The more products sold, the higher the competitive advantage of the company. According to Curtis et al. (2015), competitive advantage is measured by the effective use of assets or asset turnover measurement. Firm size can be measured by the natural logarithm of total assets (Zhang et al., 2016). Tangibility can be measured by the ratio of net fixed assets to total assets (Vithessonthi & Tongurai, 2015).

**Table 1. Variables in the research model**

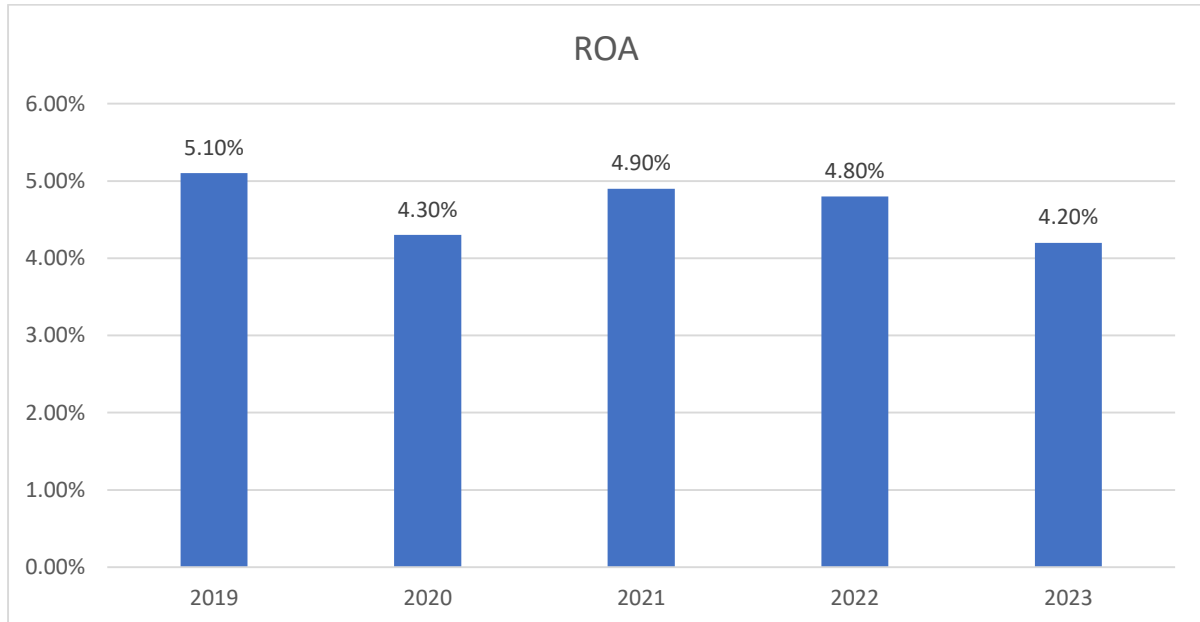
Variable	Code	Measured	Source
Firm Performance	FP	ROA = (EBIT/TA) EBIT: Earning Before Interest and Tax TA: Total assets	Vithessonthi & Racela, 2016
Competitive Advantage	CA	CA = Sales/Total Assets	Curtis et al. (2015)
FirmSize	SIZE	the natural logarithm of total assets	Zhang et al., 2016
Tangibility	TA	the ratio of net fixed assets to total assets	Vithessonthi & Tongurai, 2015

Based on theory and research overview, the authors propose the following research model:

$$Firm\ Performance = \beta_0 + \beta_1 CA + \beta_2 SIZE + \beta_3 TA + e$$

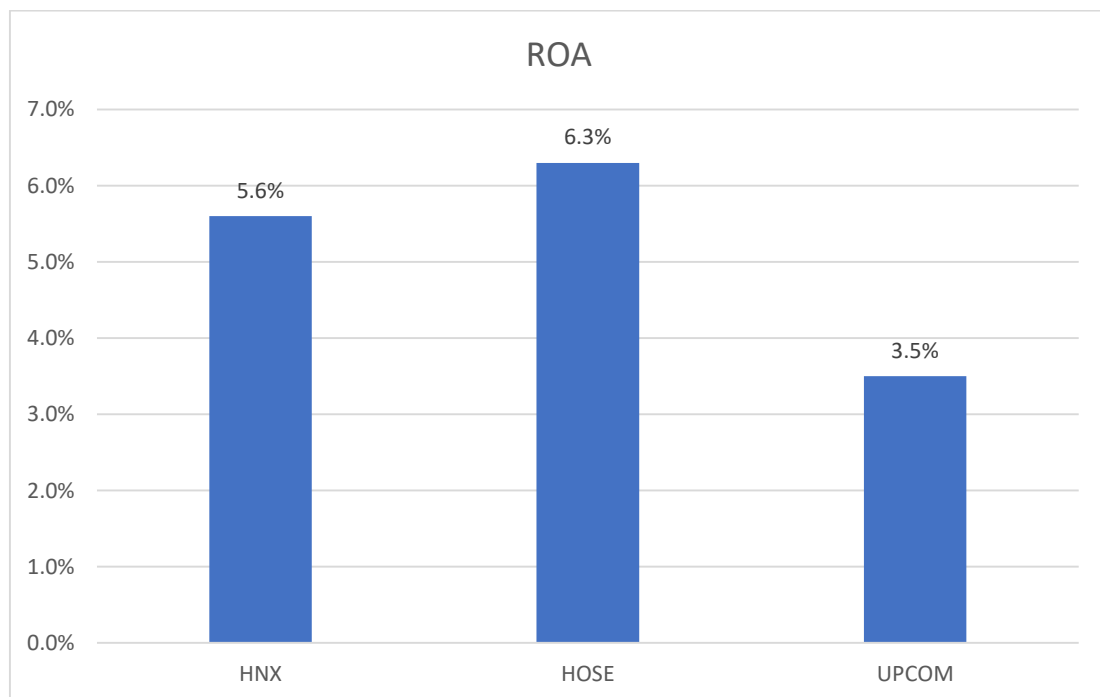
#### 4. RESEARCH RESULTS

In the period 2019-2023, business performance measured by profit after tax on total assets (ROA) is shown in Figure 1. Statistical results show that ROA does not change much in the years. In the period 2019-2023, which is the period heavily affected by the Covid-19 pandemic, ROA of the years gradually decreased, the lowest being in 2023 with ROA of 4.2%.



**Figure 1. Business results for the period 2019-2023**

Comparison of ROA by stock exchange is shown in Figure 2. This result, together with the result of the Chi-square test, shows that there is a difference in ROA by stock exchange. Enterprises on the HOSE floor have the largest ROA, enterprises on the Upcom floor have the smallest ROA.



**Figure 2. Business results by stock exchange**

**Table 2. Chi-square test**

<b>Summary of ROA</b>			
<b>SANCK</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Freq.</b>
HNX	.05618517	.07335122	1,523
HOSE	.06359496	.07010967	1,77
UPCoM	.03586189	.08713773	3,959
Total	.04689883	.08139953	7,252

<b>Analysis of Variance</b>					
<b>Source</b>	<b>SS</b>	<b>Df</b>	<b>MS</b>	<b>F</b>	<b>Prob &gt; F</b>
Between groups	.10700551	2	.553502756	85.48	0.0000
Within groups	46.9372813	7249	.006475001		
Total	48.0442868	7251	.006625884		
Bartlett's test for equal variances: $\chi^2(2) = 138.9135$ Prob> $\chi^2 = 0.000$					

The data in Table 3 shows the statistical results describing the characteristics of the variables in the study. The total number of observations of all four variables is 7,252 observations. The financial performance of the enterprise is shown through ROA - the dependent variable of the study, the ROA variable has an average value of 0.0468988, and the highest value is 0.3244412. The CA variable has an average value of 1.013181, the smallest value is 0, and the largest value is 6.97119. The SIZE variable has an average value of 27.13992, the smallest value is 23.629350, and the largest value is 31.70586. The TA variable has an average value of 0.2342492, the smallest value is 0, and the largest value is 0.9011832.

**Table 3. Descriptive statistics of the variables**

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Min</b>	<b>Max</b>
ROA	7,252	0.0468988	0.0813995	-.3815731	0.3244412
CA	7,252	1.013181	0.9778907	0	6.97119
SIZE	7,252	27.13992	1.582749	23.629350	31.70586
TA	7,252	0.2342492	0.2199445	0	0.9011832

Before implementing the regression model, the author evaluated the correlation coefficient between the variables, which is to check the close correlation between the independent variables and the dependent variable to eliminate factors that may contribute to creating multicollinearity. Table 4 presents the autocorrelation matrix, showing the direction of the impact between the research variables. The correlation coefficient between the independent variables in the model has no pair greater than 0.8, so there is little possibility of multicollinearity, when using the regression model, the author group used the VIF coefficient to check.

**Table 4. Correlation matrix**

	ROA	CA	SIZE	TA
ROA	1.000			
CA	0.1960	1.000		
	0.0000			
SIZE	0.0832	-0.1683	1.000	
	0.0000	0.0000		
TA	0.0096	-0.0252	-0.0123	1.000
	0.4152	0.0325	0.2972	

**Table 5: Regression results**

	VIF	Mô hình FEM	Mô hình REM	Mô hình GLS
CA	1.03	0.0376*** [18.85]	0.0258*** [18.85]	0.0180*** [18.44]
SIZE	1.03	0.00415 [1.63]	0.00722*** [6.85]	0.00633*** [10.44]
TA	1.00	-0.0927*** [-9.61]	-0.0314*** [-4.96]	0.00727** [1.70]
_cons		-0.0819	-0.169***	-0.145***
N		6961	6961	6961
R-sq		0.077		
Kiểm định F		F(3, 5475) = 152.95 Prob > F = 0.0000		
Kiểm định LM			Wald chi2(3) = 395.62 Prob > chi2 = 0.0000	Wald chi2(3) = 395.62 Prob > chi2 = 0.0000
Kiểm định Hausman		chi2(3) = 142.79 Prob>chi2 = 0.0000		

t statistics in brackets \* p<0.1, \*\* p<0.05, \*\*\* p<0.01

Based on Table 5, it shows that CA has a positive relationship and is statistically significant at 1% with the financial performance of the enterprise. Thus, increasing CA will contribute to increasing the financial performance of the enterprise. Similarly, SIZE has a positive relationship and is statistically significant at 1% with the financial performance of the enterprise. Meanwhile, the variable TA has a positive relationship with the financial performance of the enterprise but is only significant at the 5% level.

## 5. CONCLUSION

Using a research sample of 7252 observations at listed enterprises on the Vietnamese stock market in the period from 2019 to 2023 to examine the impact of Competitive Advantage, FirmSize, Tangibility on the financial performance of enterprises. The research results of the GLS model show that CA, SIZE, TA all have a positive relationship with the financial performance of enterprises. This result is similar to many studies around the world. The company's strategy to achieve a competitive advantage that competitors cannot imitate is a way to cut costs and this will be able to improve the company's performance (Rauf et al., 2019). In differentiation strategy, the company must create unique, different products that cannot be imitated by competitors, which will create a competitive advantage for the company and will reduce the company's costs. This cost reduction will be able to increase the company's profits or operating efficiency (Porter, 1985). Shah et al. (2000) also pointed out that Japanese enterprises, thanks to applying differentiation strategy, have better business performance than American enterprises implementing low-cost or focused strategy. Power & Hahn (2004) examined the relationship between competitive strategy and business performance and showed that competitive strategy brings higher profits and revenue to businesses than businesses without competitive strategy.

From the research results, listed enterprises on the Vietnamese stock market should create competitive advantages over competitors, then the enterprise will be able to expand market share, maximize the achievement of sales targets, increase profits and improve its operating efficiency. Since there are many competitors operating very similar businesses, it is necessary to have a competitive advantage to create products that cannot be imitated and this will have an impact on sales levels and improve the company's performance. Reducing production costs means that these companies can offer competitive prices, provide quality and value-added products and meet the needs of their customers. This will effectively give them a distinct advantage over their competitors and further improve their financial performance.

## REFERENCES

- [1] Abeysekara, N., Wang, H., & Kuruppuarachchi, D. (2019). Effect of supply-chain resilience on firm performance and competitive advantage: A study of the Sri Lankan apparel industry. *Business Process Management Journal*, 25(7), 1673-1695.
- [2] Dehning, B., & Stratopoulos, T. (2002). DuPont analysis of an IT-enabled competitive advantage. *International Journal of Accounting Information Systems*, 3(3), 165-176.
- [3] Crick, J. M., Crick, D., & Tebbett, N. (2020). Competitor orientation and value co-creation in sustaining rural New Zealand wine producers. *Journal of Rural Studies*, 73, 122-134.
- [4] Fatihudin, D. (2018). How measuring financial performance. *International Journal of Civil Engineering and Technology (IJCIET)*, 9(6), 553-557.
- [5] Golicic, S. L., & Smith, C. D. (2013). A meta-analysis of environmentally sustainable supply chain management practices and firm performance. *Journal of supply chain management*, 49(2), 78-95.



- [6] Hudson, M., Smart, A., & Bourne, M. (2001). Theory and practice in SME performance measurement systems. *International journal of operations & production management*. Kahreh, M. S., Ahmadi, H., & Hashemi, A. (2011). Achieving competitive advantage through empowering employees: An empirical study. *Far East Journal of Psychology and Business*, 3(2), 26-37.
- [7] Amoako-Gyampah, K., & Acquah, M. (2008). Manufacturing strategy, competitive strategy and firm performance: An empirical study in a developing economy environment. *International journal of production economics*, 111(2), 575-592.
- [8] Haseeb, M., Hussain, H. I., Kot, S., Androniceanu, A., & Jermstiparsert, K. (2019). Role of social and technological challenges in achieving a sustainable competitive advantage and sustainable business performance. *Sustainability*, 11(14), 3811.
- [9] Lau, C. M., & Sholihin, M. (2005). Financial and nonfinancial performance measures: How do they affect job satisfaction? *The British Accounting Review*, 37(4), 389-413.
- [10] Naz, F., Ijaz, F., & Naqvi, F. (2016). Financial performance of firms: Evidence from Pakistan cement industry. *Journal of teaching and Education*, 5(01), 81-94.
- [11] Munizu, M. (2013). The Impact of total quality management practices towards competitive advantage and organizational performance: Case of fishery industry in South Sulawesi Province of Indonesia. *Pakistan Journal of Commerce and Social Sciences (PJCSS)*, 7(1), 184-197.
- [12] Majeed, S. (2011). The impact of competitive advantage on organizational performance. *European Journal of Business and Management*, 3(4), 191-196
- [13] Murphy, G. B., Trailer, J. W., & Hill, R. C. (1996). Measuring performance in entrepreneurship research. *Journal of Business Research*, 36(1), 15-23.
- [14] Porter, M. E. (1980). Industry structure and competitive strategy: Keys to profitability. *Financial Analysts Journal*, 36(4), 30-41.
- [15] Son, T. V. (2023). The impact of competition on the profitability of Vietnamese commercial banks. *Journal of Financial-Marketing Research*, 84-97
- [16] Sinaga, V. C., & Gallena, J. T. (2018). The Influence of Competitive Advantage on Firm Performance of Small Medium Enterprises (SMEs). *Lembang, Bandung, Indonesia: Case Study*, 119(12), 15199-15220.
- [17] Vithessonthi, C., & Tongurai, J. (2015). The effect of firm size on the leverage–performance relationship during the financial crisis of 2007–2009. *Journal of multinational financial management*, 29, 1-29.
- [18] Tsao, W. Y. (2014). Enhancing competitive advantages: The contribution of mediator and moderator on stickiness in the LINE. *Journal of Retailing and Consumer Services*, 21(6), 933-941
- [19] Vithessonthi, C., & Racela, O. C. (2016). Short-and long-run effects of internationalization and R&D intensity on firm performance. *Journal of Multinational Financial Management*, 34, 28-45.
- [20] Wang, C. H. (2014). How relational capital mediates the effect of corporate reputation on competitive advantage: Evidence from Taiwan high-tech industry. *Technological Forecasting and Social Change*, 82, 167-176.