Determinants of Investors' Satisfaction at Industrial Zones in the Central Region of Vietnam

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Abstract Industrial zones (IZs) play an important role in the development of Vietnam during the last decades. This study analyzes the factors affecting the level of investor's satisfaction at IZs in the central region of Vietnam based on the data collected from 343 managers/directors who are investing at the IZs in the three selected provinces of the central region of Vietnam namely Quang Binh, Quang Tri and Thua Thien Hue. By employing PLS-SEM approach to analyse data, the results of this study revealed that four factors that influence the investors' satifaction in IZs are arranged sequentially, from high to low as follows: infrastructure system of IZs; responsiveness of local government; preferential policies and oprating cost. The result implicates that in order to improve the satisfaction of investors, local government should focus on the development of infrastructure system in IZs and pay more attention on the interaction between investors and local authorities.

Keywords: • industrial zones • satisfaction of investors • PLS-SEM • central Vietnam

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1 Introduction

Industrial Zones (IZs) are areas developed to attract, support and provide facilities for industries. IZs play an important role in the development of Vietnam during the last decades. The establishment of IZs contributed to the economic restructuring, created jobs and developed supporting industries in many provinces in Vietnam. In the central region of Vietnam, the formation and development of IZs has contributed to the rapid increase of Foreign Direct Investment (FDI) and became the important factor influencing the GDP growth, tax increase and infrastructure development. According to the Vietnamese Ministry of Investment and Planning, since the first IZ established in 1991, the number of IZs in Vietnam has increased to 397 in 2021. The development of IZs in Vietnam have attracted 21.875 projects with the 340 billion USD registered capital. Of which, the number of FDI projects is 10.975 with 230.1 billion USD registered capital (Ministry of Investment and Planning, 2022). Because of the importance of attracting investment in IZs, many researchers and governmental authorities were interested in studying on the satisfaction of investors in IZs (Cu, Hoang, & Le, 2020).

The central region of Vietnam has a total population of nearly 25 million people, accounting for nearly ¼ of Vietnam population. During the last two decades, there are many IZs established in this region. In 2021, the total registered capital at IZs in this region reached 16,140 billion VND and 8,785 million USD, creating jobs for more than 90,000 workers (General Statistics Office, 2022). Due to a high competition among regions in attracting investment, the improvement investors' satisfaction at IZs will subsequently increase the number of potential investors in the future. On the other hand, when the local government and management board of IZs fail to understand the factors influencing investors' satisfaction may result in a decline in number of new projects

Although several research has been carried out regarding the investment attraction in IZs in Vietnam (N. T. T. Ha, Ha, Duc, & Thang, 2016; Ho & Trung, 2011; Huong & Dung, 2019; Lan & Viet, 2018), less attention has been paid to examine factors influencing investors' satisfaction at IZs in the central region of Vietnam. Therefore, this study seeks to identify critical factors that impact on the satisfaction of investors when they do their business at IZs in the study site.

The paper is organized as following, in the next section, the literature review and hypothesis development are explained. Then, the research method is described, and followed by the research results and discussions. Finally, the conclusion and limitations of the research are clarified for future studies.

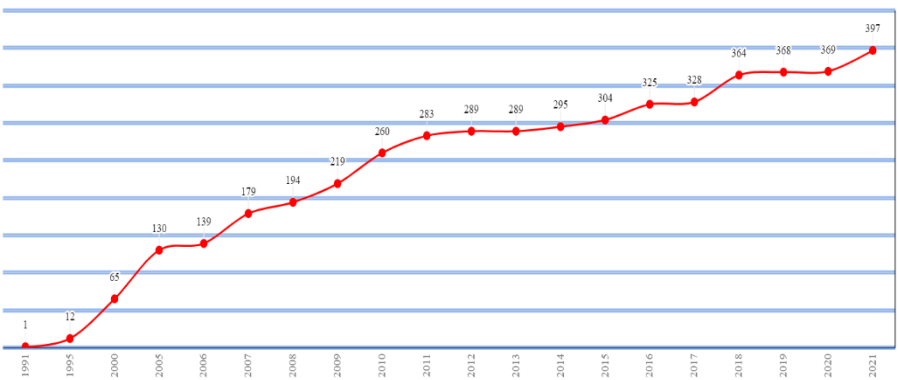
2 Literature review

2.1 The development of industrial zones in Vietnam and the study site

Industrial zones are locations that are earmarked by the government for the production of industrial goods. In industrial zones, enterprises produce industrial products, export and have incentives for business that set up there. As can be seen in the Figure 1, the number of industrial zones in Vietnam continues to rise during the last 30 years. As of December 2021, there were 397 industrial zones with 122.900 ha established in Vietnam. The occupancy rate in these IZs is 52.5 % and IZs have created 4.07 billion jobs (Ministry of Investment and Planning, 2022). The IZs in Vietnam are spread out across the country, and are concentrated within three administrative regions – the Northern, Central and Southern regions.

As Vietnam continues to attract FDI, IZs have been improving their infrastructure to meet international standards. Improvements include higher quality of factory buildings and warehouses, sufficient sources of electricity and water, building wastewater treatment plants and garbage disposals, fire prevention systems, telecommunications, logistic services, and internal roads. Besides, the Vietnam government has implemented many preferential policies to attract new investors such as reducing the land rental fee for new investors; improving the process to obtain investment certificate.

Figure 1: Number of IZs in Vietnam in the period 1991 – 2021

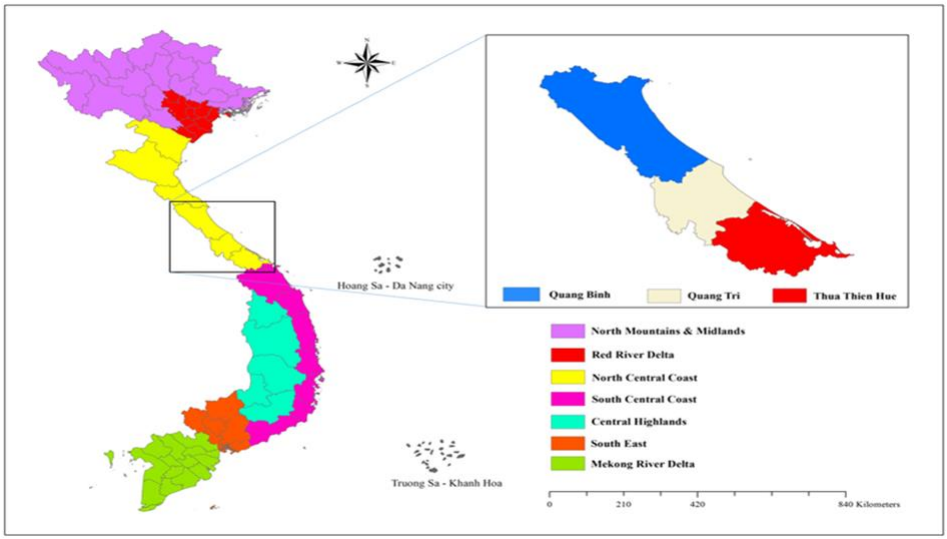


Source: Ministry of Investment and Planning.

Quang Binh, Quang Tri and Thua Thien Hue are three provinces in the central region selected for this study. During recent years the numbers of IZs has been increased rapidly in these provinces because it has location advantages. All three provinces are located near National Highways (Number 1A) that connect with Dong Hoi and Phu Bai airports, Chan

May and Gianh sea ports, and rail stations. Thus, it is easy to travel between Vietnam, Laos and Thailand.

Figure 2: Map of Vietnam and the study site



Thua Thien Hue has an area of more than 5,000km2 and a population of 1.2 million people. The province has a well-developed infrastructure system which include the Chan May deep sea port; the National Highway (Number 1A), and the Phu Bai airport. Thua Thien Hue is also a part of the East-West Economic Corridor linking Laos, Thailand, Myanmar and Vietnam, which facilitates a connection among Asia countries.

Quang Tri province is located in the central of region of Vietnam. It is surrounded by the Thua Thien Hue and the Quang Binh province. The province has a boarder with Savannakhet Province, Lao PRD, to the West, so it is easy to set up the connection with Lao PRD and Thailand.

Quang Binh is located in the North of the central region and the closest point from Vietnam to Lao PRD with a length of nearly 250km. The province has a convenient transportation system with national railways, Dong Hoi airports and Gianh deep-water ports. The province has the direct road to the Cha Lo international border gate with Lao PRD.

2.2 Factors influencing the satisfaction of investors in the IZs

The satisfaction of investor at IZs is a measure of the extent to which the investors are satisfied with the conditions or service they received from IZs. Previous studies indicate that investor satisfaction is the important factor for investment attraction because if investors are satisfied with the services and condition provided by local authorities and the management board of IZs, they will continue to invest more money in the future (Huong & Dung, 2019). From perspectives of local government, the understanding perceptions of investors' satisfaction may enable local government authorities to identify the issues of conditions or services they need to improve at IZs.

Several studies refer to the satisfaction of investors in IZs and its influencing factors. Ho and Trung (2011) studied the satisfaction of investors when they established their business at IZs in Vietnam. The research indicated that there were eight groups of factors with thirty-eight observed variables including physical infrastructure, working environment, human resources, fees, investment advantages, local brands, public services and governmental policy for investment. The results of this research also shown that the factors that have the greatest impact on investor satisfaction are governmental policy for investors, physical infrastructure, and quality of labour respectively. Similarly, M. Nguyen (2010) utilised the statistical method to investigate the different views of attracting foreign direct investment in Vietnam and concluded that the development of technical infrastructure is the most important factor, followed by incentives of local government for investors and operation costs and potential market. Geographic location and social infrastructure did not affect the selection of location. Huong and Dung (2019) point out the factors affecting the investors' satisfaction at IZs in Binh Dinh province, including the development of IZs infrastructure facilities, advantages of investment industry, support of local government relating to the decision-making process and cost advantage. According to T. D. Nguyen (2009), the factors affecting investors' satisfaction in Tien Giang province including basic business infrastructure (electricity, water system, schools,); local government support (e.g. public services, investment incentives) and quality of life.

Tocar (2018) reviewed the determinants of FDI follow and found that there were eleven categories of FDI determinants. Of these factors, infrastructure facilities, institutional – political factors, corporate tax rate had positive influence in investors' selection of investment places.

Infrastructure system: Infrastructure system, such as communication facilities, energy supply and transportation determine production and transaction costs, thus it influences the satisfaction of investors in IZs. Infrastructure factors are often mentioned in literature, although referring to different aspects. For instance, the stability of electrical system is important for production, thus it influence positively on the investors' decision (Kok & Ersoy, 2009). The study carried out by Khachoo and Khan (2012) show that there was a

significantly positive relationship between electric system and FDI inflows. In addition, the other infrastructure facilities such as water system supply, the sufficient areas of land for building factories was very important for investors because it impacts on the cost of investors. Thus, the relationship between infrastructure system and investors' satisfaction could be described as following:

H1: Infrastructure system has positive effect on investors' satisfaction

Government responsiveness: This dimension refers to the ability of local government authority's response to investors' enquires. Because IZs are a government-designated area for the industrial production of products and services, public services provided by local government and supports from local government authorities to investors will influence the satisfaction of investors. Previous studies shown that investors are unhappy with the delay of administrative procedure (Piecyk, Mordue, & Yates, 2016). So, the responsiveness of local government is required to make the investors' satisfaction at IZs. The second hypothesis is:

H2: Government responsiveness has positive effect on investors' satisfaction

Preferential policies: The preferential policies such as tax exemptions or reductions of Value-Added Tax (VAT), reducing land lease rate and supporting labor training. The aim of applying these policies is to promote and attract more investors to establish their plants in IZs. There are more preferential policies, the investors will be more satisfied as it will reduce production cost. Several previous studies found that there is significant correlation between preferential policies and investors' satisfaction (Dorożyński, 2020; Dzung, Tuan, & Tinh, 2017; Ślusarczyk, 2018). Thus, the third hypothesis is:

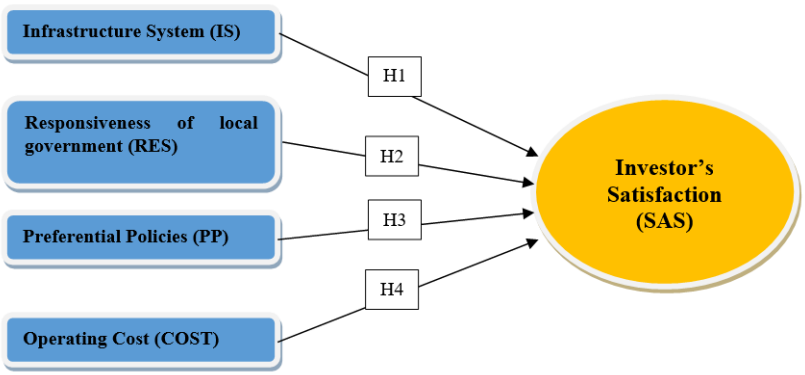
H3: Preferential policies have positive effect on investors' satisfaction

Operating cost: Operating cost in this context of this study relates to land cost, freight cost, labor cost and cost of waste disposal. Because these cost impacts on the long-term competitive advantages of the products, the investors will consider carefully when they decide to select IZs for their investment. The study carried out by Huong and Dung (2019) show that the cost of using infrastructure facilities such as electricity, water, waste disposal is critical factor influencing the satisfaction of investors. The fourth hypothesis is:

H4: Operating cost has positive effect on investors' satisfaction

Based on the reviewing of literature, the research conceptual model is shown in Figure 3.

Figure 3: Research conceptual model



3 Research methods

3.1 Survey instrument

A survey instrument was adopted from reviewing of literature and the analysis of in-depth interviews with 10 investors who are doing business in the IZs at three selected provinces. The scale of investors' satisfaction at IZs is based on the research of Huong and Dung (2019). Table 1 described the details of items in this research:

Table 1: List of items

Code	Item	Sources
IS1	Transportation systems are convenient	N. M. Ha and Khuong (2015)
IS2	Land area meet investors' demand	In-depth interviews
IS3	Power and water supply are stable	N. T. T. Ha et al. (2016), (Huong & Dung (2019)
PP1	Land lease policy is reasonable	Dzung et al. (2017)
PP2	Tax policy is reasonable	Chinh and Tuan (2018), N. T. T. Ha et al. (2016)
PP3	Local governments strongly support labour trainning	Chinh and Tuan (2018)
PP4	Well waste treatment system	Dzung et al. (2017)
Res1	Local leaders are uasually willing to support investors	N. T. T. Ha et al. (2016);
Res2	Legal documents are be deployed quickly to investors	Huong and Dung (2019)
Res3	Local government reponse quickly to investor's enquires	Dzung et al. (2017)
Res4	Administrative procedures are fast and effective	Huong and Dung (2019), N. T. T. Ha et al. (2016)
Cost1	Labour cost is reasonable	Huong and Dung (2019)
Cost2	Land incentives	Dzung et al. (2017)
Cost3	Cost of freight are reasonable	In-depth interviews
Cost4	Cost of waste disposal is reasonable	N. T. T. Ha et al. (2016)
Sas1	The industrial zones meets investor's expectations	Huong and Dung (2019)
Sas2	Continuing to invest in the industrial zones	Huong and Dung (2019)
Sas3	Introducing these IZs to other investors	Huong and Dung (2019)

The quantitative research method was utilised for this study. The study population consists of CEO/directors who are owners or managers of companies operating in IZs in Quang Binh, Quang Tri and Thua Thien Hue. These people are targeted in the study

because they have experiences in doing business, so they have understandings of factors influencing the satisfaction of investors.

3.2 Data analysis

In terms of data analysis, Partial Least Squares – Structural Equation Models (PLS-SEM) was employed to analysis data in this study. According to Hair, Risher, Sarstedt, and Ringle (2019), PLS-SEM approach is appropriate when the study aims to test a predictive relationship with small sample size. The aim of this research is to identify factors that influence investor satisfaction, thus, PLS-SEM is the best choice for data analysis. Regarding the sample size, this study applied the 10 times rule for determining minimum sample size because the study utilized PLS-SEM (Memon et al., 2020). According to this rule, the minimum sample for this study should be "10 times the largest number of structural paths directed at a particular construct in the structural model". The structural model in this research (as shown in the Figure 3) involves four direct paths, thus the minimum required sample size is 40 respondents. In this study, the returned respondents are 343 and it meet the requirement.

4 Results

4.1 Characteristics of Respondents

Table 2 shown that the characteristics of survey respondents in this study have quite diverse. Most of respondents is male (79%). This proportion is similar to the proportion of total population because the number of male who hold high position in companies is usually higher than female in context of Vietnam. In terms of work experiences, majority of respondent has working experience from 5 to 15 year (nearly 69%).

Table 2: Characteristics of respondents

No	Indicator	Number of respondents	Percent (%)
Gender	Male	271	79.0
	Female	72	21.0
Position	Chaiman of Management Board	78	22.7
	Director	97	28.3
	Vice director	86	25.1
	Head of departmenr	65	19.0
	Others	17	5.0
Work Experience	< 5 year	42	12.2
	5 – <10 year	113	32.9
	10– < 15 year	124	36.2
	> 15 year	64	18.7
Total		**343**	**100**

4.2 Results

The SEM-PLS approach, recommended by Hair et al. (2019) was adopted for the data analysis in this research. There are two steps for data analysis. First step, the outer measurement model is examined throughout three criteria including the reliability of measurement items, convergent validity and discriminant validity. The second step will exam the relationships among the latent constructs by validating the structural model. The SmartPLS 3.0 software was utilised for analyzing data in this study.

4.2.1 Evaluation of measurement model

According to Hair (2019), the outer measurement model is examined throughout three criteria including the reliability of measurement items, convergent validity and discriminant validity (Hair et al., 2019).

First, the item reliability was examined by the indicator loadings (outer loadings in reflective measurement models). According to Zeng, Liu, Gong, Hertogh, and König (2021) the acceptable item reliability is 0.7. The results in Table 3 show that all outer

loadings values of observed variables are above 0.7, indicating that the construct explains more than 50% of the indicator's variance.

Table 3: Outer loadings

	IS	RES	PP	COST	SAS
IS1	0.856				
IS2	0.835				
IS3	0.844				
Res1		0.751			
Res2		0.800			
Res3		0.833			
Res4		0.800			
PP1			0.765		
PP2			0.845		
PP3			0.877		
PP4			0.844		
Cost1				0.773	
Cost2				0.814	
Cost3				0.783	
Cost4				0.803	
Sas1					0.863
Sas2					0.854
Sas3					0.832

Source: SmartPLS output.

Composite reliability (CR) values are used to evaluate the reliability of the measurement items. According to Hair (2019), if CR values are above 0.70, the reliability of the measurement items will be confirmed. Table 5 indicates that all CR values of observed variables are higher than the 0.7 thresholds. Thus, the reliability of the measurement items is met. In terms of convergent validity, it is suggested that the AVE value of each construct should be above 0.5 (Hair et al., 2019). As shown in the Table 4, all the value of AVE is between 0.629 and 0.722, which indicates that the convergent validity is satisfied. Therefore, both the validity and reliability of the measurement model are confirmed.

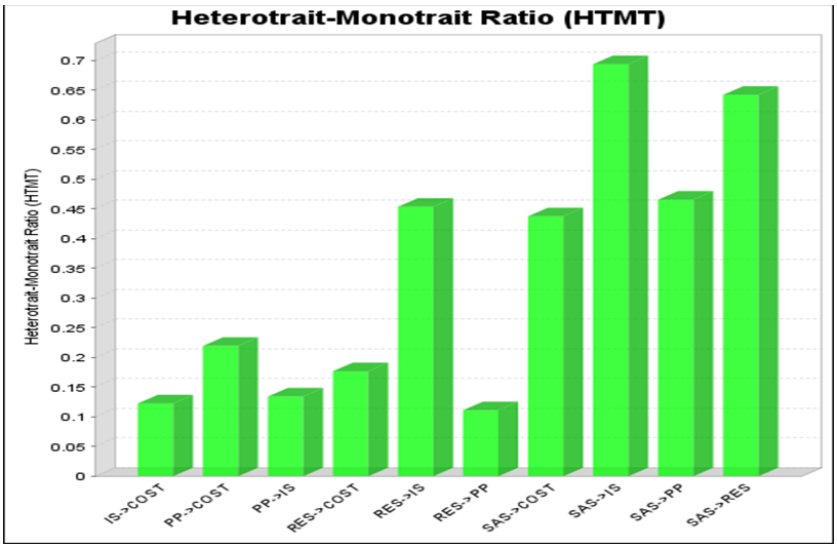
Table 4: Results of Measurement Model

Factors	Cronbach's Alpha	CR	AVE
IS	0.800	0.882	0.714
RES	0.809	0.874	0.635
PP	0.823	0.884	0.659
COST	0.806	0.872	0.629
SAS	0.808	0.886	0.722

Source: SmartPLS output.

To exam the discriminant validity of measurement model, this study applies the heterotrait-monotrait ratio (HTMT) criterion. According to Zeng et al. (2021), the heterotrait-monotrait ratio (HTMT) criterion is applied to assess the discriminant validity of the reflective constructs as the Fornell-Larcker criterion and cross- loadings are not sufficiently sensitive to discover the discriminant validity problems of measurement model. As shown in Figure 4, all HTMT values are below the threshold of 0.90, which confirms that discriminant validity is established for the reflective constructs of this study.

Figure 4: The Heterotrait-monotrait ratio (HTMT)



4.2.2 Evaluation of structural model

The structural model is examined after the measurement model are confirmed The R2 value measures the ability of the exogenous variables in explaining the endogenous variables in the structural model. Thus, it measures the predictive accuracy of the structural model. The result of bootstrap procedure shows that the R2 value in the structural model is 0.579. This indicates that all four factors in the proposed model (RES, IS, COST and PP) could explain 57.9 % of the variance of independent variable (SAS) (Hair et al., 2019).

Figure 5: The validated structural model

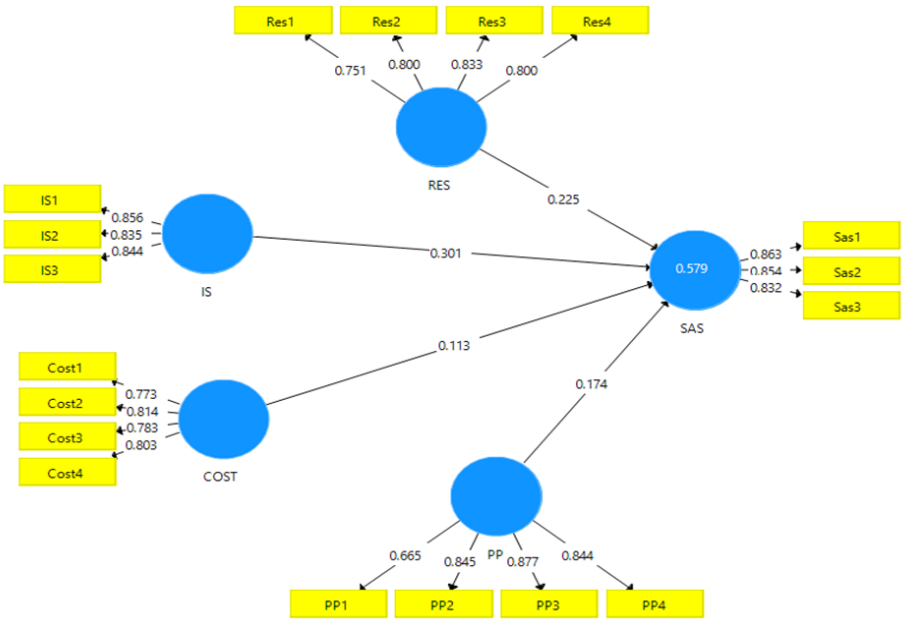


Table 5 illustrates the coefficient and the statistical significance of each path of the research proposed model. It can be seen that all four factors (IS, RES, PP and COST) have statistically significant and positive influence on investor satisfaction (SAS) at IZs in the central region of Vietnam. Of those factors, infrastructure system has strongest influence on investor satisfaction (β = 0,301; t-value = 8.579), follow by the RES factor (β = 0.225; t-value = 7.059). The impact of PP on investor satisfaction rank third (β = 0.174; t- value = 7.466. The least influencing factor is COST (β = 0.113; t- value = 6.657). Thus, hypothesis H1; H3; H4 and H4 are supported.

Table 5: Path coefficients and hypothesis testing

Hypothesis	Coefficient	Standard Deviation	T Statistics	Results
H1: IS -> SAS	0.301	0.045	8.579*	Support
H2: RES -> SAS	0.225	0.047	7.059*	Support
H3: PP -> SAS	0.174	0.037	7.466*	Support
H4: COST -> SAS	0.113	0.034	6.657*	Support

Source: SmartPLS output.

Predictive relevance (Q^2) is used to evaluate the predictive accuracy. As a rule of thumb, if a Q2 value is larger than zero, the exogenous constructs have predictive relevance for latent endogenous constructs (Hair et al., 2019). The Q2 value of the proposed model is 0.391, which indicates that the endogenous construct (Investor Satisfaction) involved in this research have strong predictive relevance.

5 Discussion

The current study investigates the influence of four factors that are infrastructure system; government responsiveness; preferential policies and operating cost in relation to investor's satisfaction at IZs in the central region of Vietnam. The results show that the effect of the infrastructure system factor is more important than the other factors. This finding is in line with several past studies which showed that the physical system such as water system, electricity and other types of physical system may increase investors' satisfaction (Ho & Trung, 2011; Huong & Dung, 2019; Lan & Viet, 2018).

The responsiveness of local government is the second important factors influencing investors' satisfaction. This result of the study shows that the support from local government could increase the satisfaction of investors. The finding of this research is similar with the work of Huong and Dung (2019) where they found that the local government support played an important role in enhancing the satisfaction of investors at IZs. This finding suggests that, local authorities should set priority on improving the administrative procedures in order to increase the level of investor satisfaction at IZs.

Regarding preferential policies, during the last decade, the local governments in three selected provinces have proposed many preferential policies such as exemption the cooperate income tax for first five years and personal income tax payable will be reduced by 50%; reducing land lease rate and supporting labor training to enhance the ability to attract investment capital. The study illustrates that these policies have positive impacts

on the satisfaction of investors. This finding is consistent with the study carried out by Ślusarczyk (2018) in Poland and Huong and Dung (2019) in the Binh Dinh province.

6 Conclusion and policy recommendations

The understanding of factors influencing investors' satisfaction in IZs is very crucial because if investor is satisfied with service quality and conditions offered by the local authorities or the management board of IZs, they feel more confident to invest at the IZs. This study indicates that all four proposed factors have positively influenced on the investors' satisfaction in the IZs in the central region of Vietnam. However, the level of importance is different among factors. Infrastructure system has strongest influences while operating cost factor has the least influence.

In order to enhance investor satisfaction and attract more investment in the future, it is important to create a favorable institution that ensures that investors develop production, the following recommendations should be implemented.

First, continuing to improve the infrastructure of industrial zones. Particular attention should be paid to the construction of waste water process, as it is the source of underwater pollution at IZs in the central region. Moreover, the transportation system between IZs and ports in Thua Thien Hue and Quang Binh need to be improved, thereby reducing the cost of production for businesses.

Secondly, implementing the "one-stop-shop" policy to avoid unnecessary procedures affecting the satisfaction of investors. The procedure to issue investment licensing for investors need to avoid errors and serious consequences. Therefore, it is recommended that these procedures should be implemented by Industrial Zone Management Board to create favorable conditions for investors.

Thirdly, the quality of social services need to be improved in order to enhance the quality of life for workers in the IZs. In addition, vocational training activities should be organized frequently to improve the quality of labor resources. This activity is very important as it will help investors recruiting high quality laborers into the production process.

Although the current study has identified critical factors that influence the satisfaction of investors, there are some limitations of this research that need to be point out. First, this study focus on the central region of Vietnam and it is limited to generalize the findings to other areas in the North and the South region as the different social economic conditions. Hence, future studies should be carried out at IZs in other regions to compare the influential factors on investor satisfaction. Second, the absence of qualitative research methods to explore deeply factors influencing the investors' satisfaction is another limitation of this study. Thus, future research should incorporate the qualitative methods

in research design. Lastly, it is suggested that future research need to be consider a longitudinal approach to identify whether investor the satisfaction of investor will impact on in the investors' decision.

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