LOGISTICS PERFORMANCE OF HANOI: ASSESSMENT AND RECOMMENDATIONS

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ABSTRACT
Purpose: The purpose of this paper is to present and analyse the logistics performance in Hanoi and barriers in improving the current status. This is supported by the assessment of the logistics system of representative firms in major fields and in critical areas. The criteria to evaluate (Grant *et al.*, 2015) are logistics-related dimensions that have profound impacts on logistics performance as well as trade. Furthermore, this paper compares the logistics performance in Hanoi with the country's LPI key dimensions and, whenever possible, provides evidence of determinants that affect to the improvement of logistics system of the city.

Methodology/ design/ approach: The paper bases on theoretical and empirical research, using data obtained from more than 250 firms who responded to the survey in 2017 on measuring logistics performance in Hanoi. The survey was designed with a view to assessing the logistics performance in Vietnam multifaceted, under the perspectives of both logistics service providers and the manufacturing and import-export firms; respondent firms differ in the type of business owner (joint stock companies, private companies, state companies, foreign companies, etc...). There has been a survey conducted by Dang Thi Thuy Hong (2015) about the logistics situation in Hanoi. However, this paper focuses thoroughly on the assessment of logistics service providers of Hanoi, thus being able to give a more precise analysis of the city's logistics performance.

Findings: Based on the research results, the paper defines the logistics performance of Hanoi and its key dimensions, identifies its pros and cons, therefore provides recommendations to effectively improve the logistics system of Hanoi.

Research limitations/ implications: Limitation is related to the availability of the required assessment data. The availability data is a reflection of systematic data collection and storage procedures of the respondent firms. The inadequate understandings in logistics field of firms that lead to the limited number of respondents also imply the research result constraints.

Originality/value: Proposed solutions and recommendations can be considered as reliable practical for both local authorities and enterprises in a common effort to improve logistics system of Hanoi.

Keywords: logistics performance, logistics system, logistics service provider, manufacturing firm, import-export firm, Hanoi, Vietnam.

INTRODUCTION

The global growing wealth of trade has led to rising national and international markets for goods and services. So as to meet the requirements of extended markets and the increase of new products and services, business has developed simultaneously in volume and in complication. In that context, the distribution of products from point-of-origin to point-of-consumption has become a massively vital component of the Gross Domestic Product (GDP). Logistics services have reformed production and distribution process, contributed to further economic integration.

According to the World Bank (2014), logistics costs in Vietnam represent 20.8% of annual GDP significantly higher than in other countries such as US, China, Thailand. Vietnam logistics is evaluated as

ineffective due to deficient transport infrastructure and high logistics services costs, which badly affects competition abilities of Vietnam's trade and production sector.

In Vietnam, there are only a few studies assessing the overall logistics performance. Banomyong *et al.* (2014) implemented a study of logistics performance of manufacturing and import-export firms in Vietnam, and Grant *et al.* (2015) completed a study evaluating Vietnamese logistics service quality by exploring Vietnamese Logistics Service Quality in the run-up to AEC 2015. Though having a quite wide range of respondents from the north to the south of Vietnam (53 companies located in the North, 24 in the Middle and 82 in the South of Vietnam), the former researched particularly about manufacturing and import-export firms. The latter studied the logistics service quality, in spite of having diversified genres of respondents, including import-export companies, production and manufacturing companies, privately-owned firms, Vietnamese state-owned firms and four other types, with limited number of samples, 24 respondents. Neither of studies concentrated on logistics performance of Hanoi. Thus, recommendations are proposed in order to improve the logistics performance of manufacturing and export – import firms in Hanoi.

There is a fact that in order to propose recommendations for better logistics sector in Hanoi, what we need initially is the prevailing situation. In other words, there raised a need to implement the evaluation of the all-around logistics performance of Hanoi under a sufficient number of viewpoints from logistics firms as well as manufacturing and import-export firms.

The purpose of this paper is to present and analyse the logistics performance in Hanoi and barriers in improving the current status. Furthermore, the paper compares the logistics performance in Hanoi with the country's LPI key dimensions and, whenever possible, provides evidence of determinants that affect to the improvement of logistics system of the city.

The paper is divided into 4 main sections. First, the literature review is presented. In the second part, the methodology section explains the data collection and the framework for logistics performance assessment. The findings from the study is then discussed. Finally, the recommendations and conclusions are withdrawn.

LITERATURE REVIEW

Based on the comprehensive understanding of the real situation of a geographical area (Mekong Subregion) logistics system, Banomyong (2014) evaluated four logistics related dimensions, namely (1) shippers, traders and consignees; (2) public and private sector logistics service providers; (3) national institutions, policies, and rules; and (4) transport and communications infrastructure. These four logistics-related dimensions are used inter-linked so as that the overall capability of the logistics systems is determined regarding the system performance and capability (Banomyong, 2008). The study has concluded that GMS countries are still at the early development stage in terms of four mentioned logistics dimensions, and they still require extensive infrastructure and corporate development to bolster their competitiveness in the global market.

Banomyong, Huong and Ha (2014) utilised the framework based on 9 key logistics activities proposed by Grant *et al.* (2006) with the usage of three performance dimensions, namely cost, time and reliability to measure enterprises logistics performance. Derived from that, a five-page questionnaire survey was designed. It was discovered that three factors which mainly affect Vietnamese manufacturing and export-import companies are transportation, warehousing, and inventory carrying costs. Limitation regarding the logistics performance assessment research in Vietnam as well as the limitation in the sampling creates the urge to conduct another study with an end of evaluating the logistics performance of Vietnam through a larger number of respondents.

Grant, Huong, and Lalwani (2015) generated a set of fourteen variables containing eight factors or variables derived as Banomyong, Huong and Ha (2014) antecedents and six remaining factors were used in determining LPI (Arvis *et al*., 2014) and carried out the survey to determine which factors are most important to customers as well as service providers in Vietnam regarding factors having profound impact on logistics service quality. The research came to the conclusion that seven logistics service quality

variables of costs, the efficiency of customs and border clearance, ease of arranging shipments, quality of logistics services, employee skills, timeliness and reliability are the most important factors to the respondent group. However, the number of responses is 30, 24 logistics "actors" and 6 external stakeholders, which is a limitation of the work. The variables need confirming and validating by a wider sample of logistics actors and external stakeholders. In that scenario, it will be more likely and validate for the observation to be generalized for the population.

Dang Thi Thuy Hong (2015) conducted a survey about the logistics situation in Hanoi and proposed solutions to develop the logistics system in the city in relation to promoting economic development in a stable way for the period from present to 2030. Nevertheless, this research concentrated chiefly on manufacturing and import-export firms, thus was not able to give an adequate view of logistics performance under LSPs' perspectives.

The World Bank provided another national logistics capability measure, the Logistics Performance Index (LPI). LPI is a weighted average of individual country over more than 150 countries, taking into consideration six dimensions: clearance process efficiency, trade and transport related infrastructure quality, arranging competitively priced shipments capability, logistics services quality and competence, track and trace consignment ease and the timeliness of delivery within an expected shipping schedule. Germany held their top position from 2014 with a score of 4.23/5.0 in 2016. Vietnam was ranked 64th with a score of 2.98, a downhill sign from the 48th in 2014 (World Bank, 2016).

However, these studies did not focus thoroughly on the assessment of logistics providers of Hanoi, therefore, could not provide a precise analysis of the city's logistics performance.

METHODOLOGY

In order to obtain the research objective, a framework based on Grant, Huong and Lalwani (2015) is developed. A set of criteria for logistics performance assessment are as below:

-infrastructure: firm infrastructure, commercial infrastructure, transport infrastructure
-service quality
-institutional framework: regulations, policies
-human resource
-custom
-shipment issue
-trucking and tracing
-capital access
-cost
-time
-reliability

Besides, the survey was designed with a view to assessing the logistics performance in Hanoi, under the perspectives of logistics service providers, manufacturing firms and import-export firms. Respondent firms are all based in Hanoi and differ in the type of business (Private companies, joint stock companies, government companies, foreign invested companies, etc.). 251 responses were received out of 300 questionnaires sent. There were 45.2% of logistics service providers, 39.6% of import – export firms, and 15.2% of manufacturing firms responding to a total response set of 250 respondents. These respondents varied with 53.6% of limited companies, 42.4% of joint stock companies, 1.2% of private-owned firms, 0.08% of state-owned firms, and 0.04% of foreign-owned firms. 24.4% of the total 250 companies had under 20 employees, 40.8% had 21-50 employees, 28.4% had 51-100 employees, 4.8% had 101-300 employees, 0.8% had 301-500 employees, and only 0.04% had more than 500 employees. The average number of year experience for the responding firms was 7.9, ranging from 1 to 26 years.

FINDINGS

Firstly, the result received from research revealed that the level of logistics performance in Hanoi is typically uneven, which have not met the expectations and have not really facilitated the development of enterprises, as well as logistics service providers in the city. In order to visualize more clearly, a

comparison of logistics performance evaluation assessed by enterprises is shown on the following factors (5: the best, 1: the worst):

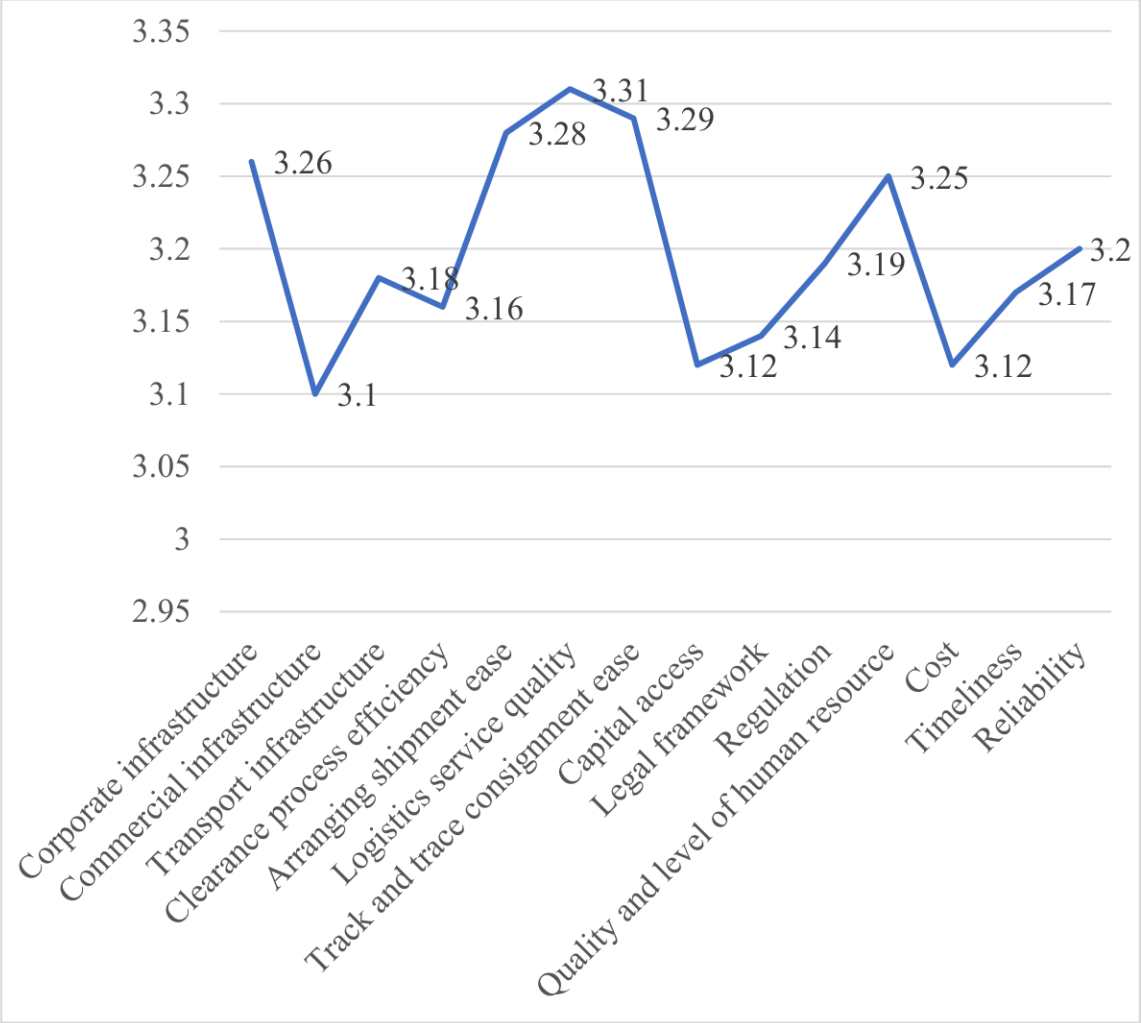

Figure 1: Logistics performance evaluation in Hanoi (Unit: point)
Source: research team

The survey results show that enterprises considered logistics service quality in Hanoi the best factor, reaching 3.31 points. In addition, the ability of tracking and tracing was also highlighted with 3.29 points. Meanwhile, the factors that enterprises in the capital of Vietnam underestimated were commercial infrastructure of Hanoi, with 3.1 points, and access to capital, as well as cost, with 3.12 points equally. The issues of customs and legal framework also need to be improved in the process of developing logistics performance of Hanoi.

The average grade for the inclusive logistics performance in Hanoi over the tenth scale is 7.31/10, which states that the current situation requires a great deal of efforts to make advancement. The good sign is that the point is over medium level, denoting that the current performance is not desperate.
Secondly, in comparison with LPI of World Bank (2016), the result is in the following figure.

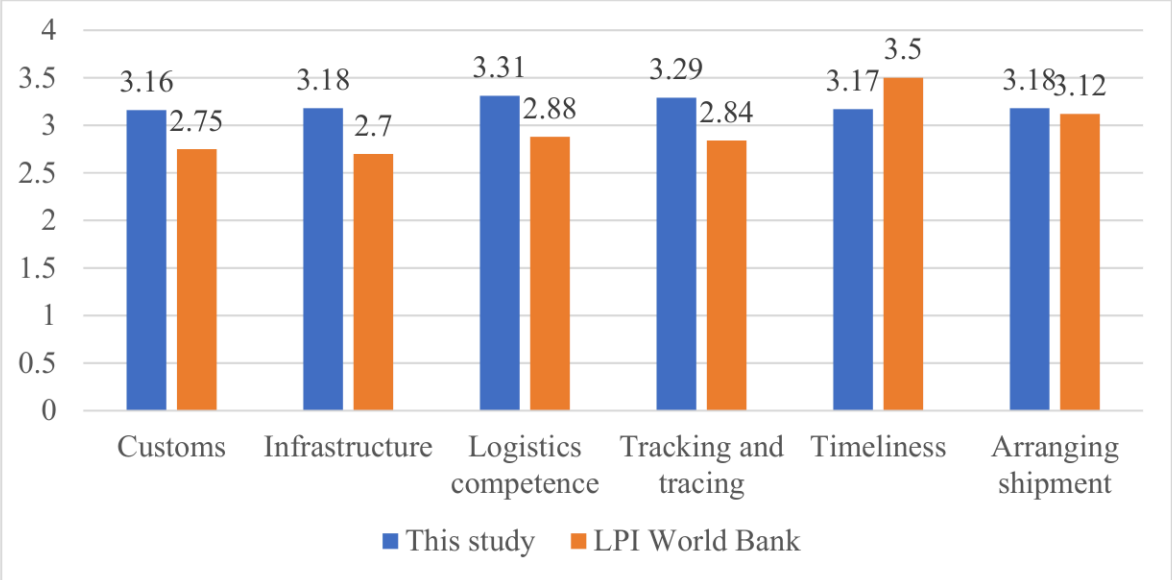

Figure 2: Comparison of survey results with LPI 2016 (Unit: point)
Source: research team

The comparison shows that Hanoi is much higher in logistics performance to whole country, except timeliness was evaluated lower. It is easy to explain the situation as Hanoi is the heart and the second economic and business centre of Vietnam. The survey resulted from the deep insights into the real situation which the city's infrastructure still does not meet the need of punctuality.

Authority role and overall evaluation

In the question asking about the possible authority support, above 70% thought there should have regular business conference and seminars, approximately 62% of the respondents thought that state authorities should have favourable policies for business activities and support commercial activities of the firms by other ways, and 56% indicated that governments could provide courses to train the human resources.

RECOMMENDATIONS AND CONCLUSIONS

Based on the result and analysis, some recommendations and conclusions could be made for government and authorities, as well as firms in order to improve the logistics performance of Hanoi.

Government and local authorities

Government and local authorities take an important role in creating favourable conditions for commercial activities to take place. They also have a vital part in the development of logistics performance of Hanoi.

Firstly, in terms of infrastructure, like other factors, government and authorities need to invest and upgrade three components, namely firm, commercial and transport infrastructure. In addition to the good infrastructure in intra-corporate, transport structure and commercial infrastructure should be invested to make the compatibility in the general infrastructure, creating the best conditions for the improvement of logistics performance.

It is necessary to have the compatibility here. First, the compatibility among the new and the ancient infrastructure is needed. Besides the modern technology used, there still exists infrastructure needed for amending. It is critical to level up the combination of updating and amending the infrastructure, in order to effectively develop the potential and capacity of the country. Second, there is a demand to have the compatibility among geographical areas along Hanoi. The issue of asymmetrical development between industrial areas, in spite of their different competitive advantages, has always been a hard question for the authority to answer for a long time. Finally, the compatibility between infrastructure and human resources is required for the even growth of both components, so that the development is certain and sustainable.

The government should consider investment focusedly and selectively. The investment should be made in projects which have the uniqueness. Besides IT application in the construction investment and operating management, attracting investment from official development assistance, domestic and international investors are worth doing. The government should also create the compatibility among all leading levels in the society so as to maximize the efficiency and minimize the costs.

Investment in IT should be highlighted and taken great attention to by both business and the government because of great advantages it could bring. The use of information, in general, would automate the process, save human and natural resources, so that we could allocate the resources more efficiently.

The authority needs to invest in IT infrastructure, create financial support so that small and medium logistics companies could invest in IT applications. Implementing a long-term IT development strategy along with a strategy for logistics development to 2020 with a 2030 orientation is necessary. The AEC leaders' policy aims “The ASEAN Single Window” to ensure the compatibility of each country's IT network with international standards, thereby linking and integrating all National Single Windows. The ultimate goal is to deliver secure, reliable electronic data, shorten product processing time and create transparency with customs procedures. Therefore, it is extremely urgent to build a comprehensive and transparent IT network linking state management agencies, customs offices, logistics enterprises and shippers.

Secondly, components in service quality need further attention, including clearance process, arranging shipments, service quality and competence, track and trace ease and capital access. The clearance process should be fastened, automated and simplified, ensuring not discouraging the logistics service providers and importer-exporter by decreasing incentives. Service quality and logistics competence should be leveraged up, ensuring the competitiveness of national business with international one by investing in infrastructure and human resources, and professionalizing as well as creating an efficient process. Track and trace ease should be highlighted, using telecommunication technology to guarantee the rights of the customers and the safety of the cargoes. One important factor is the capital access, which is the source for the investment and activity occurrence. The government should create favourable conditions for the capital flows and encourage domestic and international investments, so that domestic logistics and economic development could be beneficial from.

Furthermore, government and local authorities should promote investment in logistics infrastructure; strengthen cooperation with foreign partners to expand logistics infrastructure connection; apply advanced supply chain management model with enterprises located in the area such as garment and textile, footwear, furniture, agricultural food; encourage businesses to take the initiative and take advantage of the outsourcing of logistics services; help commercial enterprises, exporters and importers cut costs, save unnecessary investments and human resources so as to concentrate on their core business. Besides, functional agencies should create conditions on loan capital, allocate land for warehouses and yards, and at the same time, improve the system of legal documents; modernize, simplify customs procedures; listen and answer the problems of the business. The objective is to shorten clearance time, improve the quality of services for logistics enterprises in the area.

Thirdly, legal framework and policies in Vietnam, as well as Hanoi, should be simplified and united by government and authorities so that there is a limited number of documents and easing process. Investors, businesses and other parties are supposed to know which document to follow and where to find a helping hand. Taking into account the current situation of Vietnam legal framework, it will take us a long time to have a desired legal environment. However, things could definitely be achieved through short-run reviews and plans, taking place in turn of each other.

Furthermore, private and government law consultancy companies should be controlled and developed, to better support all the process. Law agencies had better complete their responsibilities to ensure that law companies operate legally and be useful to needed parties.

Last but not least, according to the survey carried out, the cities and provincial authorities should regularly organize seminar and conference to better perceive the difficulties in business, as well as create opportunities for business to have a deeper mutual understanding between partners and competitors, exchange experience and development multifacetedly. In the conferences and seminars, new regulations, international and domestic cases should be given out to discuss so that lessons and experiences would be drawn out and they could learn from each other.

In addition, it is critical for authorities to get rid of complicated administrative procedures. Instead, they could replace it with speedy and appropriated process including really crucial steps. The issuance of new law and policies or their amendment should be focused on one source to considerate, ensuring the speed and compatibility with already existed legal framework.

Recommendations for firms in Hanoi

First, companies need to see the role of IT as one of the factors which create customer satisfaction and contribute to the improvement of logistics services quality. In addition, companies need to focus on developing IT strategies as an important part of their business strategy. Part of the budget for business activities should be used to invest in IT in order to efficiently apply new software needed for logistics operations such as RFID, barcode, logistics cloud, etc. Companies should aim to collaborate with software companies to order specialized applications, thereby maximizing the efficiency of each application.

Companies need to put efforts on the recruitment, training and development of IT professionals. They could consider cooperating with human resource training centres or universities to train IT staff with logistics knowledge. Tailor-made training courses can be used to ensure that IT personnel are trained to meet specific requirements of the job.

Second, it is a matter of urgency that enterprises minimize the cost but still guarantee the quality of the infrastructure and activities proceeded. Costs of the logistics performance are also highlighted because the possibility to control the costs would favour and create competitive advantages for the logistics process. Firms could reduce costs in the long-term by making an initial investment in the equipment, technology and human resources. The increased value created from high-quality products in short-time due to the technology application would make up for the beginning investment.

Third, timeliness and reliability would have a profound impact on the overall logistics performance for the worldwide reputation and its direct impact on the efficiency of the supply chain. In many cases, timeliness and reliability are key determinants affecting the customer's decision of whether to further cooperate with the current partner in the future or not.

The timeliness should be ensured because of its long influence on the later decision of customers and incentives of the consumers. To achieve this, the subprocesses in the supply chain should be well controlled and fastened, for example in the procurement, or partner and suppliers management.
The reliability of the process is decided partially from the timeliness, and also interdependent on the products and services quality perceived each time. Logistics service providers should emphasize on these things to create a reputation for the business.

Fourth, human resource is the factor that needs great attention because of its integral part in controlling the process and creating all the plans carried out. Labour force level should be upgraded to match up with the development and the upgradation of the technology and infrastructure. Courses aiming to upgrade and develop the labour force ability, capacity and skills should be organized to create the compatibility in the country and in the business. Besides, employees ought to be provided opportunities of speaking out their opinion and desires as well as received care in terms of soul.

In a larger scale, the labour force is assumed to be appropriately oriented to efficiently develop, then being able in their desired fields and reaching their desired level of promotions and plan. To be possible to create favourable environment for human resources development, there is an increasing need for authority, educational agencies, business and families to collaborate with each other, so that students –

labour-to-be in the future were able to receive the best nurturing and schooling, in terms of knowledge, soul, health, discipline and practice.

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