

# Factors Affecting Investment Decision of FDI Enterprises in Thanh Hoa Province, Vietnam

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**Abstract** The main content of this study is to apply the Place Marketing theory to determinant of the Place Marketing Mix of Thanh Hoa Province; Assess the important level of the factors on the investment decision of the business FDI in Thanh Hoa Province; then propose improvement for attracting FDI in Thanh Hoa Province. This study used a combination of qualitative and quantitative research methods. Based on the inheritance of the model and scales derived from previous studies, the authors interviewed five experts who have excellent knowledge about FDI and five business representatives to adjust the scales to suit with Vietnamese conditions. The survey was conducted with 213 managers/ owners and deputy directors of FDI enterprises in Thanh Hoa province. The results of 186 valid questionnaires were the basis for quantitative analysis on the software SPSS 20.0. The results of quantitative research show that: Political & legal factors are the strongest factors that influence on the Investment decision. The rest factors as follows: Infrastructure, Availability of Resources, Customers and Market factors, Investment Promotion and Input Costs factors. Based on the results of the study, the authors also propose the Marketing Mix strategies for attracting FDI in Thanh Hoa Province.

**Keywords:** FDI investment decision, Place Marketing theory, attracting FDI, Thanh Hoa province, Marketing Mix strategies

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## 1. Introduction

Thanh Hoa Province is located in the North Central Region of Vietnam, which is the center linking the Red River Delta, Central Coast, North West, Northeast Laos, and Tonkin Gulf and the gateway to the nearest sea of the West Region in the North-western of Vietnam and North-eastern Laos. In the context of development and integration of the country and the region at present. Thanh Hoa has a geo-economic, politics, essential defence and security position and with the exchange advantages of economic, multi-direction trade in many regions in the country and internationally. By the end of 2016, the whole province has 9,150 operating enterprises, of which 8,534 enterprises are regularly operating; the total turnover of the enterprises is 162,167 trillion dong, up 8.7 percent against 2015, contributed to state budget reached VND 4,765 billion, up 1.5% over the same period [1]. In recent years, Thanh Hoa has many policies to attract investment, especially foreign investment for local development. According to the Foreign Investment Agency (the Ministry of Planning and Investment) [2], in the first 6 months of 2017, total FDI capital including new registration, increasing capital, capital contribution

and share purchase was 19.22 billion USD, up 54.8% over the same period in 2016, of which Thanh Hoa attracted the most foreign investment capital with total registered capital of 3.06 billion USD, accounting for 15.9% of national investment capital. By the end of 2016, Thanh Hoa has 71 FDI projects with total registered capital of 12.8 billion dong, ranking 9 out of 63 provinces in Vietnam [2]. Thanh Hoa FDI enterprises contributes about US \$ 116.7 million to the state budget, creates employment for about 150,000 people. However, besides largest project - Nghi Son petrochemical refinery (US \$ 9.2 billion), the remaining projects are small scale; the ratio of realized capital/ registered capital is low (46%) [3]; Investment fields mainly focus on processing and mining, building materials production; areas of high added value such as banking, insurance, transport services are limited; The rate of investment attraction has increased unevenly. The cause of this situation is the lack of infrastructure; Human resources have not met the needs of investors, investment promotion policies are not really attractive.

Therefore, we need to study and show the investment trend of FDI in the province in the past, identify the key factors in promoting local image to attract FDI as people, power, product, place and promotion. From there, analysis and assessment of the detailed place marketing activities in attracting FDI in Thanh Hoa Province are needed. Thus,

this paper proposes the Marketing Mix strategies for attracting FDI in Thanh Hoa Province.

## 2. Theoretical Framework

### 2.1. FDI Definition

According to IMF, FDI is investment capital in order to get prolonged benefits for companies operating in an economy differentiating from the national economy of investors. Purpose of investors is taking management right over the companies [4]. The FDI definition of the OECD is basically the same as the IMF's, which also establishes long-term relationships and create the influence on corporate governance. However, this concept points out more specific ways in which investors can create the influence on corporate governance. By analyzing the definitions above, it can be seen that foreign direct investment is an investment that requires a long-term interest and reflects the long-term interest and control of an entity resident in one economy (known as foreign direct investor or parent enterprise) in an enterprise residing in another economy economy of the foreign investor (referred to as FDI enterprise, subsidiary enterprise or foreign affiliates).

### 2.2. Place Marketing to Attract FDI

Place marketing is a set of action programs by the place to improve competitiveness and economic development. Marketing programs aim to give localities differentiated "artificial" and not natural elements such as geographic location, natural resources (Kotler, 2002). Effective marketing programs will help the locals become more attractive in the assessment of targeted consumer groups - investors, politicians, affordable tourists and manual workers. In other words, place marketing is a system of proactive action programs to change the local socio-economic status in a better direction.



Figure 1. The levels of Place marketing (Source: Kotler et al (2002))

In place marketing, a place is defined as a geographical area that is delimited by the fixing of administrative boundaries or natural terrain. A place can be a commune, a district, a province, a region, a country, or an area. The executive subject of place marketing is the agents that are involved in marketing activity, including all organizations and individuals living and working in the locality.

Consumers of Place marketing are people that the place wants to target. There are four types of customer that a place can address: (i) Visitors, (ii) Workers and their relatives, (iii) Investors, (iv) Export markets (Kotler, 2002). So from the point of view of place marketing, FDI enterprises are also a target group of a place or a geographic area.

As the other marketing strategies, place marketing is a combination of four basic marketing mix-4Ps: Product, Price, Place, and Promotion. In particular, in place marketing, it is added 2P as People and Power to attract investment of FDI. In which, Product are always put on the top.

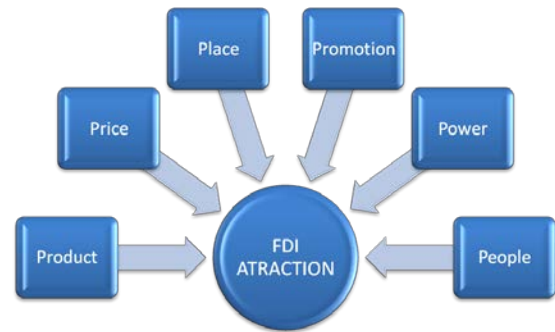


Figure 2. Marketing Mix to attract FDI (Source: Study of the Author based on Kotler et al, 2002)

### 2.3. Eclectic Theory (OLI model)

John Dunning [5] Professor Emeritus at the University of Reading (UK) and Rutgers University (USA), developed an Eclectic Theory, or OLI model. According to this theory, there are three groups of factors influencing the investment decision: (i) the ownership advantages (O) that are assets, transaction costs; (ii) Locational advantages (L) are natural resources, market growth, infrastructure, and government policies; and (iii) Internalization advantages (advantages I) are the advantages of transaction costs; full information; Advantage of the cost of implementing the patent, invention copyright. Dunning [5] validates this theory based on data from US companies in 14 industries in 7 different countries.

Based on Eclectic theory (OLI model) research models of factors influencing the investment attraction of FDI firms in Gilmore, O's Donnel, Carson and Cummins [6] and Le Hoang Ba Huyen [7] as follows:

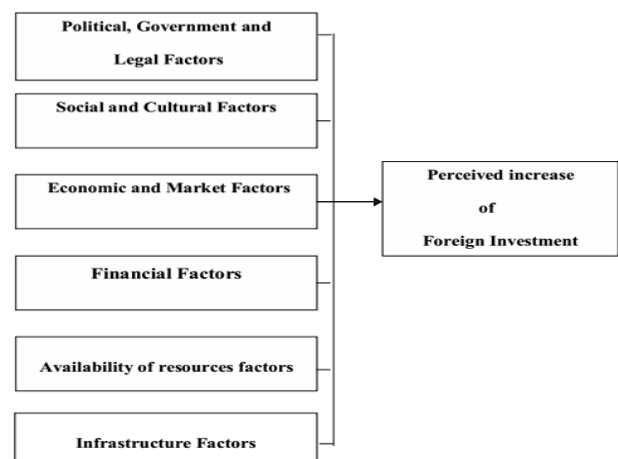


Figure 3. Factors influencing Foreign Investment (Source: Dunning, 1997)

### 3. Variables of the Study

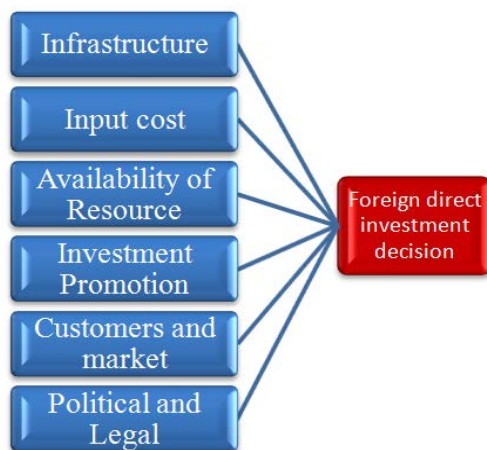
From the point of view of Place marketing (Figure 1) enterprises factors are (i) infrastructure; (ii) attractive features; (iii) local impression and quality of life and (iv) human. Based on this model, external factors are developed into four groups of factors. The first group is the infrastructure. The second group, the attractive features from policy (Political & Legal); Resources; Customers and Market; Input cost. The third group is the local impression that is the promotion. The fourth group of human is the local human and institutional resources.

By accessing the tools of marketing mix (Figure 2), factors are developed as follows:

**Table 1. Developing the factors based on the Marketing Mix tool**

TT	Marketing Mix Tool	Factor Developing
1	Product	1. Infrastructure
2	Price	2. Input Costs
3	Place	3. Availability of resources
4	Promotion	4. Investment promotion
5	People	5. Customers and Market
6	Power	6. Political & Legal

Based on the OLI Model and Place Marketing Theory, the author divides the factors influencing the investment decisions of FDI into six groups of variables: Infrastructure; Available of Resources; Input cost; Investment Promotion, Customers and Market factors; Political and legal factors. Factors affecting the investment decision of the firm to FDI are modeled as below:



**Figure 4.** Factors influencing the FDI attraction (Source: The author's synthesis of Dunning (1997) and Kotler (2002))

### 4. Conceptual Framework

Based on Marketing place theory & OLI model, the authors suggest the following hypotheses:

**H1:** Infrastructure factors positively affect FDI investment decision in Thanh Hoa province

**H2:** Input costs factors positively affect FDI investment decision in Thanh Hoa province.

**H3:** Availability of Resources factors positively affect FDI investment decision in Thanh Hoa province

**H4:** Investment promotion factors positively affect FDI investment decision in Thanh Hoa province

**H5:** Customer and market factors positively affect FDI investment decision in Thanh Hoa province

**H6:** Political and Legal factors positively affect FDI investment decision in Thanh Hoa province

## 5. Materials and Methods

### 5.1. Locale of the Study

Thanh Hoa province is located in the North Central Region, 150 kilometers from Hanoi to the South, 1,560 kilometers from Ho Chi Minh City. It is bordered by provinces of Ninh Binh, Nghe An, Houaphanh (Laos People's Democratic Republic). Thanh Hoa is a large province in both area and population, ranking fifth in area and third in population. The stable political situation and the rising local economy are favorable for attracting investment of foreign enterprises.

### 5.2. Research Design

The paper uses a combination of qualitative and quantitative research methods to assess the current status of local marketing activities in FDI attraction in Thanh Hoa province.

#### Qualitative research

To conduct qualitative research in this thesis, the authors use the direct interview method for enterprises and expert methods. Specifically:

(1) The first expert group is five experts with a Ph.D. degree or above who are knowledgeable about the research methodology or the factors that affect the investment decision. The consultation of these experts helped the authors to perfect the research framework, select appropriate research methods and develop hypotheses.

(2) The second group is the experts who are knowledgeable about FDI. The thesis has consulted leaders and staffs in the local government agencies directly involved in the management of FDI activities.

(3) For the third group, the authors conducted five interviews with representatives of FDI enterprises in order to determine which factors influenced the investment decision of enterprises into Thanh Hoa Province and find out which factors have the most influence. This is the basis for completing the research model; the questionnaires; Evaluating the current status of the factors influencing the investment decision. This is also the basis for explaining the results after quantitative research.

#### Quantitative research

Stage 1: Based on Place marketing theory, Eclectic theory, etc; Related research; An overview of Thanh Hoa's investment attraction, the author identifies the factors influencing the investment decisions of FDI enterprises. From there, the author proposes models and research hypotheses; simultaneously, develops the draft scale of the concepts in the research model

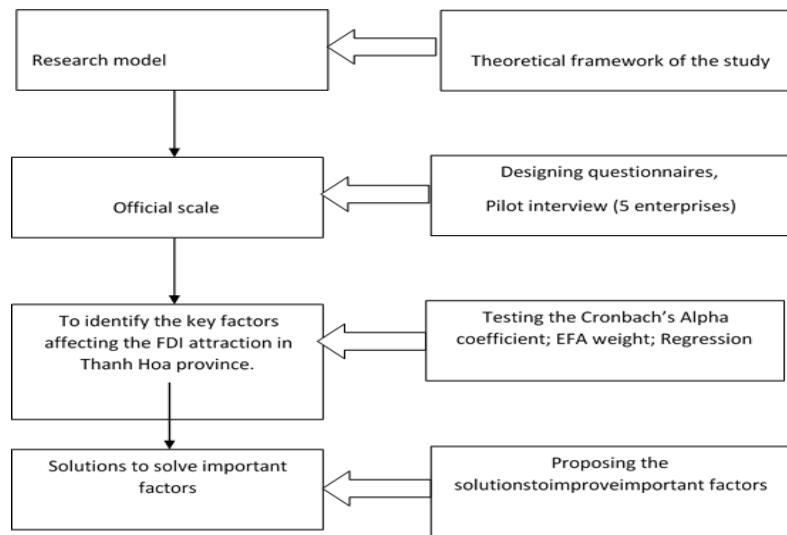


Figure 5. Research process

Stage 2: Preliminary research is a qualitative study using personal interview techniques (with expert advice) to evaluate the factors affecting the investment decision of the FDI enterprises; Proposed research model and draft scale 1, by which the research model and the draft scale one are calibrated to the official scale.

Stage 3: Formal study is a quantitative study that examines the scales and models of research, and then determines the influence level of factors influencing the investment decisions of FDI enterprises. The study process utilized Cronbach's Alpha reliability analysis techniques, analyzed the Exploratory Factor Analysis (EFA) to assess scales and multiple regression analysis to test the research model and research hypotheses.

Stage 4: Discuss the research results and propose some recommendations to attract FDI enterprises to Thanh Hoa.

### 5.3. Population, Sample & Sampling Technique

Up to December 2016, Thanh Hoa has 71 foreign investors. The number of 71 FDI enterprises is not too large; the author has conducted questionnaire to all 71 enterprises (100 percentages) to survey with both email and face-to-face survey.

However, in the questionnaires there are 36 scales, to ensure the number of questionnaires is five times the number of scales the author decides to survey three surveys for each enterprise. The respondents of the survey are the Chairman of the management board, the Vice Chairman (if any), the Executive director, the Deputy Director and the Head of the branch. So the overall survey is 213 votes. Results collected 186 valid votes to run quantitative results.

### 5.4. Research Instrument

#### Questionnaire

The formulation of the questionnaire was based on scales from previous relevant studies associated with qualitative research from experts and business owners. The questionnaire will be consulted by experts in related fields and then pilot interview with five enterprises. After

having the feedback and indicating the misleading points, the authors have edited into the official questionnaire and sent out to the survey subjects. The questionnaire consists of two parts:

Part 1: Profile of respondents

Part 2: Place marketing as the factors affecting FDI investment

### 5.5. Data Gathering Procedure

Secondary data is collected through researches published in books, journals and mass media; and reports by relevant management agencies.

Primary data is collected in two forms: First, interviews with experts on research methodology, policy makers and enterprises. Secondly, through questionnaires sent via email or direct interviews, the questionnaires were sent to the representatives of FDI enterprises (Chairman, Board of Directors).

### 5.6. Statistical Treatment of Data

Scale reliability assessment was conducted using the Cronbach's Alpha reliability coefficient and EFA through SPSS 20 processing software to screen and eliminate observed variables that are unresponsive to the reliability standard (garbage item). In which:

#### Evaluating the reliability of the observed variables

One of the most common methods for measuring scale reliability is Cronbach's Alpha. The Cronbach's Alpha coefficient is run separately for each independent factor, thereby measuring the consistency of variables within the same factor, as the greater the consistency of the observed variables, the higher the reliability of the scale.

#### Descriptive statistics

Descriptive statistics are used to describe the basic characteristics of data collected from empirical research in a variety of ways [8]. Descriptive Statistics provide simple summaries of samples and metrics. In this study, descriptive statistics are used to characterize the characteristics of FDI enterprises and the owners. At the same time, the results

of the Descriptive Statistics of the scales will describe the current picture of the local investment environment from the view of FDI enterprises.

### Exploratory Factor Analysis

The Cronbach's Alpha test scales gave good results; the qualifying observed variables used in the study included in the EFA [9,10].

Based on the EFA from the 33 initial observed variables after eliminating the inappropriate observed variables, the remaining 27 observed variables were collected into six factors.

The KMO test results for the dependent variable scales still show the fit with the coefficient KMO = 0.752

**Table 2. KMO and Bartlett's Test**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.752
Bartlett's Test of Sphericity	Approx. Chi-Square	275.625
	Df	6
	Sig.	.000

The Rotation Sums of Squared Loadings is high, about 61.333%. This implies the use of six factors representing 27 observed variables that can account for 61.333% of the explanatory power of all observed variables.

## 6. Results and Discussion

### 6.1. Determinants of the Place Marketing Mix of Thanh Hoa Province

#### Infrastructure factors

The author's survey result of infrastructure systems shows that FDI enterprises appreciate the importance of infrastructure factors. Specifically, the scales are rated at 3.52-3.74 points (Level 4- Important).

#### Input Costs factors

When making decisions on the place to invest, FDI enterprises will prioritize options to maximize profits. That is, the enterprises will choose the option to increase revenue; reduce costs; or the combination of both increasing revenue and reducing costs. That is, FDI enterprises will choose the investment location where can reach customers (increase revenue) or where there are

more preferential policies; lower price for rent, transport costs, labor and raw materials; less formal expenses (reduced costs). Research results of the author also show that FDI enterprises highly appreciate the importance of input costs factors. Specifically, input cost scales are rated at 3.52-3.67, which is equivalent to level 4, which is important.

#### Investment Promotion factors

We can have good infrastructure, competitive input costs, Availability of resources, etc. but if this information are not accessible to potential investors, all local efforts in attracting investment will become meaningless. The author's quantitative research result shows that investors also highly appreciate the role of promotion in attracting investment. Specifically, the scale of this factor has Mean in the range of 3.73-3.85. In which, investors highly appreciated the importance of promotion on investment policy (3.85 points).

#### Customers and Market factors

The results of the author's survey on Customers and Market factors show that FDI enterprises highly value the importance of Customers and Market factors Specifically, baseline scales are rated at 3.52-3.74 points (Level 4 - Important).

#### Political & Legal factors

For the question about the importance of political & legal factors, most investors highly appreciate the importance of this factor (Mean 3.55-3.85 points). In which, the investors highly appreciated the importance of the "Legal system related to investment and FDI is synchronous and consistent" (3.85) and "High stable Politics" (3.73 points). This suggests that in order to attract FDI investors, the local needs to maintain political stability as well as to develop a consistent system of investment and FDI laws.

### 6.2. Factors affecting FDI in Thanh Hoa Province ( $H_i$ testing)

#### Testing the suitability of the model

Analysis of ANOVA variance is to test the hypothesis of the suitability of the overall linear regression model. Results showed Sig coefficient is very small (Sig. = 0.000), thus it can be concluded that the regression model is predicted to be consistent with market data regarding overall.

#### Regression coefficients of the model

**Table 3. Regression coefficient**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.674	.227		-2.964	.003		
	X1	.407	.057	.366	7.156	.000	.653	1.532
	X2	.094	.045	.102	2.101	.037	.727	1.376
	X3	.195	.056	.181	3.489	.001	.637	1.570
	X4	.146	.061	.126	2.398	.018	.616	1.625
	X5	.154	.051	.152	3.015	.003	.673	1.487
	X6	.220	.055	.207	3.973	.000	.627	1.595

a. Dependent Variable: Y

The coefficient of VIF magnification factors are  $< 2$  so the model does not have multi-channel phenomena.

With the results of the regression coefficients in the above table, we have a normalized regression model that reflects the influence of the factors that make up the Investment Decision as follows:

$$Y = 0.366 X_1 + 0.102 X_2 + 0.181 X_3 + 0.126 X_4 + 0.152 X_5 + 0.207 X_6.$$

Through the results of the regression model, it can be seen that six factors are positively correlated with the Investment Decision.

**Table 4. Results of  $H_i$  testing**

Hypothesis	Beta coefficient	Hypothesis testing results
<b>H1:</b> Infrastructure factors will positively affect infusion of foreign direct investment capital in to Thanh Hoa province.	0.207	Acceptable
<b>H2:</b> Input cost factors will positively affect infusion of foreign direct investment capital in Thanh Hoa province.	0.102	Acceptable
<b>H3:</b> Availability of Resources factors will positively affect infusion of foreign direct investment in Thanh Hoa province.	0.181	Acceptable
<b>H4:</b> Investment promotion will positively affect infusion of foreign direct investment in Thanh Hoa province.	0.126	Acceptable
<b>H5:</b> Customers and market factors will positively affect infusion of foreign direct investment capital in Thanh Hoa province.	0.152	Acceptable
<b>H6:</b> Political and Legal factors will positively affect infusion of foreign direct investment capital in Thanh Hoa province.	0.366	Acceptable

Influence level of the factors to Investment Decision is determined by the standardized beta coefficient as follows:

POLITICAL & LEGAL ( $X_1$ ) is the most influential factor for Investment Decision. Specifically, when the POLITICAL & LEGAL increases 01 unit, the influence on the decision of investors increases 0.366 units.

INFRASTRUCTURE ( $X_5$ ) is the second most influential factor in the Investment Decision. Specifically, when INFRASTRUCTURE increases 01 unit, the influence of the decision of investors increased 0.207 units.

AVAILABILITY OF RESOURCES ( $X_3$ ) is the third most influential factor in Investment Decision. Specifically, when AVAILABILITY OF RESOURCES increases 01 unit, the influence of the decision of investors increased 0.181 units.

CUSTOMERS AND MARKET ( $X_4$ ) is the fourth most influential factor in the Investment Decision. Specifically, when CUSTOMERS AND MARKET increases 01 unit, the influence of the decision of investors increased 0.152 units.

INVESTMENT PROMOTION FACTOR ( $X_6$ ) is the fifth most influential factor in Investment Decision. Specifically, when INVESTMENT PROMOTION FACTOR

increases 01 unit, the influence of the decision of investors increased 0.126 units.

INPUT COSTS ( $X_2$ ) is the least influential factor in Investment Decision. Specifically, when INPUT COSTS increases 01 unit, the influence of the decision of investors increased 0.102 units.

### 6.3. Propose the Marketing Mix Strategies for Attracting FDI in Thanh Hoa Province

#### Political and Legal factors - Power

Quantitative research shows that POLITICAL & LEGAL FACTORS -  $X_1$  is the most influential factor in the decision of the investor. Therefore, to attract investment from FDI enterprises, it is necessary to improve the mechanisms and policies on improving the investment environment in Thanh Hoa province. Specifically:

#### Improve local investment environment

Firstly, localities need to review, amend, supplement and build up mechanisms and policies to encourage investment in development of industries and fields of the province which have been promulgated.

Secondly, in the process of improving the legal and policy environment, it is necessary to clarify the socio-economic benefits of the province when attracting FDI.

#### Promote the administrative procedures reform to meet the requirements of investors

Apart from flexible application and development of preferential mechanisms and policies to attract and invite investment, Thanh Hoa province also paid special attention to accelerate the administrative reform, focusing on quick and easy administrative procedures. In order to carry out this task, the following groups of measures should be focused:

Firstly, it is necessary to focus on IT application to ensure transparency in the implementation of public affairs

Secondly, complete the standardization and public posting of all administrative procedures at the office, on the province's electronic portal and websites of departments and People's Committees of districts, towns and cities

Thirdly, to set up a standard legal basis for administrative procedures.

Fourthly, early build up the project of intelligent province (city). Accordingly, E-Government will be effectively applied to solve administrative procedures..

#### Infrastructure factors - Product

INFRASTRUCTURE FACTORS-  $X_5$  is the second most important influence factor for a Investment decision, so it needs to be improved. The lack of infrastructure both in quantity and quality is one of the reasons that make the business cost in Vietnam in general as well as in Thanh Hoa in particular is high. Therefore, improving infrastructure is an urgent task to enhance FDI attraction in the coming time and improve the performance of the on-going FDI project.

Firstly, it is necessary to review and adjust the infrastructure planning based on sectoral and regional economic development planning.

Secondly, to intensify the socialization of investment in infrastructure development and expansion of investment modes.

Thirdly, focus on investment in the infrastructure sectors

#### Availability of Resources factors - Place

AVAILABILITY OF RESOURCES FACTORS - X3 is the third most influential factor in the decision of investors. Specifically, when AVAILABILITY OF RESOURCES FACTORS increases 01 unit, the investors' decisions increase 0.181 units. This is explained that Thanh Hoa has many natural advantages such as geographic location, natural resources, especially deep water seaports which can allow the ships with gravity of 500 thousand tons which is very convenient for multinational company to ship exporting goods. Therefore, besides communication work to promote, localities also need to create conditions for FDI enterprises to take advantage of local natural advantages to develop their businesses.

#### Investment Promotion factors - Promotion

*Strengthen investment promotion activities in order to attract FDI enterprises to invest in Thanh Hoa province.*

To attract FDI effectively, besides improving the investment environment, it is necessary to improve the quality of investment promotion activities. In Thanh Hoa province in the near future, to promote investment, especially foreign investment, the following specific solutions should be considered:

Firstly, the develop and revise the project list calling for FDI in line with sectoral planning, regional socio-economic development planning and development investment needs of the province in each period

Secondly, building an information system on investment environment, development orientation, investment opportunities.

Thirdly, for localities with limited land funds, it is necessary to study and propose policies to mobilize and attract investment from multinational corporations and key partners (Japan, the USA and EU).

Fourthly, to effectively promote investment. Organizing investment promotion programs in the country and abroad to mobilize and guide investors to find out information on the investment environment and select the field and location to implement the investment projects in Thanh Hoa.

Fifthly, it is necessary to continue holding regular meetings with the enterprises have invested and conducted production and business activities to detect and timely solve problems for enterprises as well as the information about the changes of the investment environment, introduction of investment opportunities.

Sixthly, to promote the application of information technology in investment promotion and investment activity management.

Sevently, emphasis should be placed on human resources in investment promotion and investment management.

#### Enhance the transparency of the local economy

Economic transparency is an important factor affecting in attracting, disbursing and implementing FDI capital.

Transparency of the economy will reduce investment costs, the investment risk of enterprises, thereby increasing investment efficiency, increasing the capabilities in forming and planning investment, and increasing the ability to attract investment capital. Hence, enhancing openness and transparency has a positive effect on investors' confidence in investment prospects and a safe investment environment as investors strongly invest their capital. In order to implement this solution, the local government should strive to solve the problem of enhancing the transparency of the business community in order to reduce costs for enterprises.

## 7. Conclusion

Based on qualitative and quantitative research results, the article identifies the influence level of factors on the investment decision of FDI enterprises in Thanh Hoa province in the following order: (1) Political and Legal (2) Infrastructure, (3) Availability of Resources, (4) Customers and Market, (5) Investment Promotion and (6) Input costs. Based on the results of this study, the authors proposed Marketing Mix Strategies for attracting FDI in Thanh Hoa Province including: The contents of these proposals may be the basis for Thanh Hoa Province and other localities to develop policies to attract investment from FDI enterprises.

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