



SITUATION OF DEVELOPING SMALL AND MEDIUM ENTERPRISES IN VIETNAM

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Abstract. The paper focuses on systematizing some indicators to assess the development of small and medium enterprises. On that basis, apply these criteria to analyze the situation of small and medium enterprise development in Hanoi city, Vietnam. The targets focus on assessing the number of businesses, scale, labor and business performance. The calculation results show that the indicators reflect quite well the situation of enterprise development and can be applied in related studies.

Keywords: *small and medium-sized enterprises, targets, capital and labor, Hanoi, Vietnam.*

1. Introduction

Research on small and medium-sized businesses is a topic that attracts a lot of attention from scientists, policy makers, governments and the public, because of its great role, as well as the contribution of the region. This is reflected in the number of businesses, contributing to GDP, creating jobs for the society, leading to an expensive economic development, regulating the market balance.

In Vietnam, in the process of industrialization and modernization of the country, Vietnam has identified enterprises as a key army, leading the country to achieve its goal of prosperity and parity with other countries in the region and around the world. In fact, enterprises are the largest contributor to the size and growth of Vietnam's economy, on average in the period of 2010-2017, this sector contributed to the state budget increased by 12,4%/year, equivalent to over 60% of GDP of the whole economy. In particular, the small and medium enterprises account for 98.1% of the total number of operating businesses, contributing about 45% of GDP, 31% of total state budget revenue and creating jobs for more than 5 million employees. On average, in the period of 2012-2017, the number of small and medium-sized enterprises increased by 8.8%, higher than the average growth of large enterprises by 5.4%. However, after 3 decades of renovation (from 1986 up to now), most Vietnamese private enterprises are still small and super small scale (up to 42% of enterprises have annual turnover of less than 1 billion VND and 85% of officially operating enterprises have turnover of less than 2 billion VND), of which, the performance of this economic sector is still low and has declined over the past decade. The return on business capital (ROI) of private enterprises is very low, only one fifth of FDI enterprises and nearly one quarter of SOEs. The return on equity (ROE) of private enterprises is only 4% compared to 16.3% of FDI enterprises and 11% of state-owned enterprises (2014). Regarding the link with the global supply chain, Vietnam has only about 21%, while this rate in Thailand is 30% and in Malaysia, it is 46%. It is estimated that Vietnam has less than 0.1% of science and technology enterprises in total. The

investment cost for technological innovation of Vietnamese enterprises is less than 0.3% of revenue, while in India this rate is 5%; in South Korea, it is 10% and in Japan, it is 50%...

2. Criteria to assess the development of small and medium-sized enterprises

According to the approach of SMEs development, the criteria for evaluating the development of SMEs include: (1) Broad-based development or development of the number of SMEs - an increase in the number of SMEs; 2) Development in depth, or quality development to create SMEs with qualitative changes and high value-added businesses;

When considering or evaluating the level of SMEs development at a time or a stage of the whole country; of each locality or comparing the development of SMEs between countries, they often have to base on the criteria and be divided into two groups, namely:

* Group 1: Development by width

Indicator on the total number of small and medium-sized enterprises: These indicator reflects the total number of small and medium-sized enterprises existing in a year, after subtracting the number of enterprises dissolved, suspended and destroyed in that year.

$$\sum \text{SME} = \sum (\text{Sn} + \text{Sa}) - \sum (\text{Sbr} + \text{Sdi} + \text{Spa}) \quad (1)$$

In which: $\sum \text{SME}$ is the total number of SMEs available over the years or periods; Sn is the number of newly established SMEs; Sa is the number of SMEs operating again; Sbr is the number of bankrupt SMEs; Sdi is the number of dissolved SMEs; Spa is the number of SMEs suspended. Accordingly, the larger this number is, the larger the size of the number of small and medium-sized enterprises is.

For Indicator on the structure of enterprises, or the number and proportion of SMEs in each industry, according to the table of national economic sub-sectors: industry, agriculture, construction, trade and service, transportation - transportation, etc., or secondary industries such as mechanics, manufacturing, mining, tourism, wholesale, retail, healthcare, education, etc. Accordingly, the number and proportion of SMEs in each industry (R_{SMEx}) are determined by the following formula:

$$R_{\text{SMEx}} = \frac{\text{SMEx}}{\sum \text{SME}} \quad (2)$$

In which: SMEx is the total number of enterprises in each registered X sector or X field; $\sum \text{SME}$ is the total number of small and medium-sized enterprises in that year.

The larger the R_{SMEx} ratio is, the more the number of businesses registered to operate is. Based on this figure, macro managers can make comments and guide national development strategies in the future. If these criteria are ensured in a harmonious and balanced manner between sectors and fields, that is, to ensure the number of SMEs in the sectors and fields to develop reasonably, developed economy will balance, harmonize and exploit strengths and comparative advantages. Industries, sectors and businesses will support each other and restrict or avoid dependence on foreign countries. On the contrary, the economy cannot exploit its strengths, become dependent, or even fall into a difficult situation, recession or crisis when foreign markets have big fluctuations.

Thus, it can be seen that at a certain time or stage, or a specific locality, the number of SMEs growing rapidly but the unreasonable enterprise structure also causes that the

development of the economy cannot be balanced and sustainable, so SMEs development strategy or plan is not considered to be effectively developed.

*** Group 2: Development in depth**

- Indicator of business capital size is determined by the formula as follows:

$$\sum V_n = \sum V_i \quad (3)$$

In which, $\sum V_n$ is the total registered capital of SMEs in year n; $\sum V_i$ is the total number of enterprises registered for business in month i.

This index shows the size of business registration capital of enterprises when established and also based on this scale, it will classify newly established enterprises into micro, small or medium. The higher this index is, the higher the size of small and medium-sized enterprise development is.

- Indicator of cumulative capital size is determined by the following formula:

$$\sum V_a = \sum (V_{a-1} + V_{nt}) \quad (4)$$

In which, V_a is the size of accumulated capital in year t; V_{a-1} is the accumulated capital of the previous year; V_{nt} is the total registered capital of business in year t.

This index shows the total registered capital of business in a calculation period (usually 5 years). The higher this index is, the higher the quality of the business scale of small and medium-sized businesses in a qualifying cycle is.

- The indicator of the total number of SMEs employees by industry is determined by the following formula:

$$\sum L_{\bar{d}nt} = \sum L_{\bar{d}nxt} \quad (5)$$

In which, $\sum L_{\bar{d}nt}$ is the total number of employees in the year, $\sum L_{\bar{d}nxt}$ is the total number of employees in each industry in the year.

This index shows the size of labor by sector by the small and medium enterprise. The larger the number is, the greater the labor force in all sectors of the small and medium-sized enterprise sector is.

$$K_1 = \frac{\sum LS_t}{\sum LS_{rt}} \quad (6)$$

In which, $\sum LS_t$ is the total number of employees by industry of the year; $\sum LS_{rt}$ is the total number of employees in the sector calculated.

This index represents the labor size of the small and medium-sized enterprise sector calculated on the total number of employees in the whole region. The larger this index is, the larger the labor scale in SMEs compared to the total number of employees in the region is, thereby partly showing the quality of development of SMEs.

- The net revenue norm is calculated according to the following formula:

$$\sum R_t = \sum R_{ti} \quad (7)$$

In which, $\sum R_t$ is the total net revenue in the year, $\sum R_{ti}$ is the total net revenue in month i.

This indicator reflects the proceeds after a business cycle of small and medium-sized enterprises. The bigger this indicator is, the better the quality of business of SMEs is.

The improvement of the quality indicators of SMEs, the increasing size of enterprises, the increasing income of enterprises and employees, and the increasing

competitiveness of enterprises show that the business environment for businesses is guaranteed smoothly, proving that the SME development strategy or plan is effective. Otherwise the opposite is not effective. The competent agencies must then consider and adjust the policies accordingly, ensuring a favorable business environment for SMEs to develop effectively.

3. Current status of SME development in Hanoi city, Vietnam

* For the number of SMEs

Up to now, the total number of SMEs in Hanoi accounts for 97% of the total number of registered enterprises, which is the business sector playing a very important role in creating jobs, accounting for 50.1% of employees in enterprises, increasing revenues of workers, mobilizing social resources for development investment and contributing to the State budget. Since the renovation, in harmony with the overall development of the whole country, businesses in Hanoi have had a strong development, making an important contribution to the construction and development of Hanoi capital into an economic and political center of the country. Hanoi has always been one of the top two localities in the country in terms of the number of businesses established and registered.

The 2000 Enterprise Law is an important legal document opening the development of businesses in general and SMEs in particular. With the new mechanism more openly, the SMEs have grown rapidly, every year a large number of new businesses register. According to the Hanoi Department of Planning and Investment, as of December 31, 2012, the total number of enterprises registered to operate in Hanoi City was 76201, and only 6 years later, the number of newly registered enterprises increased by 2.17 times in 2018, with the number of newly registered enterprises was 16348.

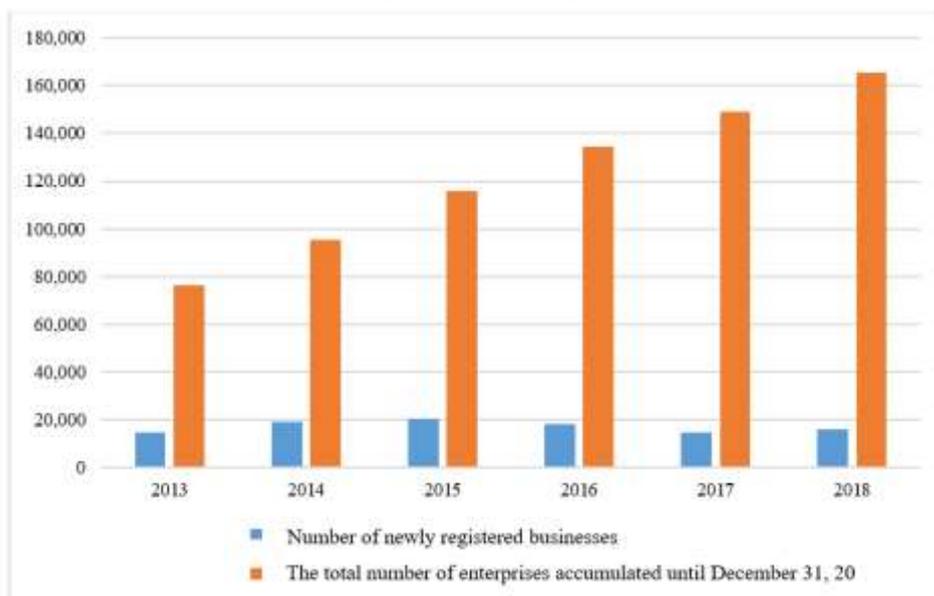


Figure 1. The number of annual growth of SMEs

Source: Report of Hanoi Department of Planning and Investment in 2018

In general, the number of businesses operating in Hanoi has increased significantly since 2000. In the past few years, the mechanical growth rate of the number of SMEs has increased from 10% -20% per year (specifically, in 2013 increased by 21.63%, 2014 increased by 22.06%, 2015 increased by 19.48%, 2016 increased by 15.09%, particularly

in 2017 & 2018 only increased by 10.86-10.89% due to the impact of the global financial crisis, the domestic economy faced many difficulties and challenges that significantly narrowed export markets, capital markets and labor markets and negative impacts on many other socio-economic fields of Vietnam. The strong development of SMEs has aroused a huge production capacity and addressed a large number of social workers, even in remote areas. The production capacity of this component has increased sharply, contributing significantly to GDP.

The increase in the number of SMEs has led to richer goods, higher competitiveness leading to higher quality of goods and services, and a more vibrant market. SMEs also contribute to tapping the country's potential for economic development such as natural resources, labor, capital, markets, especially delicate workmanship and national traditions. Thanks to promoting the advantages of SMEs, over the past time, the speed of business development of SMEs has been quite high. The non-state enterprise sector in Hanoi has created a volume of products accounting for over 42% of the total area.

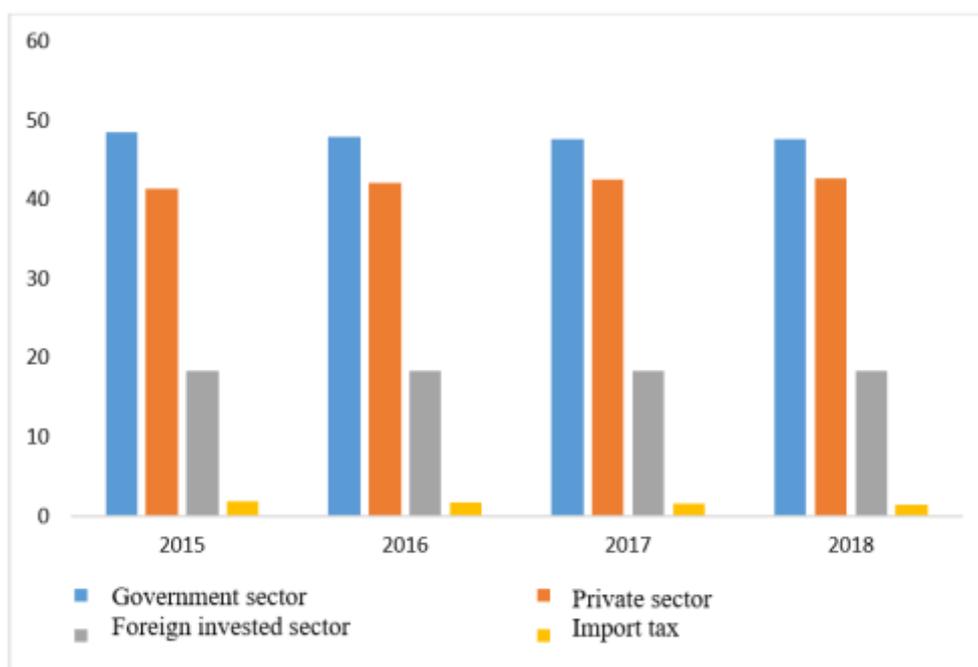


Figure 2. The structure of gross domestic product by type of economic activity
Source: Hanoi Statistical Yearbook, 2018

With a powerful business force engaged in production and business activities, the value that SMEs bring to the economy is huge, creating revenue sources for the State budget. However, it can be seen that, in terms of capital, the proportion of medium-sized enterprises tended to increase, but in terms of labor, the proportion of small and extremely small enterprises tended to increase and the percentage of medium-sized enterprises tended to decrease. The size of SMEs tends to narrow over time, showing that the competitiveness of this area is still very low and the issue of sustainable development is still a huge problem. According to the General Statistics Office, the proportion of medium-sized enterprises in the total number of operating enterprises has decreased

over time from 43% in 2010 to 29.6% in 2016; the percentage of small-sized enterprises decreased from 32.8% in 2010 to 29.6% in 2016; meanwhile, the group of micro enterprises is increasing from 54.8% in 2010 to 65.7% in 2016.

*** For capital size of the SME sector**

In the period of 2013-2018, the number of SMEs in Hanoi increased rapidly, along with the increase in registered capital. If in 2013, the total number of SMEs registered to establish in Hanoi was 69,274 enterprises with a total registered capital of VND 369,821 billion, by the end of December 31, 2018, the total number of SMEs registered to establish in the province was 150,251 enterprises with a total registered capital of 1,475,923 billion VND, an increase of 4 times within 5 years since 2013.

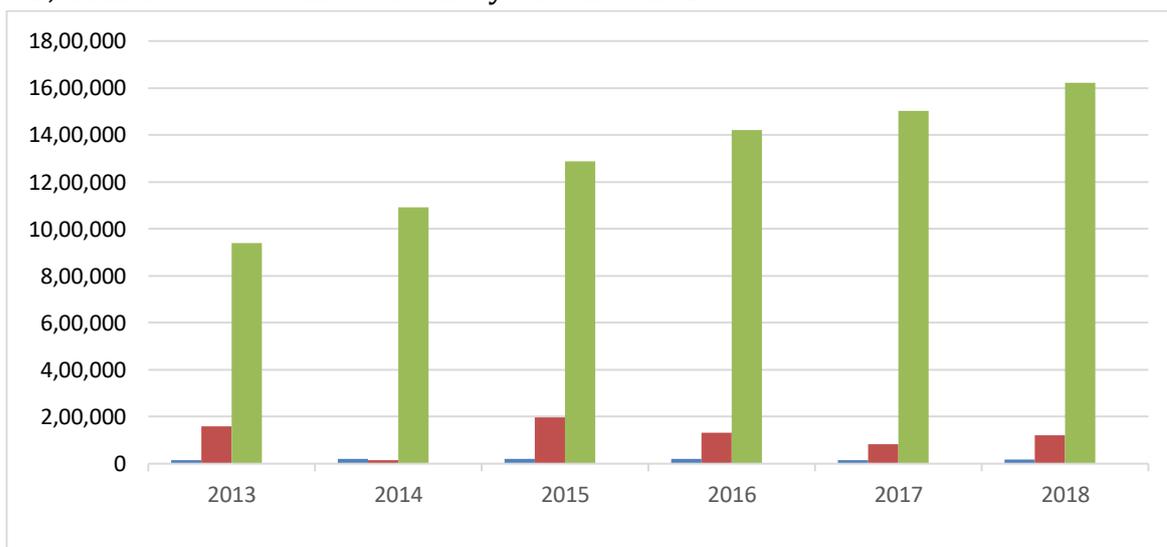


Figure 3. Some financial indicators of SMEs in Hanoi

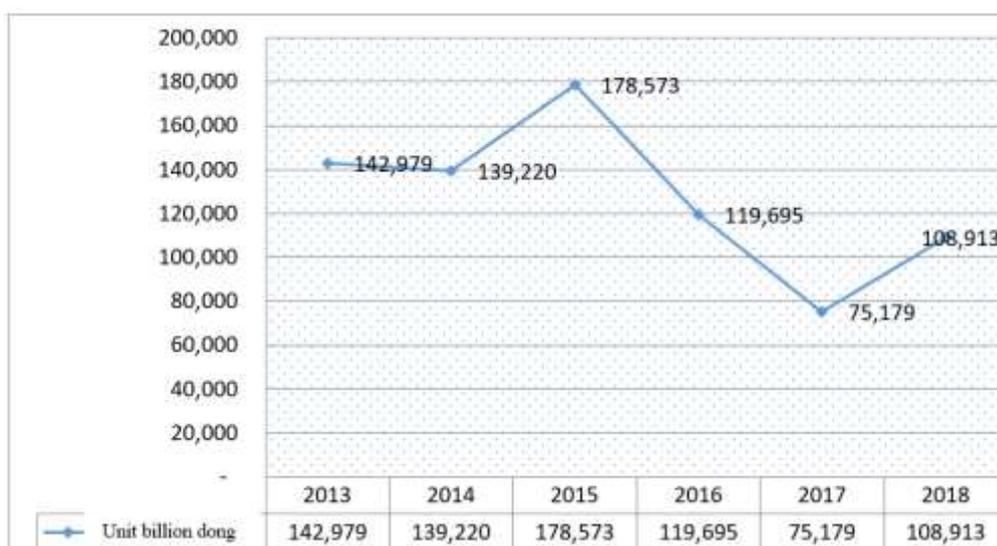


Figure 4. Capital registration situation of SMEs in the period of 2013-2018

In each economy, SMEs may play different roles, but generally they have some similar roles and one of them is that SMEs play a pivotal role in the local economy: If large enterprises often base in the economic centers of the country, SMEs are present in all localities and make an important contribution to budget revenue, increase output and

create local jobs. In Hanoi, the number of employees working for SMEs increased continuously in the period of 2014-2018 and this strengthened the above statement.

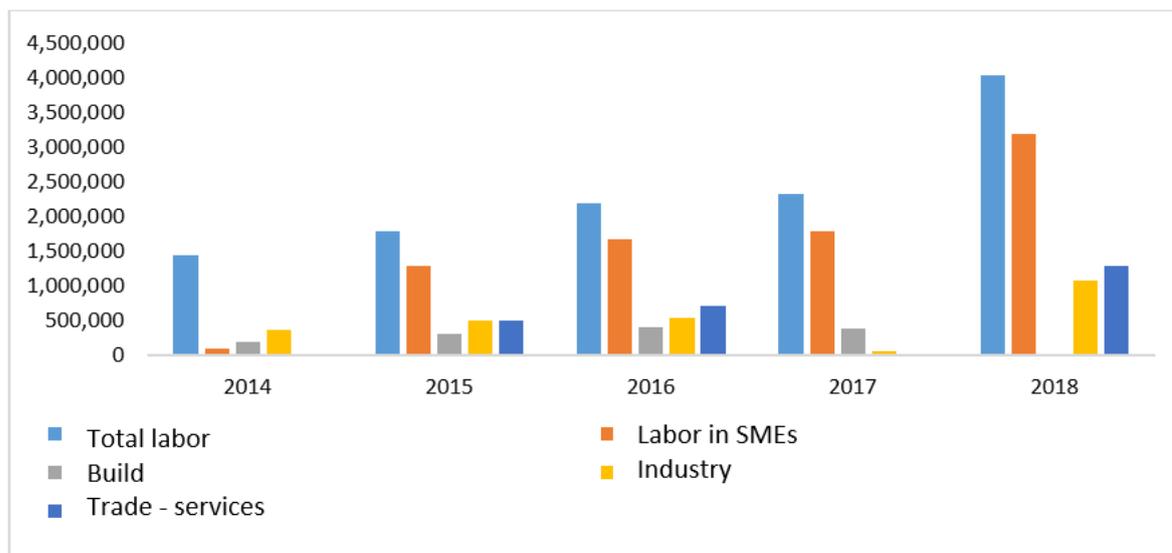


Figure 5. Number of employees in Hanoi SMEs sector in a period of 2014-2018
 Source: Hanoi Statistical Yearbook, 2018

Together with the foreign-invested enterprise sector, the private SME sector is creating a social safety net for many unemployed workers from the SOE and public sectors, especially in the transition from bureaucratic planning economy, subsidized to the market economy. If in 2014, the city's SME sector created jobs for 826,850 (accounting for 62.78%) of labor, by 2018 this figure had reached 1,632,173 employees (accounting for 76.85%). Labor growth in the SME sector in 2016/2014 was 30%; in 2017/2016 it was 22% and in 2018/2017 it was 7%

*** Revenue and profit**

The net revenue of Hanoi SMEs in the 2014-2018 period tended to grow strongly, except for 2015, which decreased slightly compared to 2014. If in 2014, the total net revenue of this area reached VND 501,130,591 million, this figure nearly doubled in 2017 to VND 931,815,838 million. It is noteworthy that net sales of SMEs account for a large proportion of the total revenue of the SMEs sector.

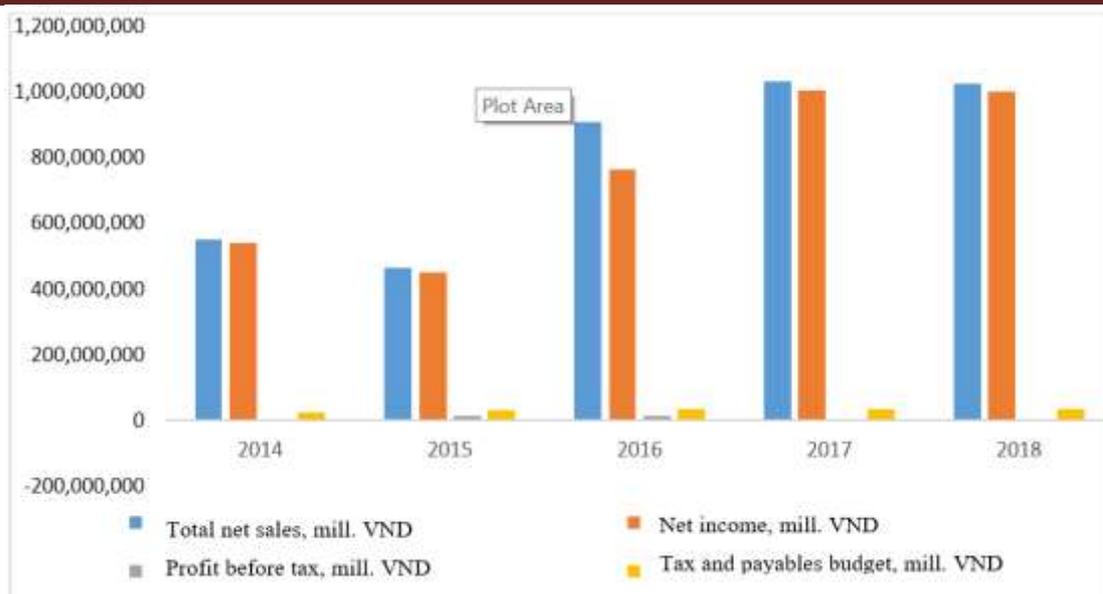


Figure 6. Some indicators of business results of SMEs in Hanoi

Source: Statistics of Hanoi, 2018

SME development is a central goal of economies to promote all resources for development. With that in mind, SMEs should be promoted effectively. However, facing economic fluctuations, facing fierce competition. It is only by the efforts of the enterprise itself that it is difficult to succeed but it needs the active support of the state in development policies, thereby overcoming the limitations, existing problems and creating favorable conditions, clear and transparent to encourage SMEs to develop.

From the analysis of the research team, it can be affirmed that the development of SMEs in Vietnam in general and in Hanoi City in particular is a very necessary work. It can be considered as a task that is both urgent and strategic in the process of socio-economic development of the country in general and Hanoi in particular, especially in the period of industrialization and modernization of Vietnam's economy today. With the study of experience in SME development of some countries in the world and the research team's development solutions, the research team can help Hanoi's policy-making agencies and authorities take advantage of success, thereby promoting the effective development of SMEs in the city.



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