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Improving Business Performance of Small and Medium Enterprises in Ho Chi Minh City, Vietnam

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Abstract: Small and medium enterprises (SMEs) are an essential part of the business component in developing countries and play an important role in promoting growth, creating jobs and contributing to state budgets. First periods of integration in Vietnam, SMEs are often small in terms of capital size, low technology and level of management, difficult to compete with domestic large enterprises and multinational corporations. Without the support of the Government and world organizations, there will be a risk of bankruptcy. In Ho Chi Minh City, considering the composition of enterprises, after nearly 17 years of development (since 2000), large enterprises account for only 1.37% and the rest is SMEs. Business performance of SMEs is still low, 37.8% of enterprises have profits, 56.49% of enterprises suffer from losses. Due to the diverse production and business sectors of SMEs, this study focuses on SMEs in the field of Trade-Services and targets on: (i) Factors affecting business performance of SMEs; (ii) And policy implication to improve business performance. From the results of Multivariate Linear Regression Analysis, the factors affecting business performance include: Revenue growth rate; Number of employees; Number of forms of receiving policies; Education level of enterprise owners; Social capital; and Enterprise capital.

Key words: small and medium enterprises; Ho Chi Minh City; multivariate linear regression analysis

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1. Introduction

Small and medium enterprises (SMEs) are an essential part of the business sector in developing countries and play an important role in promoting growth, creating jobs and contributing to the national budget (Marchesnay, 1991; Chen, 2006). During first periods of international integration, SMEs are often small in terms of capital size, low technology and low level of management, difficult to compete with large enterprises, domestic manufacturing groups and multinational corporations. Without the support of the Government and world organizations such as the World Bank and IMF, there will be a risk of bankruptcy. SMEs in Vietnam currently account for nearly 98% of total domestic business, contribute 40% to GDP, 30% to the total state budget, and create 50% of jobs for the community (General Statistics Office, 2017). In Ho Chi Minh City, considering the composition of enterprises, large-scaled enterprises account for only 1.37%, the rest belongs to SMEs. Moreover, after nearly 17 years of

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development (since 2000), most businesses in the city are SMEs, accounting for 93.61%. The results of the Ho Chi Minh City Economic Census in 2017 shows that, although the number of enterprises is rapidly developing, the size of enterprises is mainly small and medium, accounting for 97.8%; Business performance of SMEs is still low, 37.8% of enterprises have profits and 56.49% of enterprises suffer from losses; the rest is break-even enterprises (Thuy Hai, 2018). Because the production and business sectors of SMEs are very diverse, this study focuses on SMEs in the field of Commerce - Services in Ho Chi Minh City and targets on: (i) Factors affecting SMEs' business performance; (ii) and Policy implications to improve their business performance.

2. Literature Review

2.1 Theoretical Basis

SMEs are small and medium-sized enterprises in terms of capital size, employment or revenue scale. According to Ayyagari *et al.* (2007), criteria of the World Bank, SMEs are enterprises with less than 200 employees, capital and revenue of U$15 million or less. In Vietnam, Decree No. 39/2018/ND-CP (Nguyen Xuan Phuc, 2018), SMEs are determined according to the criteria of capital size, quantity of employees or revenue scale by different production and business sectors.

Table 1 Criteria of SMEs in Vietnam (2018).

Criteria of SMEs	Production and business sectors	
	Agriculture, Forestry, Fishery, Industry and Construction	Commerce - Services
Labor (people)	< 200	< 100
Capital (billion VND)	< 100	< 100
Revenue (billion VND)	< 200	< 300

According to Hagel III et al. (2009), business performance is measured by the ratio of net profit to revenue (Return on sales, ROS). In which, net profit is profit after tax. This indicator shows how much profit one dong (VND) of revenue brings. The larger the ROS, the higher the business performance.

According to Qigui Liu et al. (2011), the net profit margin to total assets (Return on Assets, ROA) is also a measure of an enterprise's business performance because assets are used to support business activities. It determines whether a company can generate a commensurate return on assets instead of revenue. This indicator shows how much profit one dong (VND) of investment brings. The larger the ROA, the higher the business performance.

However, according to Saad and Patel (2006); Ferguson and Tom Cox (1993); Rosli (2011), for SMEs with small assets, ROS is a more suitable measure when assessing the business performance of SMEs.

In empirical research, there are numerous factors that affect the business performance of enterprises.

Supporting policies of the Government may include: (i) Loan support; (ii) Training and fostering human resources; (iii) Bidding for public projects; (iv) Corporate income tax incentives; (v) Import tax incentives; (vi) Land site support; and (vii) Supporting for market promotion and expansion. There are many related documents, for example: Decree No. 56/2009/ND-CP; Decision No. 601/QD-TTg dated April 17, 2013; Circular No. 119/2015/TT-BTC dated August 12, 2015; Circular No. 13/2015/TT-BKHDT dated October 28, 2015; Circular No. 37/2016/TT-BTC dated February 29, 2016.

Table 2 Summary of Factors Affecting ROS of Enterprises

No.	Measurement Variable	Measurement of Hypothesis	Expected Sign	Data source
1	(X1) Education level of enterprise owners	Level 1 (Primary) = 1; Level 2 (Secondary) = 2; Level 3 (High School) = 3; University Graduate = 4	+	Wynarczyk & Watson (2005); Remi et al. (2010); Truong Dong Loc & Nguyen Duc Trong (2010)
2	(X2) Enterprise capital	Billion VND	+	Baard & Van den Berg (2004); Ari Kokko & Fredrik Sjöholm (2005); Wengel & Rodriguez (2006)
3	(X3) Number of employees of the enterprise	People	+	Hansen et al. (2009); Baard & Van den Berg (2004); Ari Kokko & Fredrik Sjöholm (2004); Wengel & Rodriguez (2006)
4	(X4) Revenue growth rate	%	+	Ari Kokko and Sjöholm Fredrik (1999); Baard & Van de Berg (2004); Nguyen Quoc Nghi & Mai Van Nam (2011)
5	(X5) Number of established years	Years	+	McGahan and Porter (1997); Wynarczyk and Watson (2005); Remi *et al.* (2010)
6	(X6) Social capital	Have a good relationship with the Association - Credit institutions. Yes = 1; No = 0	+	Okten (2004); Wynarczyk & Watson (2005); Min zhu et al. (2005); Lawal et al. (2009); Ajam (2009); Li Xiong and Oleksandre Talavera (2010)
7	(X7) Number of forms of receiving policies of the enterprise	More than 3 policies = 1; Other = 0	+	Griffin (1999); Nguyen Quoc Nghi & Mai Van Nam (2011); Phan Thi Minh Ly (2011); Kreston (2016)

2.2 Research Framework

The authors propose a research model of factors affecting the business performance of SMEs in the field of Commerce-Service in Ho Chi Minh City as follows:

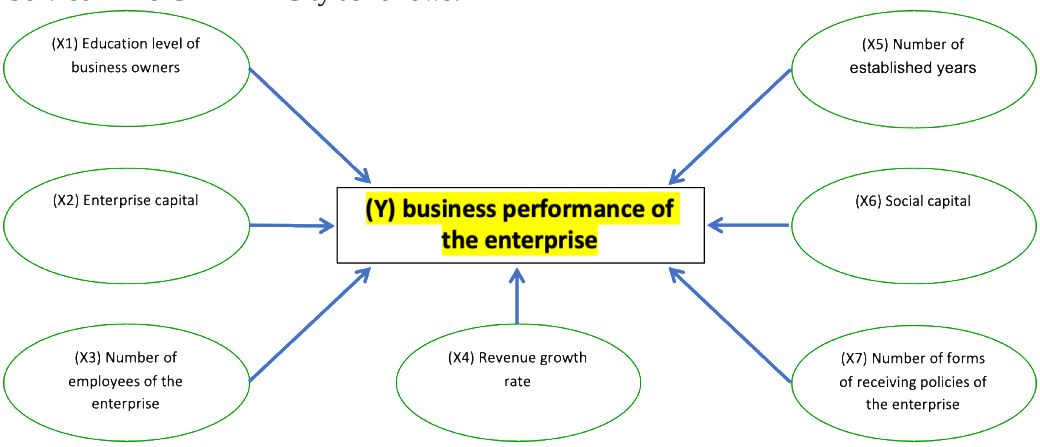

Figure 1 Research Model

2.3 Research Hypothesis

Hypothesis 1 (H1): There is no correlation between education level of business owners and business performance of the enterprises.

Hypothesis 2 (H2): There is no correlation between enterprise capital and business performance of the enterprises.

Hypothesis 3 (H3): There is no correlation between number of employees of the enterprises and business performance of the enterprises.

Hypothesis 4 (H4): There is no correlation between revenue growth rate and business performance of the

enterprises.

Hypothesis 5 (H5): There is no correlation between number of established years and business performance of the enterprises.

Hypothesis 6 (H6): There is no correlation between the enterprises' social capital and business performance of the enterprises.

Hypothesis 7 (H7): There is no correlation between number of forms of receiving policies and business performance of the enterprises.

The study applies Multivariate Linear Regression Model, with survey data of 140 SMEs in the field of Commerce-Services in 2019 in Ho Chi Minh City. Non-probability sampling method, selecting enterprises that allows the survey (according to the list of the Ho Chi Minh City Statistical Office). With pre-designed questionnaires, via Email, with 200 enterprises, 150 questionnaires were answered, but there were 140 answer sheets that meet data requirements.

3. Research Results

3.1 Enterprise Capital Size

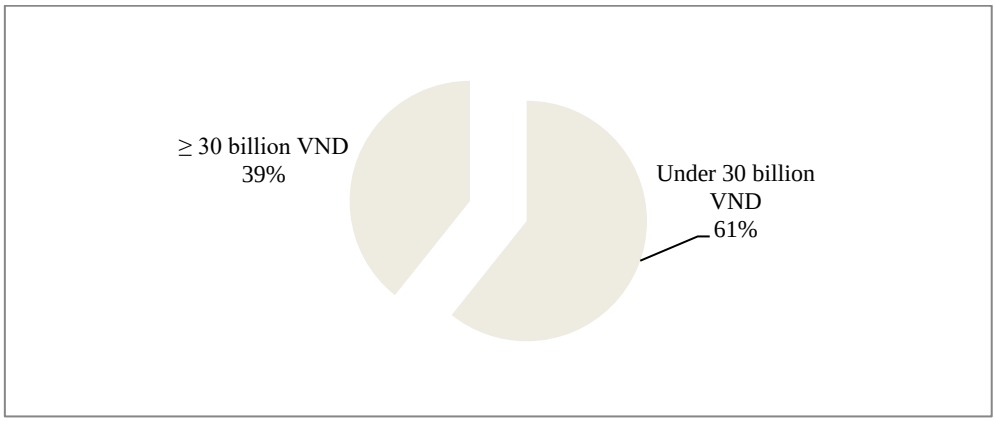

Figure 2 Size of Enterprise Capital (%)

Source: Authors processed from survey data (2019)

In Figure 2, the proportion of SMEs with Enterprise capital size < 30 billion VND accounts for 60.7% of the sample. The proportion of SMEs with Enterprise capital in the range (30 billion - 50 billion VND) accounts for 39.3%. The average size of the Enterprise capital is 30 billion VND.

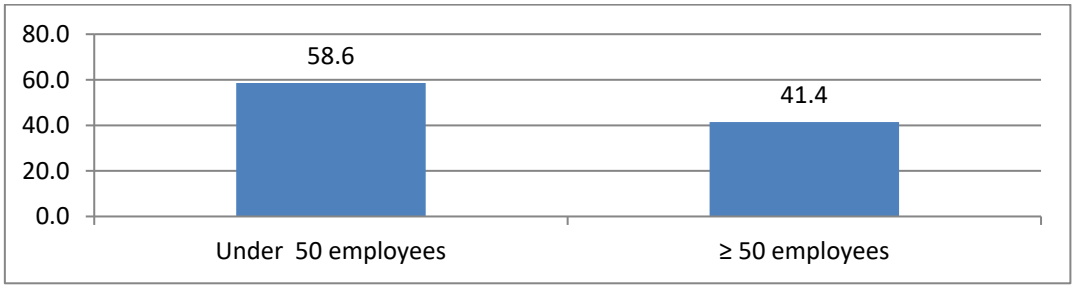

Figure 3 Size of Number of Employees of Enterprises (%)

Source: Authors processed from survey data (2019)

In Figure 3, the proportion of SMEs with the Number of employees < 50 people accounts for 58.6% of the sample. The proportion of SMEs with Number of employees is in the range of [50-70 people], accounting for 41.4%. The average size of labor is 51 people.

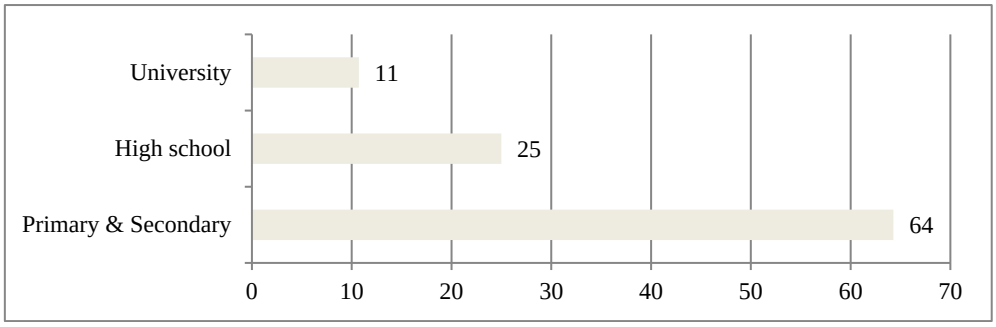

Figure 4 Education Level of Business Owners (%)

Source: Authors processed from survey data (2019)

In Figure 4, the proportion of business owners with Education levels of business owners of primary and secondary accounts for 64% of the sample. The percentage of business owners with Education level of business owners of high school is 25% but university graduate 11%.

3.2 Results of the Regression Model

Table 3 Regression Coefficients

Measurement Variable	Coefficient yet standardized		Coefficient standardized	t	Sig.	Collinearity	
	B	Std. Error	Beta			Toler.	VIF
(Constant)	-88.161	20.392		-4.323	0.000		
(X2) Enterprise capital (billion VND)	0.354	0.190	0.105	1.867	0.064	0.937	1.067
(X4) Revenue growth rate (%)	0.229	0.025	0.604	9.157	0.000	0.685	1.459
(X5) Number of established years (years)	0.012	0.022	0.031	0.556	0.579	0.945	1.059
(X6) Social capital	4.632	2.622	0.120	1.767	0.080	0.643	1.556
(X7) Number of forms of receiving policies	6.314	2.702	0.161	2.337	0.021	0.627	1.594
(X3) Number of employees of the enterprise (people)	1.149	0.360	0.184	3.190	0.002	0.895	1.118
(X1) Education level of business owners	3.189	1.330	0.156	2.398	0.018	0.704	1.421
Adjusted R Square	0.586						
ANOVA F-value Sig. Durbin - Watson	 29.086 0.000 2.109						

According to Green (1991), Table 3 shows that there are 6 variables with statistical significance over 90% (except Number of established years variable); Adjusted R Square = 58.6% (58.6% change in ROS was explained by 7 independent variables); According to Neudecker et al. (1995). Durbin - Watson statistical value = 2.109 < 3 (There is no residual autocorrelation phenomenon); VIF < 10 (No collinearity phenomenon of independent variables).

The White test (White, 1980) is used for residual variance.

Sub-regression model:

USQUARE = B_0 + B_1X1 + B_2X2 + B_3X3 + B_4X4 + B_5X5 + B_6X6 + B_7X7 + B_8X1S + B_9X2S + B_{10}X3S + B_{11}X4S + B_{12}X5S + B_{13}X6S + B_{14}X7S + B_{15}CROSSP

In which:

USQUARE: Residual squared

X1S: X1 squared; X2S: X2 squared;…

CROSSP: Cross product (X1*X2*X3*X4*X5*X6*X7)

Table 4 Results of the Sub-regression Model

Model	R	R Square	Adjusted R Square	Std. Error	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.435a	0.19	0.106	5.1897	0.19	2.267	13	126	0.01	2.242
a. Predictors: (Constant), CROSSP, X4S, (X3) Number of employees of the enterprise (people), X2S, X6S, X5S, X1S, X7S, (X4) Revenue growth rate (%), (X1) Education level of business owners, (X5) Number of established years (years), (X2) Enterprise capital (billion VND), X3S b. Dependent variable: USQUARE										

White coefficient = n*Adjusted R Square = 140*0.106 = 14.48.

Look up the table of Chi-squared, with 15 independent variables and 99% confidence level, the table statistical value = 30.58. Thus, the White coefficient < Critical value of Chi squared. Therefore, there is no change in residual variance.

Through the above 6 tests, the model confirms that there are 6 factors affecting the profit margin according to the revenue (ROS): X1, X2, X3, X4, X6, X7.

Table 5 Impact Level of Factors

Independent Variables	Beta	%	Impact level
Enterprise capital	0.11	7.9	6
Revenue growth rate	0.60	45.4	1
Social capital	0.12	9.0	5
Number of forms of receiving policies of the enterprise	0.16	12.1	3
Number of employees of the enterprise	0.18	13.8	2
Education level of business owners	0.16	11.7	4
Sum	1.33	100	

The level of impact from the largest to the smallest: Revenue growth rate; Number of employees of the enterprise; Number of forms of receiving policies of the enterprise; Education level of business owners; Social capital; and Enterprise capital.

4. Policy Implications

The research results confirm 6 issues that need to be addressed:

First, focus on improving the revenue growth of enterprises. Revenue expanded on the basis of market expansion, especially the expansion of transaction points in suburban districts of Ho Chi Minh City, and localities in Southern key economic region of Vietnam (Taking advantage of Ho Chi Minh City in the region).

Second, expand the labor scale of enterprises. Labor scale of SMEs is still low, having positive impacts on ROS. The government should pay attention to the policy of reducing income tax for SMEs to encourage enterprises to participate in creating jobs for community.

Third, quick access to supporting policies of Government for SMEs. Especially the policies: Training and fostering human resources; Bidding for public projects; Import tax incentives; Land site support; and market promotion and expansion support.

Fourth, improve the Education level of business owners. Owners of SMEs are people who have business bravery, confront the market by themselves, improve their skills through practical learning, especially with their own capabilities from family traditions. The government should have its own training program, especially studying from and visiting abroad to help SMEs in Vietnam have more capacity to manage enterprises.

Fifth, businesses should quickly expand their social capital. Actively and positively participate in Business Associations, consultancy organizations, Banking Associations, and social organizations.

Finally, expanding Enterprise capital. Expanding enterprise capital through access to Government projects, incentive loan programs of the Government and world credit organizations, NGOs.

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