

Original Article

# Development of Small and Medium-Sized Enterprises in Bac Ninh Province, Vietnam

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**Abstract** - Small and medium-sized enterprises (SMEs) account for a significant portion of Vietnam's job growth and economic activity. While SMEs exist across industries and vary significantly, they share some foundational qualities, including contributions to the economy, innovation, and competition-driven and finance incentives. This paper aims to review the development of SMEs in Bac Ninh province over the period from 2019 to 2021 to clarify the advantages and disadvantages of SMEs operation and suggest several possible solutions to promote the sustainable development of SMEs in the following time.

**Keywords** - Development, Small and Medium-sized Enterprises, Bac Ninh province.

## I. INTRODUCTION

SMEs play a major role in most economies, particularly developing countries [1]. SMEs account for most businesses worldwide and are important contributors to job creation and global economic development [2], [3]. They represent about 90% of businesses and more than 50% employment worldwide [4]. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included [5]. According to the World Bank, 600 million jobs will be needed by 2030 to absorb the growing global workforce, making SME development a high priority for many governments worldwide [6]. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs [7]. However, access to finance is a key constraint to SME growth; it is the second most cited obstacle facing SMEs in growing their businesses in emerging markets and developing countries [8].

Bac Ninh province has nearly 10,000 enterprises, of which 97% are SMEs. SMEs in the province have actively contributed to the GRDP, the State budget, industrial output, the economic restructuring towards industrialization and modernization, and international integration [9], [10], [11]. Besides, SMEs create stable jobs for thousands of employees, significantly contributing to social security and

poverty reduction... However, the scale of small and micro enterprises accounts for a very large proportion, the number of MSEs accounts for only 1.6% of the total, so the operation of this area is facing many difficulties such as low level of technology, inefficient management, limited ability to associate and cooperate in business, weak capacity to participate in regional and global value chains [12].

The study aims to review the development of SMEs in Bac Ninh province from 2019 to 2021 to clarify the advantages and disadvantages of SME operation and suggest several possible solutions to promote the sustainable development of SMEs in the following time.

## II. MATERIALS AND METHODS

Bac Ninh has 9,661 SMEs, of which Bac Ninh city, Tu Son town, and Tien Du district are the three most crowded places. To analyze the development of SMEs in Bac Ninh province over the period from 2019 to 2021, secondary data were collected from reports, research results, officially published documents of the government, ministries, departments, and provinces, such as reports and statistics from the Ministry of Planning and Investment, the People's Committee of Bac Ninh province, the Department of Statistics of Bac Ninh province, the Department of Planning and Investment of Bac Ninh province. Information on books, newspapers, scientific journals and websites related to SMEs were also included. Primary data was collected by interviewing 384 people representing 384 SMEs in Bac Ninh city, Tu Son town, and Tien Du district. The participants for the survey were calculated using the Slovin formula as a sampling technique:

$$n = \frac{N}{1 + N \cdot e^2} = \frac{9.661}{1 + 9.661 \cdot 0,05^2} = 384$$

The descriptive statistics method was used to analyze and interpret the study's results using graphs, tables, and diagrams.

## III. RESULTS

From 2019 to 2021, the number of SMEs in Bac Ninh



province was constantly increasing, from 7,268 in 2019 to 8,493 in 2020 and 9,661 in 2021. the number of SMEs has a high average growth rate of 15.2%, accounting for 96 to 97% of the total number of enterprises in Bac Ninh province.

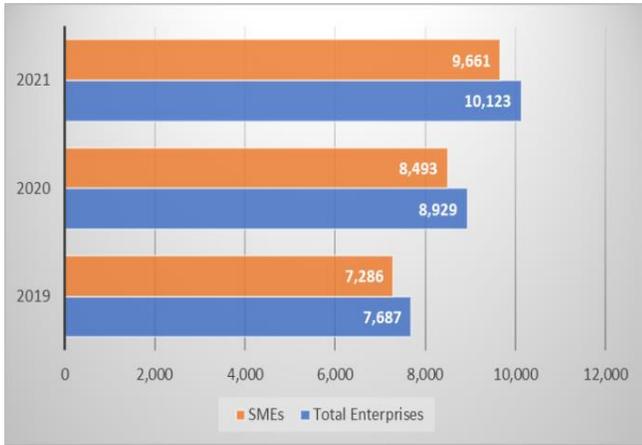


Fig. 1 Number of SMEs over the period from 2019 to 2021

In terms of the economic sector, SMEs operating in service accounted for the highest proportion (over 55%). the field of industry ranked second with a proportion of over 44%. SMEs operating in the agriculture sector accounted for 0.3 to 0.5% of the total number of SMEs in the province.

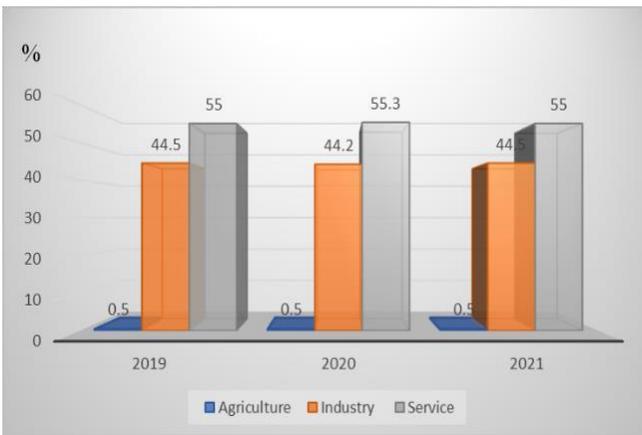


Fig. 2 Contribution of SMEs according to an economic sector

Statistics from 2019 to 2021 show that the SMEs' production and business capital increased relatively over time. the total capital of SMEs in the province was VND 160,609 billion in 2019, slightly increased to VND 165,150 billion and VND 204,567 billion in 2020 and 2021. on average, over the period, the capital source of SMEs increased by 12.9%. Although the number of SMEs accounted for a very high proportion of the total number of enterprises in the province (96 - 97%), the capital source of SMEs only accounted for over 20% of the total capital of enterprises in the province, corresponding to large enterprises accounting for 80% of the total.

The average capital per SME changed from VND 22 billion in 2019, decreased to VND 19.4 billion in 2020, and increased to VND 21.2 billion in 2021. the average capital per SME was only one-fifth compared to enterprises across the province and one eightieth compared to large enterprises. For the whole period, the capital of SMEs decreased by 2%. the small capital scale was one of the difficulties for SMEs in conducting production and business. Many SMEs have suspended operations or closed due to a lack of capital and low outcomes.

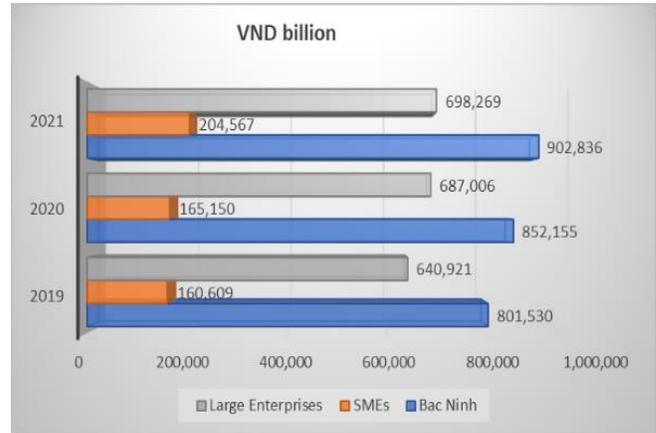


Fig. 3 Total capital of SMEs

The number of employees working for SMEs accounted for about 26% of the total employees working in the province. Although the number of employees of the SMEs increased over time (6.6%), SMEs reached 117,371 employees in 2021. the average number of employees per SME was around 12 to 14. This number was very small compared to the average number of large enterprise employees (over 700 employees/enterprise). Although the total number of employees working in SMEs tends to increase slightly over the years, the average number of employees per SME has gradually decreased over time (-7.4%).

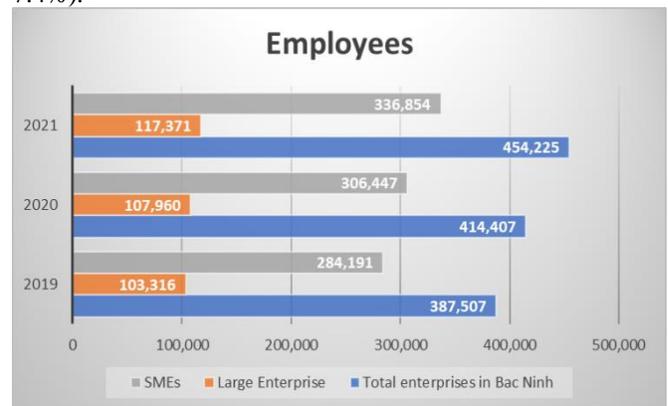


Fig. 4 Total employees of SMEs

In 2019, the total revenue of SMEs reached VND 146,760 billion. the amount increased to VND 163,064

billion in 2020 and reached VND 191,745 billion in 2021. on average, for the whole period, the total revenue of SMEs has a growth rate of 14.3%, many times higher than that of large enterprises (2.3%). However, in terms of total revenue, the revenue of SMEs is much lower than that of large enterprises. SMEs had total revenue of only 1/13 of the total revenue of large enterprises and accounted for 12% of the total revenue of enterprises in Bac Ninh province.

SMEs' average revenue per enterprise decreased from VND 20.1 billion in 2019 to VND 19.2 billion in 2020 and increased to VND 19.8 billion in 2021. Thus, SMEs' average revenue per enterprise decreased slightly over the years with a stagnating growth rate of 0.7%.

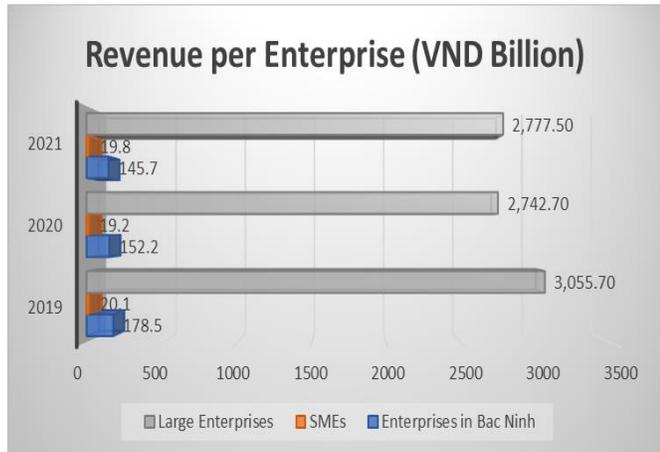


Fig. 5 Revenue per Enterprise

the average profit per SME was quite low, VND 0.06 billion in 2019, VND 0.09 billion in 2020, and VND 0.12 billion in 2021. the average growth rate of the whole period reached 41% (while large enterprises had an average growth rate of 18.1%).

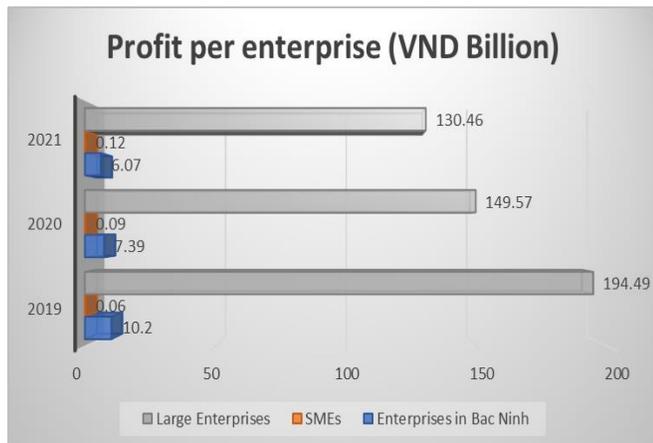


Fig. 6 Profit per Enterprise

Regarding return on sales (ROS), we can see that every VND 100 of revenue each SME earned generated VND 0.28

of profit in 2019, and in VND 0.44 VND in 2020 VND 0.57 in 2021. Regarding return on invested capital (ROIC), VND 100 of capital invested by SMEs generated VND 0.30 profit in 2019, VND 0.45 in 2020, and VND 0.61 in 2020. the ROS and ROIC of SMEs were very low compared to the average ROS and ROIC of total enterprises in the province and the whole country.

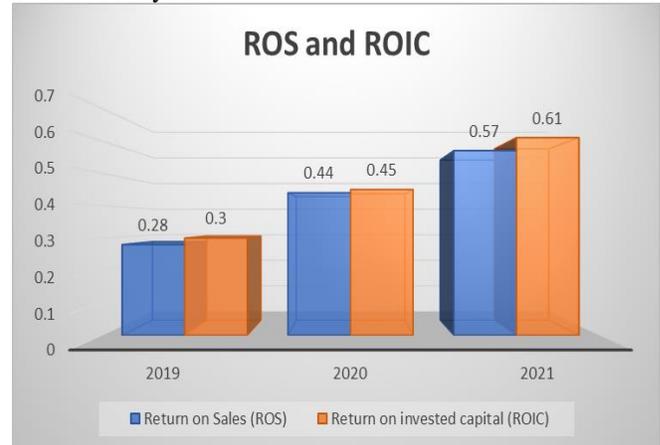


Fig. 7 ROS and ROIC

#### IV. DISCUSSION

From 2019 to 2020, the number of SMEs was constantly increasing. It accounted for a large proportion of the total number of enterprises in the province with a wide distribution from cities to rural areas, covering business lines with the participation of various sectors. SMEs have been exploiting the advantages and strengths of the locality. This is a remarkable result that contributes to bringing Bac Ninh into one of the fastest-growing economic locations in the country with the rapid growth of the number of enterprises in general and SMEs in particular [13].

SMEs' production and business capital tend to increase over time regarding capital scale development. on average, over the period, the capital source of SMEs increased by 12.9%. the increase in production and business capital is an opportunity for SMEs to expand their production and business scale over time [14].

Along with increasing the number of SMEs over the years from 2019 to 2021, the number of employees working at SMEs also tends to increase. For the whole period, SMEs achieved an average growth rate of 6.6%, accounting for 26% of the total number of employees working in enterprises in the whole province of Bac Ninh.

The value of fixed assets of SMEs tends to increase over time, reaching an average growth rate of 5.5% for the whole period. the study results showed that SMEs have focused on investing in innovation in technology, machinery, and equipment to meet the market's increasing demands.

The revenue of SMEs in Bac Ninh province has also continuously increased, representing the trend of SMEs in

the whole country. on average, over the period, the total revenue of SMEs has a growth rate of 14.3%. Profits of these enterprises also increased during the period. on average, for the whole period, the profit of SMEs has a very high average growth rate (62.3%).

SMEs contribute to the province with more than 100,000 jobs for workers every year. the number of jobs has increased gradually over the years, with an average growth rate of 6.6%, creating jobs for local workers and contributing to the province's socio-economic development.

The average income per SME employee in Bac Ninh province is relatively high compared to the national average. It tends to increase gradually over the years, reaching a high growth rate of 1.8% for the whole period.

Along with creating jobs, improving incomes, taxes, and state budget payments of SMEs also contributed significantly to the overall development of Bac Ninh province. in 2019 - 2021, the amount of taxes and state budget payments increased continuously over the years. For the whole period, the contribution of SMEs increased at a rate of 31%.

Although the number of SMEs accounts for a very high proportion of the total number of enterprises in the province (96 - 97%), in terms of the proportion of production and business capital, the capital source of SMEs only accounts for over 20% of the total capital of enterprises in the province. SMEs' average production and business capital is only one-fifth compared to enterprises in the province and eightieth compared to large enterprises. the small capital scale was one of the difficulties for SMEs in conducting production and business. Many SMEs have suspended operations or closed due to a lack of capital and low outcomes.

The limited access to capital and the old types of equipment significantly affect business efficiency and competitiveness. SMEs are difficult to access credit. This difficulty comes from two sides: From the business side, due to limitations in human resources and management, SMEs face many difficulties in building investment projects. Most loan projects are built in such conditions, so the quality is not good. It isn't easy to convince banks to lend capital for production and business.

Moreover, SMEs have few assets that can be used as collateral, so it is difficult for banks to accept loans. Enterprises' accounting systems, content, and accounting method are often incomplete, inaccurate, and lack transparency. There are also obstacles from the bank side. Projects borrowing capital from SMEs are small-scale projects. Many banks are afraid to lend because of the high cost of procedures, appraisal, and high risk. in terms of

awareness, many commercial banks have not properly appreciated the special importance of the SME sector.

SMES' labor productivity is low, mainly manual labor, and the industrial working style is still poor. the average number of employees per SME is only 12 to 14 employees, very small compared to large enterprises in the province (over 700 employees/enterprise). SMEs still find it difficult to access social resources to serve production and business, such as limitations in recruiting a highly-skilled workforce. Labor used in most SMEs in Bac Ninh is familiar labor. Therefore, they were not carefully selected and trained. They work instinctively, with experience. Hence, it is difficult for SMEs to cooperate and associate with foreign enterprises in the region [15].

Due to the influence of small production thinking and partly due to a lack of capital, many SMEs invest in drips, do it in parts, buy a few more machines and equipment each year, and then improve it at the same time [16], [17]. the consequence of that approach is that the technology used in these enterprises becomes a mess and patchwork. Due to a lack of information and experience in selecting, buying, selling, and transferring technology, some SMEs have become victims of technology deals [18], [19]. Outdated technology and slow innovation limit production capacity, diversify products, limit productivity and output, product quality, increase production costs, and even negatively affect the environment. At the same time, it limits the competitiveness of the SME sector.

Through the actual survey in the SME sector in Bac Ninh province, although many enterprises have renewed machinery and equipment and technology from industrialized countries, technology and equipment innovation speed is still slow and uneven and has not followed a clear development direction. Technological and technical backwardness creates low and unstable product quality and high product costs, limiting enterprises' competitiveness.

The management ability is quite weak. Transferring generations in the entrepreneurial team and improving the quality of governance for SMEs in Bac Ninh is a significant challenge. Successful craft village entrepreneurs in the province are now relatively old, and the training to transfer to the next generation is not ready in many cases. This is a real challenge for businesses with a new development context [20], [21]. in addition, with the family-style financial management for a long time, especially for craft village enterprises or coming from craft villages, it is no longer suitable when enterprises expand their business scale, creating many potential risks for SMEs.

Market research activities of SMEs have not been organized scientifically. There are still many limitations in

using information technology and mathematical and statistical tools in market research. SMEs lack market information and a dialogue portal with ministries and sectors to seek support and protection, especially information on commodity prices, purchase and sale procedures, import and export of goods, and the production process and quality requirements [22] [23]. Most SMEs operate passively, mainly relying on the experience of managers and doing business in the village-style.

The distribution channel is narrow, making it difficult to control and capture customer feedback. Advertising costs are still too low; only about 1% of revenue is too small compared to foreign enterprises such as Coca-Cola at 20% and Sony at 10%. the quality of advertising is poor due to the lack of experts in the field.

The rate of return on capital and the ratio of profit on revenue of SMEs are low compared to the general level of the province and the whole country. Because of the small scale, it is difficult to increase labor productivity through specialization or take advantage of SMEs' economies of scale [24]. on the other hand, because of its small scale, accumulating and concentrating capital for investment, technological innovation, and production expansion is almost nonexistent [25]. This greatly affects the competitiveness of SMEs, especially in the current context of deep international integration.

The fairly rapid growth of the number of SMEs in Bac Ninh province also leads to an imbalance of industries. Because enterprises mainly focus on industrial production, construction, trade, and services, the fields of agriculture, forestry, and fishery are often given little attention. in addition, the focus on developing industrial enterprises leads to environmental pollution in areas where many factories and companies are concentrated due to the discharge of industrial waste. the dense population concentration in industrial zones also makes the infrastructure system overloaded, domestic waste polluted, and workers' quality of life low.

The situation of the Covid pandemic is quite complicated, especially in Bac Ninh, a province with many industrial parks; the number of workers from other localities to live and work is a potential factor causing the possibility of disease spread. Very high. the Covid epidemic has greatly affected the production and business activities and the revenue and profit of SMEs due to quarantine times, and SMEs had to suspend operations temporarily. Even when the epidemic was controlled, production and business costs also increased due to travel restrictions, Covid testing requirements, and strict health assurance requirements of agencies and departments.

## V. CONCLUSION

This study analyzes the development status of SMEs in Bac Ninh province over the period from 2019 to 2021. the research results show that the number of SMEs is constantly increasing and accounts for a large proportion of the total number of enterprises in the province with a wide distribution from cities to rural areas, covering business lines, with the participation of various economic sectors. the capital scale of SMEs is constantly increasing, creating opportunities for enterprises to expand their production scale and expand their business scale over time. Every year, SMEs provide more than 100,000 jobs for workers in the province, improving workers' income with a relatively high income compared to other provinces. Average revenue, profit, and profit increase over time. Business efficiency is improved. Taxes and state budget payments of SMEs also contribute significantly to the overall development of Bac Ninh province.

However, SMEs also face the common limitations of SMEs in Vietnam: small capital size, a small number of employees, low professional qualifications, low labor productivity, outdated technology, machinery, and equipment, poor market access and expansion, and low level of competition.

To resolve those obstacles, a number of solutions should be addressed. the administrative procedures should be reformed and simplified to create favorable conditions for SMEs to enter the market. SMEs should be supported to increase their ability to access capital, high-quality human resources, modern technology and equipment, and national and international market. Improving production and business efficiency and increasing the ability of SMEs to link with large economic groups and FDI enterprises is an advantage of Bac Ninh province, where a lot of multinational companies are operating in the region, such as Samsung, Cocacola, Nippon, Canon, Amkor, Goertek.

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