

NECESSITY FOR THE DEVELOPMENT OF MEDIUM-SIZED ENTERPRISES IN HOCHIMINH CITY: A CASE STUDY OF THE ELECTRONIC AND INFORMATION TECHNOLOGY AND MECHANICAL SECTORS

Nguyen Thi Thanh Uyen^{a,b*}

^aThe Enterprise Department, Board of Management of Saigon Hi-Tech Park, Hochiminh City, Vietnam

^bASEAN SME Academy in Vietnam, Hochiminh City, Vietnam

*Corresponding author: Email: thanhuyen.shtp@gmail.com

Article history

Received: November 12th, 2017

Received in revised form: January 15th, 2018 | Accepted: January 17th, 2018

Abstract

This study aims to investigate the absence of medium-sized enterprises and the necessity for the development of medium-sized enterprises in two capital-intensive sectors: Electronic and Information Technology and Mechanics in Hochiminh City. The results reveal two major issues. First, there is a lack of medium-sized enterprises in the two targeted sectors. Second, medium-sized enterprises are proven to play an important role in generating and utilizing more effective resources than other large-scale enterprises including the ability to mobilize capital, obtain technology, gain market access and policy support, linking resources, generating income and higher productivity. The case study offers some policy recommendations to overcome the lack of medium-sized enterprises in Hochiminh City.

Keywords: Electronic & Information Technology sector; Medium-sized enterprises; mechanical sector; Missing middle.

Article identifier: <http://tckh.dlu.edu.vn/index.php/tckhdhdl/article/view/360>

Article type: (peer-reviewed) Full-length research article

Copyright © 2018 The author(s).

Licensing: This article is licensed under a CC BY-NC-ND 4.0

1. INTRODUCTION

In Vietnam, the private sector contributes about 65% of GDP and 64% of total social investment. Hochiminh City (HCMC) is the leading economic, scientific and technological center and the focal point for international integration of the country. In 2014, with nearly 140,000 enterprises, HCMC accounted for 34% of the total enterprises, 23% of the labor force, 23.4% of GDP, 30% of industrial production value, 30% of export turnover and 33% of the revenue of the nation. Ninety-eight percent of enterprises in HCMC are categorized as small-and-medium enterprises (SMEs), of which micro-and-small enterprises (MSEs) are accounted for 96%. Medium-sized enterprises (MEs) account for only 2% of SMEs and currently on a decreasing trend.

In the four-year period (2011-2014), the number of MSEs increased steadily with a growth rate of 26-27% and roughly equivalent to the overall increase of SMEs (Figure 1). In the industrial sector, MSEs increased by nearly 33%, whereas MEs decreased by 10%. Figure 2 shows that the number of enterprises in the ME group is not only very small but also tends to decrease over the years.

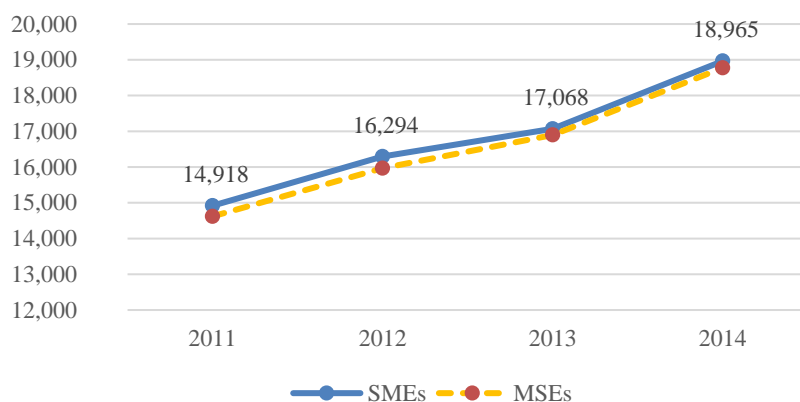


Figure 1. Trend of increasing number of enterprises having less than 200 laborers - Industrial sector

Source: HCMC Statistical Office (2016).

This case study is important for two reasons. Firstly, the orientation for economic development of HCMC in the period 2015-2020 and the supports for the development of enterprises by 2020 were identified by the government to build a competitive capability

for the city. However, in order to meet HCMC's targets in the context of the current business environment in which 96% of enterprises are concentrated in MSEs, it is a real problem for HCMC in both short and medium terms. According to the Ho et al. (2014, p. 22), Vietnam's SMEs are important both economically and socially but these enterprises are facing many challenges in the start-up stages and during the growth process because of limited resources to support entrepreneurship development and innovation. Labour productivity of small-sized enterprises (SEs) is always lower than that of large-scale enterprises (LEs), thus it is difficult to contribute to local economic growth with the majority of enterprises being SEs. Therefore, the absence of medium-scale enterprises is a major obstacle to the sustainable economic development of the local economy in particular and the country in general.

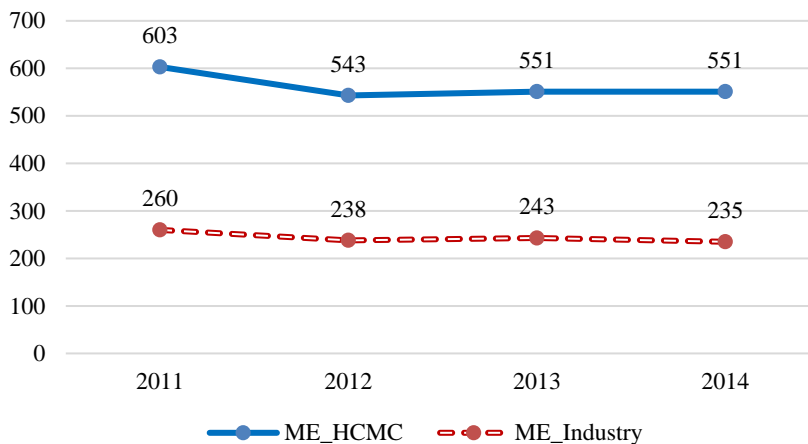


Figure 2. Trends in ME volatility in HCMC, 2011-2014

Source: HCMC Statistical Office (2016).

Secondly, the mechanical sector is the foundation of the industry, having a long history of development in Vietnam. In contrast, the electronic and information technology sector (EIT) is the mainstream industry of today's digital and technological era. Both sectors are identified by HCMC as two of the four strategic industries of the city in the period 2011-2025. In terms of growth rates, both sectors have a potential to grow. However, they have a significantly low participation of enterprises, mostly in the MSE group. The EIT sector accounted for 3% and mechanical sector accounted for 22% of total industrial enterprises in HCMC. There is no sign of increasing in the scale to become

medium-sized enterprises. Meanwhile, the number of MEs in the mechanical sector only reached 13% of enterprises and in the EIT sector only reached 4% of enterprises in the industry (Table 1 and Figure 3).

Table 1. Number of enterprises in the two sectors in HCMC by number of workers (as of 31/12/2014)

Group	SSEs (≤ 10 workers)	SEs (11-200 workers)	MEs (201-300 workers)	LEs (More than 300 workers)
Industry sector	12,539	6,426	235	552
Mechanical sector	2,833	1,363	31	40
EIT sector	432	167	9	42

Source: HCMC Statistical Office (2016).

Considering the number of enterprises participating in these two sectors classified by the labor force participation, it is showed that these two sectors are in shortage of firms with more than 200 employees (MEs and LEs). This situation raises some questions about the barriers that cause these two sectors to experience slow growth in scale in HCMC. The argument is that most domestic companies have super-small or small-scale enterprises (SSEs) in the early stages of entrepreneurial development. Thus, the lack of MEs implies slow or no growth in scale of these enterprises over time.

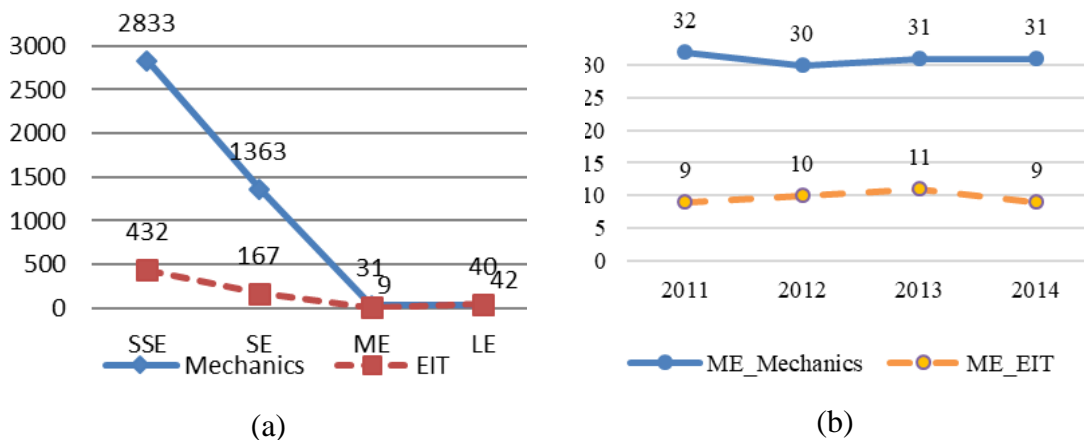


Figure 3. Missing middle in the two sectors (as of 31/12/2014)

Note: (a) Trends on missing middle in the two sectors (as of 31/12/2014);
 (b) Trends in ME volatility in HCMC, (2011-2014).

Source: Author’s summary from HCMC Statistical Office (2016).

In the framework of this case study, the author attempts to describe the situation of MEs in the two identified strategic sectors of the economy in HCMC, using three data sources to show their role in developing the competitiveness of the industry and offers policy recommendations to overcome the lack of MEs.

The paper is organized into six main sections. Section 1 describes the motivation for this case study. Section 2 provides a literature review of the role of SMEs and the concept of the “missing middle”, and basis for categorizing the enterprises. Section 3 describes the methodology. Section 4 analyzes the data to demonstrate the role of medium-sized enterprises in the two selected sectors in HCMC. Section 5 discusses the results and offers policy recommendations. Section 6 concludes the paper.

2. LITERATURE REVIEW

2.1. Definition of SMEs

According to Bouazza, Ardjouman, and Adaba (2015), there is no uniform standard for SME classification. The most internationally accepted definition focuses on the number of employees or annual sales of the company, in which the labor factor is mostly used. Ardic, Mylenko, and Saltane (2011)’s cross-sectional analysis of 68 countries finds differences in the SME classification with respect to the number of workers accounted for nearly 73% (50 countries). Sixty percent of these 50 countries utilize additional criteria such as maximum revenue and maximum loan size. The classification of SMEs for industry in Vietnam is based on Decree No. 56/2009/ND-CP of the Government of Vietnam (2009). Table 2 reports the classification of microenterprises (super small-scale), small-sized enterprises, and medium-sized enterprises according to a number of workers and total registered capital.

In this study, in order to ensure the generality between international standard and Vietnamese standard, the author uses the number of workers to classify four business groups in the EIT and mechanical sectors. SSE group has 10 employees or less, SE has between 11 and 200 employees, ME group has between 201 and 300 employees, LE group has over 300 employees as revealed in Table 3.

Table 2. SME classification in Vietnam

Area\Scale	Microenterprises (SSEs)	Small-sized enterprises (SEs)		Medium-sized enterprises (MEs)	
	Labours	Total capital	Labours	Total capital	Labours
Industry and construction	≤ 10 employees	≤ VND 20 billion	From over 10 to 200 employees	From over VND 20 billion to VND 100 billion	From over 200 to 300 employees

Source: Government of Vietnam (2009).

Table 3. Classification of enterprises in the study

Classification	Acronym	By labor size
Microenterprises	SSEs	≤ 10 employees
Small Enterprises	SEs	From 11 to 200 employees
Medium Enterprises	MEs	From 201 to 300 employees
Large Enterprises	LEs	Over 300 employees
Small and super small enterprises	MSEs	From 200 employees or less

Source: Author's classification.

2.2. The concept of the "missing middle"

The term "*missing middle*" was first coined by Liedholm and Mead (1987) to indicate that the total labor force and GDP contribution by the ME sector are much lower than the labor force and GDP of the SE and LE groups. However, this term may be used in different meanings in subsequent studies. According to the World Bank (2013), the "missing middle" is the lack of financing of SMEs. Large businesses usually receive priority from banks and microenterprises are primarily financed by microfinance institutions, while small and medium-sized enterprises (SMEs) often have limited access to finance. Hsieh and Benjamin (2014) argue that the "missing middle" is defined only when the number of firms in ME group is lower than both MSE and LE groups. Thus, the terms "missing middle" may have quite different definitions. In this study, the author uses the terms "missing middle" to indicate the lack of MEs in the context to be analyzed.

2.3. The literature on the "missing middle"

The phenomenon of the missing middle in Vietnam was studied by Pham and Shino (2015); and Catherine, Nguyen, Nguyen, and Tran (2017). Both studies showed that there was a lack of medium-sized enterprises in Vietnam for many years. Pham and

Shino (2015) demonstrate that larger firms have more resources to pay bribes. This would put smaller firms in a disadvantaged position to compete fairly. According to Catherine et al. (2017), the phenomenon of missing middle occurs in Vietnam because owners of SMEs have limited knowledge about the legal system; therefore, they have less opportunity to take advantage of new policies and laws¹.

3. METHODOLOGY

3.1. Theoretical background of MEs

There is a great deal of research on the role of SMEs in the economy². In contrast, most studies have not specifically addressed the role of MEs. Thus, I based on two theories of business as the basis for analysis. Firstly, the theory of scale and efficiency of business operation states that businesses are geared towards maximizing profits. As the size of the business increases, the efficiency of the business also increases. However, when the scale increases to a certain level, performance tends to decrease. Thus, businesses tend to move from the initial size when small businesses grow faster than large enterprises until they reach the most cost-optimal medium size.

Secondly, Geroski (1999) states that the larger the size of the business, the slower the growth rate is and the factors that affect the growth of the business are the cost of production, technology, management capacity, market competition, number of years in operation and legal form of the business. Therefore, small-scale operation appears to be a more favorable condition for businesses in the early stages. The increasing competition between large and medium-sized businesses has placed MSEs in "vulnerable positions". Thus, for entrepreneurs, the only thing that makes them worry is what to do to survive in such a competitive market (Jasra et al., 2011). The study also indicates that the

¹The level of understanding of business owners is strongly correlated with the export capacity. Constraints of the owners on finance and legal knowledge, understanding of custom procedures have put limitations on business strategies such as new product lines. As a result, SMEs are not able to expand their market overseas. For these reasons, SMEs in Vietnam have limited opportunities to export directly, instead they are only able to serve as subcontractors in the supply chains.

²The important role of SMEs is to promote economic growth through competitiveness, innovation, investment efficiency, new products and services, and employment in accordance with their flexibility, adaptability, competitiveness and entrepreneurial spirit of enterprises (Schmitz, 1992; Lee, Park, Yoon, & Park, 2008; Hidayet, Canan, Onur, & Hakan, 2010; Ayyagari, Demirguc, & Maksimovic, 2011; Jasra, Ahmed, Aziz, Rauf, & Muhammad, 2011; Shinozaki, 2012; and Sibel, 2015).

development of the business is related to factors such as financial strength, technology capabilities, marketing strategies, business strategies, corporate governance, the ability of access to information, government support. Hsieh and Benjamin (2014)'s study in three countries, including India, Mexico, and Indonesia, reveals that large enterprises often face strict regulations and high input costs compared to other enterprises with a smaller scale. They also find that the fixed costs of becoming a large-scale enterprise are higher in poor countries. An important comprehensive study by Khan (2014) on SME growth barriers suggests that there are many constraints that affect the size of the business such as lack of management know-how, finding qualified employees, domestic competition, lack of skilled workers, lack of modern technology, adequate investment, irregularity, networks, political instability, corruption, property rights, and so on.

3.2. Data collection method

To study the role of MEs, four groups (SSE, SE, ME, LE) were compared through three sources of data. Firstly, the data of the enterprise survey conducted by HCMC Statistics Department in 2016 in which I used the indicators of average income of employees, labor productivity, investment capital, equity, debt, turnover, and profit to make comparisons among the groups at the same time. Secondly, I conducted a survey of entrepreneurs in 2017 comparing the results among the groups to identify the factors that are advantages/disadvantages in each group. Thirdly, I conducted semi-structured interviews with 20 selected industry experts about the necessity for medium-sized enterprise development in the two industrial sectors in HCMC.

3.3. Sampling method

The survey³ used a convenient sampling method to select and distribute 60 questionnaires to private firms in the two sectors: EIT and mechanics. Eighty-eight percent of the enterprises have been in operation for three years or more (of which, 68% have been operating for more than 10 years). A total of 43 online questionnaires were

³Survey data and methodology are available upon request.

conducted, and 17 direct questionnaires were distributed to businesses in HCMC at seminars or events. Regarding the industry experts interviewed, 30% of experts are leaders in state management agencies from the central to local level, 35% of experts are CEOs of enterprises, and 35% of experts are leaders of associations and business support organizations in HCMC.

Sixty-six questions were formulated utilizing the Likert-scale and open-ended questions to assess the barriers of each group of enterprises (SSEs, SEs, MEs, and LEs) and to find out the roles of MEs. The in-depth interviews with 20 industry experts used inference form (see on Appendix 1 - Questionnaire design).

4. RESULTS

4.1. The roles of MEs from the HCMC Enterprise Survey 2016

Comparing the average values among the business groups, data from the Enterprise Survey 2016⁴ shows that MEs have a higher average income per employee, equity, turnover, and profit than that of MSEs. Particularly, in the EIT sector, the average income of workers in the MEs is higher than that of the LEs. In terms of creating income for workers, MEs represent the best performance in all groups (Figure 4 and Table 4).

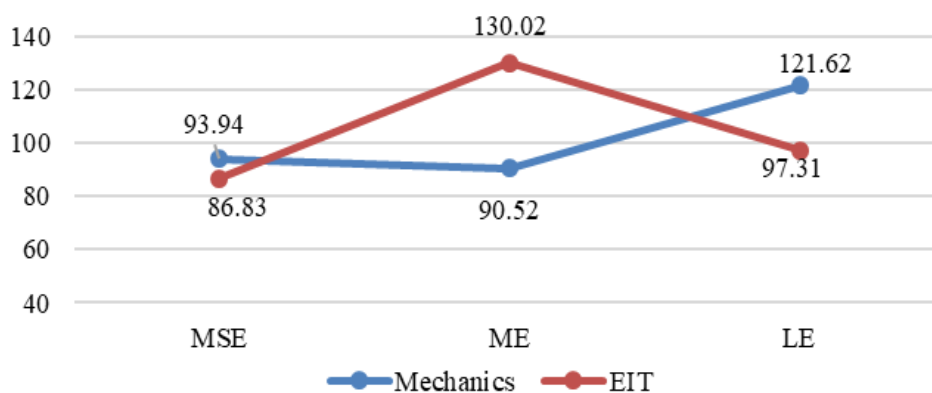


Figure 4. Average income per employee/year

Source: Author's summary from the Enterprise Survey 2016 (HCMC Statistical Office, 2016)

⁴HCMC Statistical Office, 2016.

Considering the average labor productivity of an enterprise in the two industrial sectors, an ME has twice as high productivity as an MSE and 150% of an LE. In each sector, the productivity of an ME is higher than that of the other two groups, with EIT having a higher labor productivity than mechanics in all the three groups (Figure 5).

From the analysis above, MEs demonstrate a more prominent role than MSEs and LEs in terms of labor productivity and ability to generate higher average income. The factors of revenue, profit, capital, debt is correlated with the size of the business, implying that the larger the size of the business is, the greater the ability to create these values is. This finding suggests that MEs and LEs' performance is better than MSEs, with MEs especially outperforming LEs in terms of productivity.

Table 4. The average value of an enterprise in the enterprise groups

Average of an enterprise	Income of employees		Capital		Equity		Revenue		Profit before tax	
	Unit	(VND million)	Unit	(VND billion)	Unit	(VND billion)	Unit	(VND billion)	Unit	(VND billion)
Sector	Mec	EIT	Mec	EIT	Mec	EIT	Mec	EIT	Mec	EIT
MSE	93.94	86.83	45,502	81,660	13,480	-22,807	44,341	50,611	435	103
ME	90.52	130.02	321,428	299,028	182,163	88,719	496,447	628,719	34,144	32,021
LE	121.62	97.31	883,648	1,151,162	340,012	513,915	1,257,675	2,054,374	78,904	187,419

Source: Author's summary from the Enterprise Survey 2016 (HCMC Statistical Office, 2016).



Figure 5. Labour productivity per worker in 2016

Note: (a) Labor productivity of total 02 sectors 2016 (million VND/day/labor);

(b) Labor productivity of each sector in 2016 (million VND / day / labor)

Source: Author's summary from the Enterprise Survey 2016 (HCMC Statistical Office, 2016).

4.2. The roles of ME conducted by the survey from the author

4.2.1. Findings

- Capital:* The survey results show that MEs have a clear advantage over MSEs in terms of access to capital. At the same time, the larger the scale is, the less likely the business is disturbed by the factors of "loan procedures", "transaction costs", and the "possibility of discrimination by commercial banks";
- Technology:* The survey results reveal that the larger the scale is, the greater the investment in modern machinery and equipment is. The reason is that the levels of "reinvestment from profit" and "ability to increase machinery and equipment" have a positive correlation with the business scale⁵. The better the resources are, the higher the linking ability is because MEs have the highest proportion of R&D investment and machinery expansion plans, more

⁵MEs are most likely to increase machinery purchases in equipment, science and technological upgrades. This is perfectly compatible with the size of the business: MEs are not too big for resource mobilization and not too small for resource constraints to limit efforts.

cooperation option than the rest⁶. In contrast, the smaller the scale is, the more likely the business is to use equity to invest in R&D. Therefore, the expansion of enterprises to medium-sized scale creates favourable conditions for R&D activities of the enterprises, increasing the competitiveness of the industry and the economy;

- *Management capacity*: The survey results show that the larger the scale is, the higher the awareness and the better availability of resources is, the more likely they are to meet the international business standards, the more tendency for modern governance. The reason is that MEs have a better production capacity, brand development and management practices than MSEs. Furthermore, SSEs have the lowest percentage of international quality certification;
- *Human resources and training*: The survey results show that the larger the scale is, the more resources enterprises have to invest in order to increase the level of employment, the more likely they are to attract skilled labour than small-size firms. The reason is that MEs have the lowest labour force participation rate with a college degree (<30%). They have shorter recruitment times than MSEs, and the lowest level of difficulty in recruiting skilled workers compared to the other groups;
- *Production site*: The survey results reveal that MEs have better access than other groups in terms of access to production site because MEs have a higher ratio of land use rights than MSEs, with the most need to expand the production site;
- *Access to information and market*: The survey results indicate that the larger the scale is, the more businesses will increase their access to information, the more investment in research and introduction of new products is. On the

⁶Seventy-five percent of the enterprises have invested in R&D in the past 3 years, of which ME is the group with the highest proportion of investment (100%), followed by LE and SE (75%), SSE (64%) groups.

contrary, the smaller the scale, the more limited access to information and the market⁷;

- *Ability to link and collaborate*: The survey results demonstrate that MEs and LEs have the capacity to link and cooperate better than the other groups⁸. MEs showed the linking trend as a priority. MEs appreciates its superiority in connecting, cooperating with other external resources. The survey results showed that MEs and BEs are at “level 1” (the highest rate) in terms of degree of engagement with government agencies and associations.

4.2.2. Summary

Firstly, the survey results show that enterprise size tends to be inversely correlated with factors such as capital barriers, loan procedures and transaction costs. That is, the smaller the size of the business, the higher these factors. Secondly, the size of the business tends to be correlated with the administrative capacity (i.e. the mode of production, international quality certification, and leadership structure), facilitation by production/market access/support policies, and ability to expand new markets/new products. This means that the larger the size of the business, the higher the level of these factors. In addition, the results show that the larger the size of the business, the higher the administrative clearance and bar/inspection pressures. In other words, the size of enterprises is negatively correlated with the barriers to governance, access to capital, technology, linkage and access to state support policies. That is, the larger the size of the business, the smaller the impact to these factors. Lastly, the business size is correlated with transaction costs. This means that the greater the size of the business, the higher the transaction costs (i.e. informal payments, administrative procedures, level of payment).

⁷(i) MEs and LEs demonstrate better performance than SEs and more than SSEs in terms of their ability to introduce new products, access to market information; (ii) MEs are superior in ability to open new markets; (iii) MEs use vendor marketing channels higher than the other groups.

⁸(i) MEs clearly demonstrate the "link/co-ordinate" trend as the preferred option, implying that MEs appreciate their superiority in connecting/cooperating with other external resources; (ii) MEs and LEs in "level 1" (the highest rate) when considering the level of engagement with State departments/Associations.

4.3. The roles of MEs from the industry expert perspectives

One hundred percent of industry experts agree that the development of MEs for the country's industry and industry in HCMC is highly necessary. Specifically, the explanations are analysed as follows:

- *Economic advantage by scale and adaptability:* (i) MSEs are small in scale, thus very easy to disassemble; LEs are large in scale, thus it is difficult to establish from the beginning; MEs are moderately sized (easier to form than LEs, harder to break up than MSEs); (ii) Small-scale, low financial capacity, thus it is difficult to attract skilled labour, leading to low competitiveness and easy to exit from the industry; (iii) The size of the small business is unlikely to accumulate technology as well as the ability to obtain patents to increase competitive advantage; and (iv) MEs are able to adapt to the business environment, while MSEs are "fragmented" and difficult to adapt quickly due to lack of supporting resources; LEs are difficult to adapt because large scale operations require high standards;
- *Management capacity:* (i) MEs are more productive than MSEs, able to take advantage of economies of scale for technical cooperation both with LEs and SEs, taking on the role of "leader", possible to open up a larger market for the industry; and (ii) MEs have taken parts in the state organizational structure and resources. This will make the business environment more transparent and the management of the state in the economy more favourable;
- *Ability to link and compete:* (i) ME group links with the LE group to create a sustainable ecosystem that creates competitiveness in the economy, creates markets and meets market standards⁹. It is the foundation for a sustainable market development; (ii) MEs connect the goals of the local government to the national government's agenda better, and from there it has a good

⁹MEs are operated by the law, whereas most MSEs have a business culture of oral agreements.

roadmap for further growth and development of the industry;

- *The market:* MEs have the advantage of setting up a centralized market¹⁰; in particular, with HCMC¹¹, MEs and LEs are required for the industrial and service sectors to generate employment and link R&D resources to universities.

4.4. Summary of the roles of MEs

Table 5 provides a summary of the findings.

Table 5. Summary of the roles MEs

Factors	PSO 2016	Data of Author	Expert Perspectives
Average income of employees	> MSEs (EIT: > LEs)		
Equity	> MSEs		
Revenue	> MSEs		
Profit	> MSEs		
Labour productivity	> MSEs, LEs		
Access to capital		> MSEs, LEs	> MSEs
Access to technology		> MSEs	> MSEs
Management capacity		> MSEs	> MSEs
Human resources, training ¹²		> MSEs	> MSEs
Production premises		> MSEs, LEs	> MSEs
Access to information, markets ¹³		> MSEs	> MSEs
Support policy of the State			> MSEs
Ability to link/collaborate		> MSEs	> MSEs
Economic advantage by scale (including adaptability)			> MSEs, LEs

Source: Author's summary.

¹⁰Capable of receiving large orders should be easy to have the satellite SE is provided.

¹¹HCMC is the largest market in the country, the bigger companies are required to create high quality products that can dominate the market, thereby creating market share in GDP for the service industry and products to transform the economic structure of the city.

¹²On labor mobilization, MEs is more advantageous than LEs. Restrictions on the use of unskilled labour, MEs are better than LEs.

¹³MEs are the most dominant in terms of: (i) The ability to open new markets; (ii) The ability to form partners to access the market.

- *Survey data of the HCMC Statistical Office in 2016* demonstrates that MEs are generating employee income and equity, revenue and profit better than MSEs, especially labor productivity;
- *Survey data of the author* demonstrates ME's role in capital mobilization, effective operation (capital raising channel), R&D investment capacity, access to production space, school/marketing, new product launches, corporate governance capabilities (international certification, website, leadership structure), linkage/collaboration capabilities;
- *Industry expert perspectives*: MEs are perceived as superior to MSEs in their roles as collaborative linkages, economies of scale, adaptability to market access, access to capital, access to technology, management capacity, human resources and training, production premises, access to state support policies.

5. DISCUSSION - HOW TO OVERCOME THE MISSING MIDDLE IN HOCHIMINH CITY

The findings from the HCMC Enterprise Survey together with the author's study may help to outline a clearer picture of the roles of MEs in HCMC, the need for the development of MEs, the reason for the lack of MEs and solutions to overcome the obstacles. However, in this study, I focus on making arguments that demonstrate the needs for developing MEs to provide policy recommendations for addressing the missing middle in the two strategic sectors in HCMC.

First, the government needs to prioritize the development of MEs for industrialization. The results of this study show that linkages between the state-owned enterprises, FDI, and the private sector are difficult to establish unless the private businesses develop to a certain scale and with adequate resources. After all, both FDI and state-owned enterprises do not have the incentives to support domestic SMEs. Therefore, SMEs in Vietnam must grow first in order to capture the advantage of integration. Once there is enough internal power, the private sector will automatically create the linkage with the state-owned enterprises and FDI due to pressure from market competition.

On the other hand, SEs have more internal strength than startups (in terms of management, business experience, inputs, and outputs). By providing just a small “push” mechanism, SEs will evolve into MEs and create more value and potential. At the same level of support from the government, MSEs have a much higher probability of success than "startups". Among the SME groups, MEs need the most policy support. The development of MEs will result in three effects. The first is to help MEs grow into LEs. The second is to create linkages with other business sectors. The third is the indirect impact on the MSEs, which helps them to recognize the advantages of the medium-sized scale, thereby gaining momentum for micro and small-sized enterprises to grow.

Second, the government needs to redefine the target and product development priorities of each sector for each specific enterprise subdivision. Industry experts state that the government has not identified the specific objectives and products for each sector/subsector, which leads to a rather ambiguous policy and does not create any advantages for enterprises. SME support policy needs to be segmented by enterprise sizes and priorities. For instance, the EIT sector needs human resource policy the most while the mechanical sector needs policy to support capital access, business premises, markets for inputs and final products. Both sectors have the same level of need for linkage into the global supply chain and market information.

Third, the government needs to strengthen the trust of the business community through effective and timely implementation of new policy in line with the national agenda for industrialization. Identifying the problems of the business in particular and of the economy, in general, is not difficult. The core issue is the mechanism of reforming policies to resolve the problems is quite slow, with a large latency compared to the pace of development of the market and the needs of the enterprises. This limits the ability of the economy to develop its resources over time. In order to strengthen the trust in the business community and improve the resources for businesses, I would recommend the following policy agenda:

- With MSEs, it is important to promote programs that support entrepreneurial skills;

- With SSEs, in addition to administrative capacity, it is necessary to promote microfinance programs to transform the enterprises from SSEs to SEs;
- With MEs, we need policies to support production and capacity-building for human resource development;
- The mechanical sector needs: (i) Removing bottlenecks to the business premises for each group of enterprises; (ii) Providing training support programs for the owners on management capacity to increase the competitiveness of enterprises in the industry; and (iii) Policy of supporting capital investment and technology for MSEs to take advantage of the economies of scale.
- The EIT sector needs to have policies to support enterprises in training and retaining human resources.

Fourth, the government needs to actively attempt to improve the business environment in HCMC by creating a positive dynamic ecosystem for businesses to grow and promoting administrative reform and e-government program to transform HCMC into a "smart city". Accordingly, (i) All administrative procedures are in the network of e-government; (ii) Policy information for citizens and enterprises is systematically and transparently available to the portal to rebuild the confidence of businesses and people.

Fifth, the government needs to promote the role of associations to increase the linkage between SMEs, between SMEs and LEs and FDI sector, and between SMEs and state agencies. According to the survey, the role of the associations has not been appreciated from the enterprise perspectives. The associations were rated by MEs and LEs as quite good but were underestimated by MSEs. The government needs to have a mechanism to promote more association roles in linking resources. This will help MSEs to see the benefits of participation, thereby encouraging MSEs to stay with the associations.

Finally, it is necessary to build a strategy for developing leading enterprises within each sector of the industry. Current corporate development strategies spread resources and support policies, while the government’s resources are limited especially with regards to capital, resulting in resources are not being allocated to the right beneficiaries, leading to wasteful social resources and do not help businesses grow. Developing leading businesses for each sector will help the industry to gain the necessary momentum. However, the identification of the leading enterprises for development needs to be done through the networks of associations. Once the leading enterprises lead the industry, the linkage of resources within the enterprise groups will be set up more easily, resources are used more thoroughly, and there are more business opportunities for cooperation.

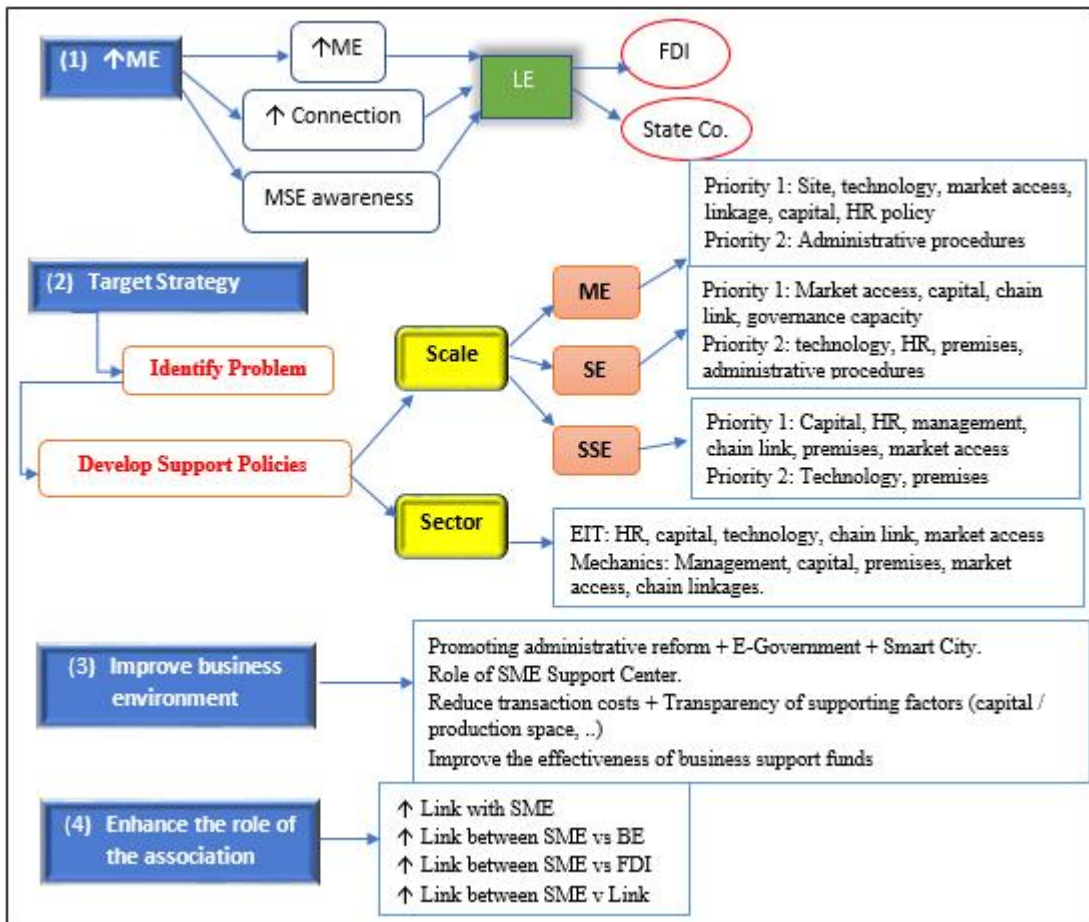


Figure 6. The linkage model to develop the private sector in HCMC

Source: Author’s analysis.

Therefore, according to the author: (i) It is necessary to delineate each leading unit in all groups by selecting companies in the industry that can be linked; (ii) Identify the industry leaders for each leading unit; (iii) Identify the needs for support from the stakeholders; (iv) Develop strategies for the development of the project teams and their leaders; and (v) In the role of the associations, the government should be the arbitrator. See Figure 6 for further elaborations.

6. CONCLUSION

Medium-sized enterprises are found to be more important than micro-and-small-sized enterprises in many ways, particularly in terms of the ability to generate income for employees and the ability to have high labor productivity, MEs are more superior compared to both MSEs and LEs. Thus, based on the results of this study, redefining the role of MEs in the two strategic sectors of the economy - the Electronic and Information Technology and Mechanics, will help policymakers to review and revise the support policies to increase the capacity for the economy of Hochiminh City. The development of business strategy to scale-up the medium-sized group, on the one hand, have proven to encourage the maturity of small businesses. On the other hand, the medium-sized group also shows the obvious advantage of the economies of scale to increase resources and linkages, while still providing flexibility in the context of today's fast-changing business environment.

ACKNOWLEDGMENTS

To complete this study, I would like to thank the facilitation and support of Le Vu Quan, Eva Albers Professor of Economics, Seattle University, USA; Twenty industry experts and sixty enterprises participated in the study. In particular, I thank the support of Nguyen Thanh Tuyen, Deputy General Director of Information Technology, Ministry of Information and Communications, who gave me many valuable comments during my research.

REFERENCES

- Ardic, O. P., Mylenko, N., & Saltane, V. (2011). *Small and medium enterprises: A cross-country analysis with a new data set* (Working Paper No. 5538). Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/3309/WPS5538.pdf?sequence=1&isAllowed=y>.
- Ayyagari, M., Demirguc, A. K., & Maksimovic, V. (2011). *Small vs. young firms across the world: Contribution to employment, job creation, and growth* (Working Paper No. 5631). Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/3397/WPS5631.pdf?sequence=1&isAllowed=y>.
- Bouazza, A. B., Ardjouman, D., & Adaba, O. (2015). Establishing the factors affecting the growth of small and medium-sized enterprises in Algeria. *American International Journal of Social Science*, 4(2), 101-115.
- Catherine, Y. C., Nguyen, T. K., Nguyen, N. T., & Tran, N. Q. (2017). *The missing middle: Growing and strengthening Vietnam's micro, small, and medium sized enterprises* (Working Paper No. 2017/72). Retrieved from <https://www.econstor.eu/bitstream/10419/163043/1/88372510X.pdf>.
- Geroski, A. P. (1999). *The growth of firms in theory and in practice* (Discussion Paper No. 2092). Retrieved from <https://ideas.repec.org/p/cpr/ceprdp/2092.html>.
- Government of Vietnam. (2009). *Decree on supporting small and medium enterprises in Vietnam (Decree 56/2009/ND-CP)*. Hanoi, Vietnam: The Government of Vietnam Office.
- HCMC Statistical Office. (2016). *Survey results of HCMC enterprises in 2015 - Scheme for development of SI 2015-2020, vision to 2015*. Hochiminh City, Vietnam: The HCMC Statistical Office.
- Hidayet, K., Canan, S., Onur, S., & Hakan, M. K. (2010). *The importance of SMEs in developing economies*. Paper presented at The International Symposium on Sustainable Development, Bosna & Hercegovina. Retrieved from <http://eprints.ibu.edu.ba/id/file/1826>.
- Ho, S. H., Nguyen, H. C., Nguyen, H. L., Trinh, T. H., Nguyen, T. L., & Pham, T. S. (2014). *Vietnam small and medium enterprises*. Hanoi, Vietnam: Statistical Publishing.
- Hsieh, T. C., & Benjamin, A. O. (2014). The missing “missing middle”. *Journal of Economic Perspective*, 28(3), 89-108.
- Jasra, J., Ahmed, I. I. H., Aziz, U. R., Rauf, I. A., & Muhammad, A. K. (2011). Determinants of business success of small and medium enterprises. *International Journal of Business and Social Science*, 2(20), 274-280.
- Khan. S. A. (2014). *The SME missing middle problem in developing countries and its link to lack of financing: The case of Bangladesh*. (Thesis Master), The University of Ottawa, Canada. Retrieved from https://ruor.uottawa.ca/bitstream/10393/31576/1/Khan_Azfar_2014_researchpaper.pdf.

- Lee, S., Park, G., Yoon, B., & Park, J. (2008). Open innovation in SMEs - An intermediated network model. *Research Policy*, 39(2), 290-300.
- Liedholm, C., & Mead, D. C. (1987). *Small-scale industries in developing countries: Empirical evidence and policy implications* [Technical Report]. Michigan, USA: Michigan State University. Retrieved from <https://ideas.repec.org/p/ags/mididp/54062.html>.
- People's Committee of Hochiminh City. (2016). *The plan to deploy major tasks and solutions to improve business environment, investment environment, raise high provincial level (PCI) of HCMC, period 2011-2015 (Decision No. 3293/QĐ-UBND dated on 28/6/2016)*. Hochiminh City, Vietnam: The People's Committee of Hochiminh City.
- Pham, T. H., & Shino, T. (2015). *Revisiting the “missing middle”: Production and corruption* (Working Paper No. WP02/2015). Retrieved from <https://ideas.repec.org/p/qld/uqcepa/100.html>.
- Schmitz, H. (1992). On the clustering of small firms. *IDS Bulletin*, 23(3), 64-69.
- Shinozaki, S. (2012). *A new regime of SME finance in emerging Asia: Empowering growth-oriented SMEs to build resilient national economics* (Working Paper No. 104.ADB). Retrieved from <http://www20.iadb.org/intal/catalogo/PE/2013/10839.pdf>.
- Sibel, A. (2015). Factors for increasing the competitiveness small and medium-sized enterprises (SMEs) in Bulgaria. *Procedia - Social and Behavioral Sciences*, 195(3), 1104-1112.
- World Bank. (2013). *World Development Indicators online*. Retrieved from <http://data.worldbank.org/data-catalog/world-development-indicators>.

APPENDIX 1: QUESTIONNAIRE DESIGN

Assumptions	Verification method
Ability to raise the enterprise's capital is easy or difficult?	(i) Implementation of capital investment for 3 years; (ii) Sources of investment capital; and (iii) Difficulties of factors that impeded access to capital from commercial banks.
Ability to apply technology in business is good or not good?	(i) R&D investment plan; (ii) The reasons for not investing in R&D; (iii) Rate and level of technology application; and (iv) Technology investment orientation of the business.
Governance capacity of the enterprise is good or not good?	(i) Mode of production; (ii) International certifications of enterprises; (iii) Promotion and settlement of competitive pressures; and (iv) Structure of leadership.
Assessment of human resources, the level of difficulty of the enterprises in managing human resources.	(i) Structure of labor sources; (ii) Difficulty in recruiting skilled workers.
Level of use and access to the business premises of the enterprise is an advantage or disadvantage?	(i) Analyse the state of the business premises of the business; (ii) The need to expand business premises of the groups; (iii) Enterprise assessment of the factors hindering the expansion of production and business premises; and (iv) Support from local authorities to create conditions for enterprises in terms of production and business space.
Level of access to information and support policies of the state is good or not?	(i) Ability to expand the market and introduce new products in 3 years; (ii) Market access; and (iii) Market expansion plan.
Assess current transaction costs of business: (i) Yes or no, and (ii) is acceptable or not acceptable?	(i) The average amount of time the enterprise solves administrative procedures per month, (ii) The level of acceptability of informal payments, and (iii) The level of payment in 2016 and the level of acceptability of enterprise.
Policy review of state support is good enough or not?	(i) Access to information; (ii) The relationship of the owner business to the State Office; (iii) The level of understanding of the State support policy and the State Office; (iv) The level of satisfaction of the enterprise on supporting policies; and (v) The evaluation of the enterprise on the role of the association.

Source: The author.