

# *Solutions To Develop Small And Medium-Sized Enterprises In Phu Tho Province In The Present Time*

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**Abstract** – During the renewal process in Vietnam, small and medium-sized enterprises are playing an important role that is to contribute to preserving and developing traditional industries and create numerous jobs. It is also the biggest business school for most entrepreneurs before moving on to expand the scale of their business. Accounting for over 97% of the existing enterprises nationwide, small and medium-sized enterprises are operating in an unfavorable economic environment at both the macro and micro levels. They are facing lots of difficulties in production technology, management models, progress, skills of the leadership team and workers, product marketing methods, especially little access to information and financial services, investment capital, etc.

In order to contribute to promoting the establishment and development of small and medium-sized enterprises in Phu Tho province, and maximize the potentials of capital, labor, premises, production, etc. among the public, it is necessary to clarify the current situation of local small and medium-sized enterprises, thereby offering some key solutions to effectively support such establishment and development.

**Keywords** – Solutions to develop, small and medium-sized enterprises.

## **I. ROLE PLAYED BY SMALL AND MEDIUM-SIZED ENTERPRISES IN THE NATIONAL ECONOMY**

It is recognized all over the world that the small and medium-sized enterprise sector plays a significant role in the economic and social development of every country, including highly industrialized ones. Depending on the level of economic development of each country, that role is expressed differently.

In Vietnam's current economy, small and medium enterprises have a particularly important position, which is shown in the following aspects:

- *Creating employment.* This is a visible strength of small and medium-sized enterprises and the main reason why we have to pay special attention to developing them in our country nowadays. The small and medium-sized enterprises sector is currently attracting some 25-26% of the national non-agricultural labor force, but its prospect of attracting more workers is huge because of much lower investment costs for a job here than in large enterprises, mainly due to low costs and the collection of capital scattered among the people.

- *Contributing to economic growth.*

Small and medium-sized enterprises contribute 30% of the total state budget revenue, 35% of the total investment capital, 25% of export turnover and nearly 50% of the national economic growth every year. Small and medium-sized enterprises in Vietnam have provided the market with a variety of products, meeting the needs of domestic production and consumption such as equipment and components necessary for industries that produce consumer goods and handicrafts.

In addition, they are also providing the majority of traditional industrial products and craft village ones such as footwear, crafts, sedge mats, ceramics, bronze casted products, etc.

- *Making the economy more dynamic.* Due to their low capital requirements and small size, small and medium enterprises can easily make product changes, alter production orientation, innovate technology, etc. to make the economy more dynamic.

- *Increasing income for the people.* The income of Vietnamese people remains very low due to slow economic development. Developing small and medium-sized enterprises in urban as well as rural areas is the key to higher and diversified income for the people from all walks of life across the country. The development of small and medium-sized enterprises that make agricultural, forestry, aquatic products and traditional handicrafts across all rural areas will bring the countryside a new face in economical, cultural, and social aspects, making a very important contribution to industrialization and modernization of agriculture and rural areas.

- *Contributing to the economic restructuring towards industrialization and modernization.* The development of small and medium-sized enterprises will create very important structural changes of the entire economy from a small, mainly agricultural economy to a modern one.

- *Contributing to practical training and fostering of a team of new entrepreneurs in the market economy.*

Small and medium-sized enterprises are where business managers are practically trained to get familiarized with business environment. From these places, a number of them have become talented managers of big companies who know how to quickly develop their businesses. This is an important issue because the team of business managers in Vietnam had been tied to the state-subsidy mechanism for years, so they have no experience of the market economy.

*In summary*, small and medium-sized enterprises take a crucial part in the national economic development. This role is getting more important together with the process of industrialization and modernization because small and medium-sized enterprises are the driving force for economic development, job creation, domestic capital mobilization, economic restructuring, etc.

**II. REAL SITUATION OF SMALL AND MEDIUM-SIZED ENTERPRISES IN PHU THO PROVINCE**

Since the Law on Enterprises took effect, it has created a driving force for businesses, especially small and medium-sized enterprises, to develop rapidly. Measures to promote the equitization of enterprises have been implemented very actively. Phu Ha, Thuy Van and many other industrial parks and clusters have been strongly promoting investment attraction. Especially, the fact that Phu Ha Industrial Park was allowed to implement its own mechanism has created many advantages in developing technical infrastructure and calling for investment.

Along with the socio-economic development of Phu Tho province, the activities of small and medium-sized enterprises have become more vibrant with strong increases in terms of quantity, investment scale and diversified industrial structure. The role of small and medium-sized enterprises has been recognized with lots of achievements, especially in manufacturing industries, tourism, hotels and restaurants. Such results are shown as follows:

**2.1. The number of businesses**

The number of state-owned enterprises has decreased from 40 enterprises or 1.12% in 2017 to 15 enterprises or 0.29% in 2021 due to the process of equitization and restructuring of enterprises. Meanwhile, the number of enterprises in other economic sectors has increased significantly, especially in the private sector from 3444 enterprises or 97.3% to 5064 enterprises or 96.79% of the total number of small and medium-sized enterprises.

Table 1: Quantity and percentage of small and medium-sized enterprises in 5 years

|             | Quantity and percentage of small and medium-sized enterprises in 5 years |      |      |      |      |       |      |       |      |       |
|-------------|--|------|------|------|------|-------|------|-------|------|-------|
|             | 2017   |      | 2018 |      | 2019 |       | 2020 |       | 2021 |       |
| Total       | 3540   | 100% | 3712 | 100% | 4754 | 100%  | 4530 | 100%  | 5232 | 100%  |
| State-owned | 40   | 1.12 | 35   | 0.94 | 25   | 0.53  | 16   | 0.25  | 15   | 0.29  |
| Non-State   | 3444   | 97.3 | 3609 | 97.2 | 4614 | 97.05 | 4382 | 96.73 | 5064 | 96.79 |

## Solutions To Develop Small And Medium-Sized Enterprises In Phu Tho Province In The Present Time

|                  |    |      |    |      |     |      |     |      |     |      |
|------------------|----|------|----|------|-----|------|-----|------|-----|------|
| Foreign-invested | 56 | 1.58 | 68 | 1.83 | 115 | 2.55 | 132 | 2.91 | 153 | 2.92 |
|------------------|----|------|----|------|-----|------|-----|------|-----|------|

Source: Phu Tho Provincial Statistical Yearbook

Among the economic sectors, the manufacturing and processing industry has a small number of enterprises, only 73 ones across the province. The commerce has the highest number with 1717 ones that can satisfactorily meet the needs of goods exchange and socio-economic development. Phu Tho province, with its spiritual tourist attraction of Hung Kings Temple, needs to improve the quality of small and medium-sized tourism enterprises, accommodation and food services to raise state budget revenues and its people's incomes.

Table 2: Number of small and medium-sized prices by industry in 5 years

|                                  | Number of small and medium-sized prices by industry in 5 years |              |              |              |              |
|----------------------------------|--|--------------|--------------|--------------|--------------|
|                                  | 2017   | 2018         | 2019         | 2020         | 2021         |
| <b>Total</b>                     | <b>3,540</b>   | <b>3,712</b> | <b>4,754</b> | <b>4,530</b> | <b>5,232</b> |
| Agriculture-Forestry-Aquaculture | 85   | 78           | 74           | 50           | 73           |
| Mining                           | 87   | 90           | 98           | 77           | 95           |
| Manufacturing and Processing     | 976  | 989          | 1,009        | 1,027        | 1,246        |
| Accommodation and food services  | 123  | 134          | 127          | 110          | 112          |
| Banking and Finance, Insurance   | 15   | 16           | 18           | 16           | 28           |
| Science and Technology Council   | 321  | 332          | 358          | 333          | 382          |
| Commerce                         | 1,546  | 1,746        | 1,663        | 1,542        | 1,717        |
| Others                           | 387  | 327          | 1,407        | 1,365        | 1,579        |

Source: Phu Tho Provincial Statistical Yearbook

## 2.2. Corporate workforce

Table 3: Corporate workforce in 5 years

|                  | Number of employees in small and medium-sized enterprises in 5 years |         |         |         |         |
|------------------|--|---------|---------|---------|---------|
|                  | 2017   | 2018    | 2019    | 2020    | 2021    |
| Total            | 128,967  | 136,675 | 142,366 | 151,608 | 156,545 |
| State-owned      | 8,453  | 8,256   | 7,903   | 7,752   | 6,807   |
| Non-State        | 65,569   | 71,574  | 74,372  | 74,822  | 78,043  |
| Foreign-invested | 54,945   | 56,845  | 69,091  | 69,034  | 71,695  |

Source: Phu Tho Provincial Statistical Yearbook

The total number of corporate workforce as of December 31, 2021 was 156,545 people with continuous increases observed over the years.

- State-owned enterprises have decreased in their quantity, but the number of their employees has increased; there were 8,453 people/35 enterprises in 2017 yet this number was 6,807 people/15 enterprises in 2021.

The largest employers remain small and medium-sized enterprises that come from the private sector and the foreign-invested one.

Regarding the labor size of small and medium-sized enterprises, each enterprise employed 36 employees on average in 2017. The number of them employing less than 200 employees was 685, from 300 to 500 employees 29, from 500 to 1,000 employees 10 and over 1,000 employees 5, mainly in the processing industry.

### **2.3. Efficiency of production and business activities**

In addition to rapid growth in the number of enterprises and high growth in production, economic efficiency of these enterprises is still at a modest level, despite significant breakthroughs. In spite of increases in the number of enterprises with losses and total losses, the total loss being 44.5 billion Vietnam dong in 2017, 52.2 billion Vietnam dong in 2021, the average losses per enterprise have gradually decreased, being 1.01 billion Vietnam dong/enterprise in 2001, 394.6 million Vietnam dong/enterprise in 2005.

The number of enterprises with profitable production in 2017 was 576, accounting for 79.2% of the total number, with a total profit of 231.05 billion Vietnam dong; Of which: there were 41 state-owned enterprises with a total profit of 68.3 billion Vietnam dong; 523 non-state enterprises with a total profit of 135.4 billion Vietnam dong, 12 foreign-invested enterprises with a total profit of 27.3 billion Vietnam dong.

There were 133 enterprises incurring losses in production and business activities, accounting for 18.29% of the total number of enterprises, with a total loss of 52.2 billion Vietnam dong, of which 120 non-state enterprises sustained a total loss of 32.2 billion Vietnam dong. The processing industry suffered the largest loss of 28.08 billion Vietnam dong, accounting for 53.48% of the total enterprises operating at a loss.

Inefficient production observed in some small and medium-sized enterprises was largely attributed to lack of capital and unreasonable production and business plans. In particular, many enterprises suffered prolonged losses, which was mostly caused by lack of production materials; low and inefficient usage of machinery and equipment, unreasonable production management, high costs, etc.

### **III. SOLUTIONS TO DEVELOP SMALL AND MEDIUM-SIZED ENTERPRISES IN PHU THO PROVINCE AT THE PRESENT TIME**

In order to solidly and effectively develop small and medium-sized enterprises, contributing to the implementation of strategic goals of socio-economic development of Phu Tho province until 2030 and the project on developing Phu Tho province into an industrial one by 2035, it is necessary to implement the following main solutions:

#### **3.1. Solutions for supporting capital, equipment and technology**

##### *Mechanism, policy and capital-related solutions*

The State as the operator of the macro-economy, needs to improve its capacity to organize, manage, and perfect the legal system, make timely policy decisions in line with the actual situation, create a strict and open legal environment for production and business activities. These will make the investment and business environment more favorable, allowing sustainable development and great competitiveness for enterprises.

The development of small and medium-sized enterprises will result in concentrated labor force, gradual urbanization, yet disadvantages also arise, namely environment issues and social evils. Therefore, synchronous policies are required to minimize its negative sides.

It can be said that lack of capital is one of the biggest limitations for production and business activities in general and the development of small and medium-sized enterprises in particular. The solution to the capital shortage must be a combination of many solutions such as: Policies to mobilize and utilize domestic capital, policies to encourage investment of all domestic economic sectors, especially a solution to attract foreign direct investment capital, and preferential loans.

It is necessary to improve the capital mobilization mechanism for investment and development, create a healthy and attractive capital market, and guarantee enough loans for corporate operations. At the same time, it is required to supervise the effective management and use of capital in order to overcome capital loss in capital construction investment such as waste, embezzlement, corruption (mainly in state-owned enterprises and those using investment capital, preferential credit granted by the state).

This is the most difficult stage for enterprises in general as well as small and medium-sized ones in particular. Lack of capital causes bottlenecks in production and circulation of goods. The need for capital requires small and medium-sized enterprises to mobilize and secure funds by themselves. However, the State also needs to have measures to support small and medium-sized enterprises to access capital sources more easily to meet their capital needs for production and business activities.

*Technical and technology support*

Humans and technology play a decisive role in socio-economic development, as a driving force for economic growth, as a factor to transform production structure to improve competitiveness in the market.

The market demands rapid changes in technology and professional competence of the workforce. Furthermore, for small and medium-sized enterprises operating in the manufacturing industry, there is a need for new equipment and management requirements so that they can cope with rapid technological changes.

In order to support small and medium-sized enterprises to access advanced technology and invest in technological innovation in accordance with national and provincial development orientations, the following solutions should be implemented:

- Firstly, a technical support and consulting center should be established:

As small and medium-sized enterprises are less likely to import foreign equipment, the center will help provide them with market information, marketing support, technology transfer consulting, commercial brokerage.

- Secondly, it is necessary to develop policies, create practical relationships between research institutions including universities, specialized institutes, experts from the whole country and enterprises. The State places orders with centers for research, design and industrial production to create initial bases for the sustainable development of the technology market.

- Thirdly, it is necessary to support capital for enterprises to change technology: the province gives 15-20% of its scientific research funding to small and medium-sized enterprises every year so that they can use the capital for technological innovation, application of scientific and technological advances to production, product improvements, etc.

3.2. Solutions for business premises

In the current period, most small and medium-sized enterprises lack business premises. Many businesses have to use the house of the business owner as their headquarter to conduct business activities. Therefore, in order to attract and support them, it is necessary to focus on the following solutions:

- Prioritizing investment in infrastructure, especially outside and in concentrated industrial parks and small and medium-sized industrial clusters, from various sources of capital: State budget, ODA, commercial loans, domestic and foreign bonds.

- Having policies that regulate the operation of industrial parks designated exclusively for small and medium-sized enterprises. Allowing the private small and medium-sized enterprise sector to enjoy the same land use rights as state-owned ones.

- Creating favorable conditions for businessmen to be able to buy legal land use rights and have the right to change land use purposes if it is deemed that it is consistent with the regional socio-economic development planning; abolishing troublesome administrative procedures for granting land use right certificates to owners.

- Speeding up the process of granting certificates of land use rights and house ownership according to Decree No. 60/ND-CP in order to facilitate the opening of real estate transactions and mortgage of land use rights for loan capital.

3.3. Solutions for product consumption markets

***Promoting exports with appropriate policies***

In order for the State's trade and import-export policies to bring into play the strengths of small and medium-sized enterprises, direct them to contribute to the achievement of the system's common goals, promote the capabilities and create favorable conditions for small and medium-sized enterprises to develop strongly and stably in the right direction, it is necessary to focus on the following key solutions:

- *Firstly*, it is necessary to widely implement policies that help small and medium-sized enterprises access the market, participate in fairs and exhibitions abroad, and rent exhibition booths. Particularly for small and medium-sized enterprises, it is even more necessary to encourage their production of export goods, despite possible low initial quantities and earnings in foreign currencies.

Recently, a number of handicrafts have found their markets, which results in quick increases in their export turnover; so it is necessary to create more favorable conditions for more export of these products and exploit the potentials of traditional industries.

- *Secondly*, for small and medium-sized enterprises, integration into the global economy is both an opportunity and a non-trivial challenge, but many small and medium-sized enterprises are not ready. This responsibility lies with both sides: the related authorities need to help small and medium-sized enterprises access information, improve their understanding of international trade laws, and exploit appropriate markets; Enterprises need to have programs to innovate technology, reduce costs, and improve product quality, with emphasis to be placed on applying the quality management system according to ISO 9000. It is important that each small and medium-sized enterprise improve their competitiveness by themselves, rather than expect the State's support.
- *Thirdly*, specific policies are needed to encourage and create conditions for small and medium-sized enterprises to actively and effectively participate in accelerating export activities; create favorable conditions for entry and exit procedures of small and medium-sized enterprise owners; allow small and medium-sized enterprises that produce export goods to enjoy preferential policies on credit and tariffs like state-owned ones.
- *Fourthly*, there should be clear policies on copyright and trademark protection for small and medium-sized enterprises, anti-counterfeiting, smuggling and commercial frauds. It is necessary to simplify procedures for registration and recognition of copyrights or trademarks, reduce unnecessary waiting times and costs for businesses, and clearly inform businesses about the process of registering industrial rights and industrial property.

A number of commercial and tourist centers should be established in key economic regions and border gates. It is necessary to strengthen joint ventures, participate in domestic and international exhibitions to promote and introduce products, expand markets, especially export markets.

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