

THE BUSINESS CAPACITY OF SMALL AND MEDIUM ENTERPRISES IN HANOI

Nguyen Hong Linh

Faculty of Social work, University of Labour and Social Affairs, Vietnam

Pham Viet Tien

PhD candidate, Hanoi University of Business and Technology, Vietnam

Pham Thanh Hung

PhD candidate, Hanoi University of Business and Technology, Vietnam

Nguyen Van Hau

Corresponding Author, Posts and Telecommunications Institute of Technology, Vietnam

Abstracts

Hanoi is the capital of the country, has a high economic growth rate, and contributes greatly to the total budget revenue of the country, of which SMEs account for about 97.2% of the total number of registered enterprises. SMEs contribute to creating over 50% of jobs in businesses and contribute significantly to Hanoi City's budget revenue. SMEs have become the backbone of the city's growth and development. SMEs growing in number, having a reasonable structure, and operating effectively will determine the scale and competitiveness of the city. This study was conducted with the aim of identifying, analyzing, and measuring the business capacity of small and medium enterprises in Hanoi by using qualitative and quantitative research methods. Using a qualitative approach, semi-structured interview techniques, and in-depth cognitive investigation research, reflect the specific explanations of Hanoi small and medium-sized enterprise administrators about their business capabilities as SMEs in Hanoi. Quantitative research methods were carried out with SPSS software, including Cronbach's alpha, EFA analysis, independent t-tests, and ANOVA analysis. On the basis of a review of previous studies and after interviewing experts, the study has identified and analyzed four scales (component attributes) of the business capacity of small and medium enterprises in Hanoi. Based on this result, the study proposes some recommendations to improve the psychological capital of employees, thereby improving the business capacity of small and medium enterprises in Hanoi.

Keywords: business capacity (BC), small and medium enterprises (SMEs), economics, business administration

JEL codes: M10, M19, M20, A14

1. INTRODUCTION

As of December 31, 2022, there are about 351,000 SMEs in Hanoi City (SMEs account for 97.2% of the total number of operating enterprises), of which newly established enterprises in the year are 29.6 thousand (an increase of 23% over the same period last year), the number of firms

returning to operation is 9.8 thousand (an increase of 1.5% compared to 2021 due to the stable epidemic situation), policies to support firms in general and SMEs in particular have been effective, and domestic and foreign markets have prospered (Dinh, 2023).

The capacity of each firm represents its ability to do one thing or another. Firm capability is the ability to use purposefully combined resources to achieve a desired goal state. Intangible and tangible resources are combined and deployed through business activities to create a competitive advantage for the firm.

Each enterprise is a cell of the national economy. Therefore, along with the resources of the enterprise, the business capacity of the enterprise is one of the great decisive forces in the development or not of a country. Therefore, to operate effectively and improve competitiveness in the market, firms need to pay special attention to their business resources and capacity.

In the current market economy period, the state implements open policies, encouraging firms and people to do business and aiming to develop not only the individual economy but also the national economy, not only to facilitate economic integration but also to attract foreign investment. Therefore, to increase competitiveness, firms need to have available resources and business capacity to serve as a springboard for firm development.

In recent years, Vietnamese small and medium enterprises (SMEs) in general, and SMEs in Hanoi in particular, have shown their contribution to the country's economic development. However, one of the weaknesses of SMEs in Hanoi is their limited business capacity compared to large enterprises. Therefore, this study is necessary for research and has both scientific and practical significance.

2. LITERATURE REVIEW

Chittithaworn (2011) found that the business success of SMEs depends heavily on their business capacity. The leader's ability has a decisive influence on a firm's purchasing behavior, and high or low sales come from the management of the board of directors, while advertising budgets are often based on the sales or marketing funds of that firm (Kotler & Armstrong, 2011). Besides, it is easy to see that business capacity also allows firms to accurately evaluate the advantages of each advertising channel in each different business context (Ho & Mai, 2016).

Ho and Mai (2016) surveyed 300 managers representing 100 small and medium enterprises in the Mekong Delta region of Vietnam to discuss and test the influence of factors on selection decisions in television advertising by firms, including business capacity factors. The results show that the business capacity of an enterprise includes four observed variables (component attributes) that have a positive influence on the decision to choose television advertising for enterprises.

Inheriting the results of the above studies, we have determined a multi-dimensional scale of the business capacity of small and medium-sized enterprises in Hanoi (see table 1).

Table 1: Observed variables: The business capacity of small and medium enterprises in Hanoi

The business capacity of small and medium enterprises in Hanoi (BC)	
BC1	Our company has significant commercial potential in Hanoi.
BC2	The board of directors of our firm always comes up with wise business strategies.

BC3	The marketing staff at our company is imaginative and consistently develops suitable advertising strategies.
BC4	When it comes to the process of producing products and providing services, our company has an excellent management and oversight staff.

3. METHODOLOGY

In studies aimed at investigating respondents' perceptions, qualitative research methods are considered most appropriate (Saunders et al., 2012). This study was conducted to examine the business capacity of SMEs in Hanoi. On that basis, some implications are given to support administrators in improving business capacity.

A total of 240 managers representing 80 SMEs in Hanoi were surveyed. We received 225 survey forms with complete information, which were used for subsequent analysis.

According to Creswell (2014), to analyze qualitative data, researchers often use a step-by-step process to systematize the data analysis. Accordingly, the researcher organizes the data, reads the data as a whole, codes, develops main and sub-themes, and organizes the data into themes to serve the description and interpretation of the qualitative results. Information collected from representative managers is averaged to create common data for each SMEs. The results of a sample size of 80 SMEs with 225 survey questionnaires were used for subsequent analyses (see table 2).

Table 2. Respondents by genders, academic level, and job position

	Frequency	Percent	Cumulative Percent
Genders			
Female	76	33.8	33.8
Male	149	66.2	100.0
Academic level			
Bachelor or higher	191	84.9	84.9
College or intermediate level	34	15.1	100.0
Job position			
Managers	38	16.9	16.9
Vice managers	41	18.2	35.1
Responsible business	57	25.3	60.4
Responsible marketing and markets	89	39.6	100.0
Total	225	100.0	

Source: Prepared by the authors (2024) and SPSS software.

Information on the data collected is shown in Table 2. It shows that among the respondents, 33.8% are female and 66.2% are male. Among the respondents, 84.9% of the participants have a qualified bachelor or higher, and 15.1% of the participants have a qualified college or intermediate level. Of these, 38 respondents are managers, accounting for 16.9%; 41 respondents are vice managers, accounting for 18.2%; 57 respondents are responsible business, accounting for 25.3%; and 89 respondents are responsible marketing and markets, accounting for 39.6%.

Based on previous studies, such as Chittithaworn (2011), we conducted interviews with a group of experts with open-ended questions surrounding the topic of the business capacity of the enterprise. Interview subjects were introduced through the authors' personal relationships as well as from referrals from previous interview subjects, reflecting the usefulness of the snowball method. As a result, experts all agree on the four components of the business capacity of small and medium-sized enterprises described in Table 1. The 5-point Linkers scale is used.

4. RESULTS

Cronbach’s Alpha

The business capacity of small and medium enterprises in Hanoi has been measured by Cronbach’s alpha. The results of testing Cronbach’s alpha for attributes are presented in Table 3 below. The results also show that attributes of the variables have Cronbach’s alpha coefficients that are greater than 0.6, and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the variables are statistically significant (Hoang & Chu, 2008; Hair et al., 2009; Hair et al., 2014).

Table 3. Results of Cronbach’s alpha testing of attributes and item-total statistics

Cronbach’s Alpha	N of Items			
.858	4			
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach’s Alpha if Item Deleted
BC1	11.34	3.717	0.725	0.809
BC2	11.29	3.583	0.749	0.799
BC3	11.58	4.290	0.663	0.837
BC4	11.03	3.776	0.684	0.827

Source: Prepared by the authors (2024) and SPSS software.

Exploratory Factor Analysis (EFA)

Next, tables 4, 5, and 6 show that exploratory factor analysis (EFA) was conducted through component analysis and variance.

The results of factor analysis in Table 4 show that KMO is 0.687, which is greater than 0.5 but less than 1. Bartlett’s testimony shows sig. = 0.000 < 0.05, which means variables in the whole are interrelated (Hoang & Chu, 2008; Hair et al., 2009; Hair et al., 2014).

After implementing the rotation matrix, four components of the business capacity of small and medium enterprises in Hanoi with a factor load factor greater than 0.5 and eigenvalues greater than 1 were identified, and the variance explained was 70.312% (see tables 5 and 6). These statistics demonstrate that research data analysis for factor discovery is appropriate. Through the quality assurance of the scale and the test of the EFA model, we have identified four components of the business capacity of small and medium enterprises in Hanoi (Hoang & Chu, 2008; Hair et al., 2014).

Table 4: KMO and Bartlett’s Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.687
Bartlett's Test of Sphericity	Approx. Chi-Square	536.307
	Df	6
	Sig.	.000

Source: Prepared by the authors (2024) and SPSS software.

Table 5: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.812	70.312	70.312	2.812	70.312	70.312
2	0.772	19.295	89.606			
3	0.254	6.356	95.962			
	0.162	4.038	100.000			

Extraction Method: Principal Component Analysis.

Source: Prepared by the authors (2024) and SPSS software.

Table 6: Component Matrix^a

BC	Component
	1
BC2	0.865
BC1	0.849
BC4	0.832
BC3	0.807

Source: Prepared by the authors (2024) and SPSS software.

Independent T-test: Academic levels

A comparison of the results of the evaluation of the differences in the business capacity of small and medium enterprises in Hanoi with participants of different academic levels (bachelor or higher and college or intermediate level) can be seen in Table 7. According to the results shown in Table 7, sig Levene's test is 0.921, which is more than 0.05. The variance between bachelor's or higher and college's or intermediate level is not different. Moreover, the sig value t-test is 0.224, which is more than 0.05, which means that there is no statistically significant difference in the business capacity of small and medium enterprises in Hanoi between these different academic levels (Hoang & Chu, 2008; Hair et al., 2009; Hair et al., 2014).

Table 7. Differences in the business capacity of small and medium enterprises in Hanoi with participants of different academic level - Independent Test

	Levene's Test for Equality of Variances	t-test for Equality of Means

		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
BC	Equal variances assumed	0.010	0.921	-1.220	223	0.224	-0.14483	0.11870	-0.37874	0.08908
	Equal variances not assumed			-1.287	47.750	0.204	-0.14483	0.11252	-0.37109	0.08143

Source: Prepared by the authors (2024) and SPSS software.

ANOVA – job positions

An ANOVA test was needed to make a comparison of the results of the evaluation of the differences in the business capacity of small and medium enterprises in Hanoi between the four subjects, including participants who are managers, vice managers, responsible business, and responsible marketing and markets. Table 8 shows that the sig Levene statistic of 0.002 is smaller than 0.05, which means that the hypothesis of homogeneity of variance among the variable value groups (different job positions) has been violated. Table 9 shows that sig. is 0.620, which is larger than 0.05, which indicates that there is not a statistically significant difference in the business capacity of small and medium enterprises in Hanoi between the mentioned four groups of job positions (Hoang & Chu, 2008; Hair et al., 2009; Hair et al., 2014).

Table 8. Test of Homogeneity of Variances

Descriptions	Levene Statistic	df1	df2	Sig.
BC				
Based on Mean	5.244	3	221	0.002
Based on Median	4.610	3	221	0.004
Based on Median and with adjusted df	4.610	3	217.295	0.004
Based on trimmed mean	5.210	3	221	0.002

Source: Prepared by the authors (2024) and SPSS software.

Table 9. Robust Tests of Equality of Means

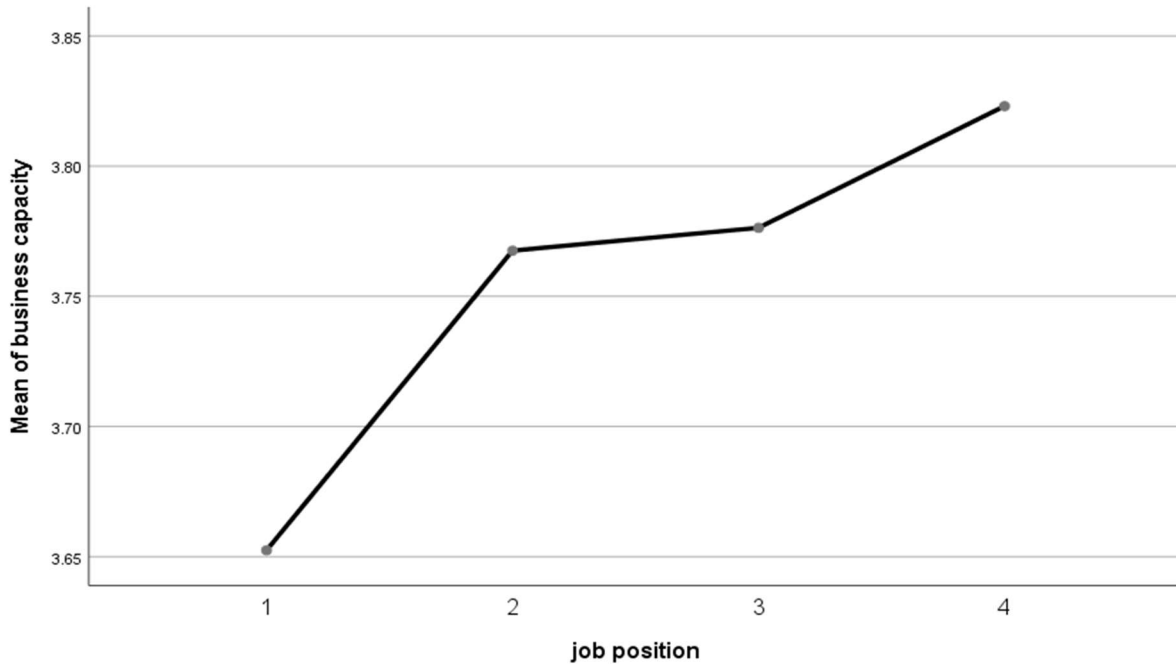
	Statistic ^a	df1	df2	Sig.
Welch	0.594	3	98.534	0.620

Source: Prepared by the authors (2024) and SPSS software.

The relationship between the business capacity of small and medium enterprises in Hanoi - job position

Next, the line graph shows the relationship between the business capacity of small and medium

enterprises in Hanoi and each respondent's job position (Figure 1). Figure 1 shows that this line tends to slope up when the respondents are managers, vice managers, responsible businesspeople, and responsible marketers and marketers.



Source: Prepared by the authors (2024) and SPSS software.

Figure 1: The line graph shows the relationship between the business capacity of small and medium enterprises in Hanoi and each respondent's job position.

5. DISCUSSION AND IMPLICATIONS

Hanoi is the capital of the country, has a high economic growth rate, and contributes greatly to the total budget revenue of the country, of which SMEs account for about 97.2% of the total number of registered enterprises. SMEs contribute to creating over 50% of jobs in businesses and contribute significantly to Hanoi City's budget revenue. SMEs have become the backbone of the city's growth and development. SMEs growing in number, having a reasonable structure, and operating effectively will determine the scale and competitiveness of the city. (Dinh, 2023).

The resource of a firm is its internal strength, which is extremely important. From a business perspective, resources are the internal resources of an enterprise. Enterprises can only conduct production and business activities when they have enough financial, human, and material resources. That is also one of the aspects of business capacity.

To improve business capacity, SMEs should (i) invest in people. Enterprises invest in human resources for each department; each employee undertakes assigned functions and tasks. Every employee who does their job well will definitely know how to use other resources. (ii) Invest in equipment to serve production and business activities. The more modern the equipment, the higher the work efficiency will be, thereby contributing to the best support for production and business activities and minimizing human effort. (iii) Identify potential markets: SMEs should identify

potential markets for their products or services. If SMEs determine correctly, customer handling methods will be effective, and orders will be closed faster. (iv) Leaders of SMEs should have leadership skills and strategic vision, which will help SMEs take the right direction and bring high efficiency in the fiercely competitive market. (v) To operate and develop products and services, SMEs should have abundant capital and know how to use capital most effectively to bring maximum profits to the firm.

When SMEs self-assess their business capabilities, it will help determine the source of competitive advantage compared to competitors, thereby providing plans to more optimally promote that advantage.

When employees of SMEs evaluate the capabilities of other firms, the information obtained will contribute to supporting (i) Partner firms: identify advantages and support making accurate and smart cooperation decisions. (ii) supplier: Evaluate that supplier's ability to provide distinct advantages compared to other suppliers, supporting the evaluation and selection of the most reasonable and optimal supplier. (iii) competitors: better understand their capabilities and potential, support firm reform, learn, create initiatives, and promote firm development. In addition, it also helps employees' firms make more accurate business decisions as well as limit and prepare solutions for risks.

Business capacity of enterprises is also evaluated by experts through (i) financial capacity, based on financial performance indicators (KRI), and (ii) implementation capacity, based on key performance indicators (KPIs) in 5 groups: marketing or sales, human resources, technology, management or operations, organization or operations, and demonstration in the Business Index: Implementation Capacity report.

Enterprise size is also one of the factors that information users are interested in when evaluating an enterprise's business capacity. When choosing a brand or firm, most customers rely on the size and popularity of that firm in the market. Large-scale firms will certainly attract more customers because customers trust them. In addition, large-scale enterprises have a higher ability to attract talented and potential human resources and own modern technological equipment. From there, these firms will save maximum working time but still achieve planned targets such as products or services sold, profits, etc.

SMEs should apply modern technology to sales. SMEs that own modern equipment and apply 4.0 technology often have higher business performance than traditional firms because (i) with the same human resources, modern firms will achieve their targets in the short term; (ii) modern sales management software allows firms to collect customer data in the best way, bringing high sales efficiency. But investing in modern technology, science, and technology is not simple for every firm because it requires a huge amount of capital. Therefore, firms should research and find other alternatives.

Other macro-factors, such as economics, politics, inflation, exchange rates, GDP growth, legal and monetary policies, etc., also affect the business capacity of enterprises.

Employees in general and the corporate governance department in particular can evaluate the strengths and weaknesses of the enterprise through internal indicators and information to evaluate

the business capacity of the enterprise in which employees are working. Besides the internal environment, employees should evaluate the business environment of the enterprise to consider external factors affecting the enterprise.

6. CONCLUSIONS

Small and medium-sized enterprises are an important pillar for Hanoi's development. Small and medium-sized enterprises that grow in number, have a reasonable structure, and operate effectively will determine the scale and competitiveness of Hanoi City.

Although reliable results have been achieved, this study has some limitations due to the relatively small sample size and only focusing on SMEs in Hanoi, as well as stopping to explore some variables. Basic business capacity of small and medium enterprises. Subsequent research can be expanded to other firms and other regions across the country, with a more representative sample size, as well as discovering factors that affect business capacity. Business capacity affects the dependent variable of firms in Vietnam.

ACKNOWLEDGEMENT: The authors would like to thank University of Labour and Social Affairs, Vietnam; Hanoi University of Business and Technology, Vietnam; Posts and Telecommunications Institute of Technology, Vietnam; and other researchers and reviewers who supported us during the study time.

References

- Chittithaworn, C. (2011), 'Factors affecting business success of small and medium enterprises (SMEs) in Thailand', *Asian Social Science*, 7 (5), 180-190.
- Creswell, JW. (2014), *Research design: qualitative, quantitative, and mixed method approaches* (4th Ed.), SAGE Thousand Oaks Calif.
- Dinh, V. M. (2023). Developing small and medium enterprises in Hanoi city. Accessed on October 29, 2023, from <https://tapchitaichinh.vn/phat-trien-doanh-nghiep-nho-va-vua-tren-dia-ban-tp-ha-noi-1074145.html>. [Vietnamese]
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2009). *Multivariate Data Analysis* (7th ed.). Upper Saddle River, NJ: Prentice Hall International.
- Hair, J. F., Henseler, J., Dijkstra, T., Sarstedt, M., Ringle, C., Diamantopoulos, A., Straub, D., Ketchen, D., GTM, H., & Calantone, R. (2014). Common beliefs and reality about partial least squares: comments on Rönkkö and Evermann. *Organizational Research Methods*, 17(2), 182-209.
- Hoang, T., & Chu, N. M. N. (2008). *Analyzing researched data with SPSS* (2nd ed.). Ho Chi Minh City, Vietnam: Hong Duc Publishing House. [Vietnamese]

- Ho, H. T., & Mai, T. H. Y. (2016). The decision to choose television advertising for small and medium-sized enterprises in the Mekong Delta region. *Journal of Economics & Development*, 234, 66-75. [Vietnamese]
- Kotler, P. & Armstrong, G. (2011), **Principles of marketing**, 9th Edition, Pearson Custom Publishing.
- Saunders, M., Lewis, P. & Thornhill, A. (2012). *Research Methods for Business Students* (6th Ed.), Pearson, Harlow, England.