

# Production and business efficiency of small and medium-sized construction enterprises: Research in Hai Phong city, Vietnam

**Thi Yen Le**

Hanoi Architectural University, Viet Nam

## Abstract

This study was designed to analyze the actual situation of production and business efficiency of small and medium-sized construction enterprises in Hai Phong city, Vietnam. Research findings show that the size of small and medium enterprises in the field of construction tends to grow during the research period; the average capital size for business activities tends to grow. However, the business performance of small and medium-sized construction enterprises has not yet reached the available potential. Based on that research, the author proposes solutions to improve the business efficiency of small and medium-sized construction enterprises in Hai Phong city, Vietnam.

**Keywords:** *business efficiency, enterprises, construction, small and medium enterprises, Vietnam*

## 1. Introduction

Small and medium-sized enterprises are independent production and business establishments, which are registered under current law. The department with a crucial role in the socio-economic development of the locality and country. Small and medium enterprises are an indispensable part of the private sector and account for a large proportion of the business community in Vietnam. In 2019, there were 541,753 small and medium-sized businesses operating in the Vietnam economy, with a total registered capital of about 130 billion USD, accounting for about one-third of all enterprises. Every year, small and medium enterprises contribute about 40% of GDP, 30% to the state budget, and 33% of industrial output, 30% of export value, and attract nearly 60% of employees. (source: General Statistics Office, 2020).

The development and growth of small and medium-sized enterprises have proved their significant position and role in the socio-economic development of Vietnam. Among these enterprises, small and medium enterprises in the construction sector play an important role in solving economic development problems and social problems of both countries and localities. In Vietnam, localities have a relatively strong development of small and medium enterprises. One of those localities is Hai Phong city; the statistical results of Hai Phong City Statistics Department show that, in 2017, the total number of small and medium enterprises in Hai Phong city was about 14,088 enterprises; this number increased by about 1,453 enterprises to about 15,541 enterprises in 2018 and continued the relatively rapid growth; in 2019, the scale of the number of firms reached about 16,724 enterprises, an increase of about 1,183 enterprises compared to 2018. The size of small and medium-sized enterprises in the construction sector also increased during the 2017-2019 period. According to statistical results, the scale of small and medium-sized construction enterprises in Hai Phong city in 2017 was about 1,254 enterprises; this number has increased to about 1,483 enterprises and reached about 1,716 enterprises in 2019. (Hai Phong Statistics Office, 2020)

Hai Phong's construction enterprises have demonstrated their importance and role in the city's development. These enterprises play an important role in building infrastructure to facilitate the economic, cultural, and social development of the locality to go with the whole country to industrialize and modernize the country. However, besides these achievements, the development of small and medium-sized enterprises in the field of construction in Hai Phong city still reveals limitations such as: business performance of these enterprises remains low, the annual rate of enterprise dissolution and bankruptcy tends to increase, most firms still face many difficulties in building brands, products, management level, access to capital is still low, lack of linkages between businesses.

For such reasons, it is necessary to study the business performance of small and medium enterprises in the field of construction, then use it as a basis for planning as well as proposing solutions to help businesses operate more efficiently.

## 2. Research Methods

Data for the study are collected from the annual summary report of the Department of Planning and Investment of Hai Phong City, Vietnam. In addition, the data collected from the Hai Phong City Statistical Yearbook also served as data for the study.

Analyzing research data based on descriptive statistical analysis methods, methods of comparison and interpretation of research results are used to analyze research data.

### 3. Results of research

#### 3.1. The situation of the development of small and medium-sized construction enterprises in Hai Phong city

The size of small and medium construction enterprises in Hai Phong city tends to increase in the period 2017-2019:

**Table 1: Size of small and medium construction enterprises in Hai Phong city**

Year	Unit	2017	2018	2019
Total number of small and medium enterprises	Enterprises	13.338	14.471	15.864
Size of small and medium construction enterprises	Enterprises	1.254	1.483	1.716
The ratio of small and medium-sized construction enterprises in comparison to the total number of small and medium-sized enterprises	%	9,40	10,25	10,82

*Source: Hai Phong Statistical Office*

During the period 2017-2019, the number of small and medium enterprises in Hai Phong city grew continuously, and along with the same trend, small and medium enterprises in the field of construction also grew in size. According to statistical results, the scale of small and medium-sized construction enterprises in Hai Phong city in 2017 was about 1,254 enterprises, this number has developed to about 1,483 enterprises and reached the number of about 1,716 enterprises in 2019.

Generally, the percentage of small and medium-sized construction firms compared to the percentage of small and medium-sized businesses tends to increase, specifically, in 2017, this rate reached about 9.4%, and this number has risen to roughly 10.25% in 2019, and climbed to a figure of approximately 10.82% in 2019.

Small and medium construction enterprises have also attracted a large portion of the workforce of the local as well as neighboring provinces to work, thereby contributing to job creation and solving local social problems, specifically as follows:

**Table 2: Size of employees working in small and medium-sized enterprises in Hai Phong city**

Year	Unit	2017	2018	2019
Size of labor in small and medium enterprises	Labor	423.407	437.846	450.016
Size of labor in small and medium-sized construction enterprises	Labor	29.382	27.378	30.129
The ratio of employees in small and medium-sized construction enterprises compared to small and medium-sized enterprises	%	6,94	6,25	6,70

*Source: Hai Phong Statistical Office*

From 2017 through 2019, the scale of labor working in small and medium-sized construction enterprises tends to increase, specifically, in 2017, the number of employees working here reached about 29,382 employees, this number had a decline in 2018 to roughly 27,373 employees; however, after that, there was a rebound to reach the number of about 30,129 employees working at small and medium-sized construction enterprises in Hai Phong city.

#### 3.2. The actual situation of business efficiency of small and medium construction enterprises in Hai Phong city

The business efficiency of enterprises in general, and small and medium-sized enterprises in the construction sector in particular, is the goal of enterprises, is the destination of firms when carrying out any production and business activities. While conducting business activities and producing goods, enterprises are also taking risks by putting their current capital to work in the hope of reaping future rewards, thus, the business efficiency of small and medium-sized enterprises in the field of construction also needs to be examined to analyze the current business performance of these enterprises.

Firstly, about the average production and business capital size of small and medium-sized enterprises in the field of construction in Hai Phong city in the period 2017-2019 as follows:

**Table 3: Average production and business capital size of small and medium-sized enterprises in the field of construction**  
**Unit: Billion VND**

Year	2017	2018	2019
Small and medium enterprises in the field of construction	32,686	46,060	52,016
Small and medium enterprises in Hai Phong city	50,126	51,132	50,653

*Source: Hai Phong Statistical Office*

Capital is mobilized from many sources for the production and business activities of enterprises in general and small and medium-sized construction companies in Hai Phong particularly, from borrowed capital to equity capital. The capital flows assist businesses in maintaining operations, and will also reflect the financial strength of firms.

In 2017, the average size of production and business capital according to statistics of small and medium construction enterprises was about 32,686 billion VND, this figure has tended to increase slightly during the research period to 46.06 billion VND in 2018 and about 52,016 billion VND in 2019 respectively.

The common goal of enterprises when carrying out production and business activities is profit; want to achieve profit, the revenue from the business plays an important role, an increase in business revenue will contribute to maximizing profits for the enterprises.

**Table 4: Net revenue from production and business of small and medium enterprises in the field of construction in Hai Phong city**

*Unit: Billion VND*

Year	2017	2018	2019
Net revenue from production and business	32.742	39.026	40.016
Scale Up/Down	/	6.284	990

*Source: Hai Phong Statistical Office*

Net revenue from production and business activities of small and medium-sized construction enterprises tends to increase in the research period 2017-2019; specific:

In 2017, the net revenue of production and business activities of small and medium-sized construction enterprises reached about 32,742 billion VND, which tends to increase by about 6,284 billion VND in 2018 and grow to about 39,026 billion VND.

As of 2019, net revenue from the production and business activities of small and medium-sized enterprises in the construction sector amounted to 40,016 billion VND, up about 990 billion VND from the same period last year.

**Table 5: Average income of workers in construction enterprises**

*Unit: thousand VND/month*

Year	2017	2018	2019
Small and medium enterprises in the field of construction	7.162	7.916	8.012
Small and medium enterprises in Hai Phong city	7.037	8.181,1	8.206,3

*Source: Hai Phong Statistics Office*

The total income of workers in small and medium enterprises in the construction sector tends to rise during the research period, which has contributed to ensuring the average income of employees working in small and medium enterprises in construction.

In 2017, the average income of workers in small and medium-sized construction enterprises reached about 7,162 million VND per month, this number has risen to about 7,916 million VND per month in 2018 and climbed to about 8,012 million VND per month in 2019.

Comparing the average income of workers in small and medium-sized construction enterprises with the average income of workers in small and medium-sized enterprises in Hai Phong city shows that the average income of workers in small and medium-sized construction enterprises is lower than the average income of workers in small and medium-sized enterprises in Hai Phong city. In 2017, the average income of employees in small and medium-sized enterprises was about 7,037 million VND; this number rose to about 8,181 million VND in 2018 and reached about 8,206 million VND in 2019.

Profit-revenue ratios of small and medium-sized construction enterprises are as follows:

**Table 6: Profit-revenue ratio of enterprises**

*Unit: %*

Year	2017	2018	2019
Small and medium enterprises in the field of construction in Hai Phong city	1,64	1,262	1,266
Small and medium enterprises of Hai Phong city	1,65	1,26	1,38
Small and medium enterprises of the country	1,2	1,0	1,06

*Source: Hai Phong Statistical Office; the White Book on Vietnamese Businesses*

Regarding the profit-revenue ratio of small and medium-sized construction enterprises in Hai Phong city, it is relatively stable, reaching over 1.2%, specifically, the profit-revenue ratio of small and medium-sized

construction organizations was 1.64% in 2017; this figure tends to fall to about 1.262% in 2018; the profit margin on revenue of small and medium-sized construction enterprises is about 1.266% in 2019.

Profit-revenue ratios of small and medium-sized construction enterprises are quite similar to those of small and medium-sized businesses in Hai Phong city when the latter figure is also 1.65% in 2017 and 1.38% in 2019.

Meanwhile, compared with the profit-revenue ratio of small and medium-sized construction enterprises of medium enterprises in the country, the profit-revenue ratio of small and medium-sized construction enterprises is higher; the profit-revenue ratio of small and medium-sized construction enterprises nationwide reached about 1.2% in 2017; 1.0% in 2018 and about 1.06% in 2019.

#### **4. General assessment**

##### **4.1. Achievements**

Firstly, the scale of small and medium-sized construction enterprises in Hai Phong city also tends to increase in the years 2017-2019; according to statistical results, the scale of small and medium-sized construction enterprises in Hai Phong city in 2017 was about 1,254 enterprises, this number has grown to approximately 1,483 enterprises and reached the number of nearly 1,716 enterprises in 2019.

Secondly, the capital scale of production and business activities of small and medium construction enterprises in Hai Phong city also raised, in 2017, the average size of production and business capital according to statistics of small and medium-sized construction firms was about VND 32,686 billion, this figure has tended to go up slightly during the research period to 46.06 billion VND in 2018 and about 52,016 billion VND in 2019 respectively.

Third, the profit-revenue ratio of small and medium-sized construction enterprises in Hai Phong city is relatively stable, reaching over 1.2%, specifically, in 2017, the profit-revenue ratio of small and medium-sized construction enterprises was about 1.64%; this figure tends to go down to about 1.262% in 2018; the profit margin on revenue of small and medium-sized construction enterprises is about 1.266% in 2019.

##### **4.2. Limitations**

Firstly, Hai Phong's small and medium construction enterprises are mostly small, whereas the medium enterprises are few. Construction enterprises are still operating on a fragmented basis and have not yet brought into full play their advantages. Every year, firms that stop operating still tend to increase.

Secondly, the scale of production and business capital of small and medium construction enterprises in Hai Phong city is still lower than that of other small and medium enterprises in Hai Phong city.

Thirdly, the profit before tax of small and medium-sized construction enterprises has not been stable, fluctuating between increases and decreases during the research period.

Fourth, the profit-revenue ratio of small and medium-sized construction enterprises in Hai Phong city is still low, although compared with small and medium construction enterprises across the country has tended to be higher, however, the results achieved by these enterprises have not been as good as expected for their potential.

#### **5. Some recommendations**

To enhance the operational efficiency of small and medium-sized construction enterprises in Hai Phong city, some recommendations are proposed as follows:

Science and technology solutions: innovation, creativity, and enhancing technology application capacity are the basis for helping firms in general and small and medium enterprises in the construction field in particular to improve labor productivity and product quality. Due to limited resources, most small and medium-sized construction enterprises nowadays have little innovation and are not properly utilizing technology, the innovation and application of science and technology will contribute to supporting firms to improve labor productivity, thereby improving production and business efficiency.

Human resource solution: Human resources play a key role in the success of small and medium enterprises in the construction industry; therefore, it is crucial to develop solutions to support and manage resources effectively.

Strengthen linkages and cooperation with foreign-invested enterprises

The successful experience of organizations worldwide shows that the research and development department in a company is crucial, no matter what industry it operates in. Businesses recognize the value of research and development to create innovations, products, and improvements to meet market needs. Therefore, strengthening linkages and cooperation with foreign direct investment enterprises, as well as firms in developed countries around the world is a favorable condition to help grasp standards, new techniques, and access to new knowledge and technologies for small and medium enterprises in the field of construction in Hai Phong city. Moreover, this is also regarded as the most effective shortcut solution. However, to achieve maximum efficiency when receiving new knowledge and technologies, enterprises need to be well prepared regarding human resources, so that they can best absorb the results of global technological advancement.

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