

Key Success Factors of SME Entrepreneurs: Empirical Study in Vietnam

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Abstract

In the current increasingly competitive environment, productivity and profitability of each organization are strictly associated with its leaders' management capacity. For the SMEs, their growth and success depend mainly on the entrepreneur's management capacity. Based on an empirical study of 206 SMEs in Vietnam, this article clarifies five groups of key success factors of SME entrepreneurs. According to results obtained, knowledge on business and management, management skills, certain personal characteristics (such as flexibility, adventurous and punctilious spirit) and experience of SME entrepreneur are the factors that significantly and positively influence the success of SMEs.

Keywords: key success factors, success, SME, entrepreneurs, Vietnam

1. Introduction

SMEs (small and medium enterprises) are one of the main engines of development of an economy; and development of this business component is vital to the health of the economy (Nafukho & Muya, 2010), especially for developing countries. In Asia, SMEs account for over 80% of companies that generate 80% of jobs. In Vietnam, according to the annual survey among the companies of the General Statistics Department, the majority of companies are small and micro-enterprises. Until 31/12/2010, the number of SMEs was 290.767, which made up 95,61% of the total of country's companies. For SMEs, the entrepreneur's management capacity is important, determining the success or failure of the company. Thus, every entrepreneur of an SME must constantly update their knowledge about the company and management, management skills and personal characteristics to further promote the ability of the company and its management capacity in order to strengthen the competitiveness of its company in the international market.

However, macroeconomic management policy for the development of SMEs and the research on how to develop the SMEs entrepreneurs' management capacity are still little explored; although the management capacity and the development of SME entrepreneurs' management capacity are decisive factors for the success and the dominant position of SMEs in the market. Therefore, this research focuses on the "*Key success factors of SME entrepreneurs: An empirical study in Vietnam*" by analyzing the current situation of Vietnamese SMEs on the subject and proposing solutions to improve their entrepreneurs' management capacity.

2. Theoretical Framework

In Vietnam, according to Decree No. 90/2001/ND-CP dated 23/11/2011 related to the development of SMEs "SMEs are defined as independent production and business facilities, registered under the law in force, with less than 10 billion of registered capital and the number of employees not exceeding 300 persons per year". However, the country's economy is growing strongly and is influenced by fluctuations in the macroeconomic environment. Besides, capital requirements do not accurately reflect the size of the company. Therefore, in studies on SMEs as well as on other types of companies, criteria about number of employees are most appropriate. Worldwide, SMEs have an important position and support the country's economic development process. This type of company is considered the driving force and economic power for development in the future, and especially regarded as the source of innovation and development of economic relations.

SMEs have some of the following characteristics: they are often managed by the entrepreneur. They start more easily with a more dynamic direction. Most SMEs have shown flexibility in the ability to easily adapt to changes

in the economic environment. These SMEs also have the ability to operate and make effective use of inputs such as natural resources, labor, and capital ... at local level. Consequently, they create favorable conditions for the development of traditional industries; and contribute to the protection and maintenance of cultural and spiritual values, to the creation of jobs for the local population, and to local economic development. The structure of SMEs is not too complex; then, professional relations in SMEs are more sympathetic and narrow. However, these SMEs suffer many types of risks in business and they usually have difficulties in the business operation and development as well as in the training and development of human resources (Nguyen Hai San, 2001).

The management is a combination of activities such as planning, organizing, directing and controlling to achieve the objectives defined by and through the efforts of others. Hence, with this understanding, the four management functions include planning, organizing, directing and controlling. In SMEs, entrepreneurs often carry all the above management functions. In addition to the general characteristics of management, SMEs entrepreneurs' management has specific characteristics (Filion, 2007). Firstly, SMEs entrepreneurs have close relationships with employees; they are interested in training as well as motivating employees at work. Secondly, the corporate communication mechanism is usually simple, based on the relationship between individuals. Thirdly, power is centralized, i.e., the director is the decision-maker of all internal and external operations of the company. Fourthly, due to the fact that the organizational structure is not too complex, specialization in Management of SMEs is relatively low. Fifthly, the operational direction for SMEs dominates the management of a company. Thus, as an entrepreneur, he conducts general management activities, operational exploitations, and management of human resources in the company.

Several studies have shown that the main problem for SMEs in developing countries is not their reduced size but their isolation, which hinders access to markets, as well as to information, financing and institutional support (Mead & Liedholm, 1998; Swierczek & Ha, 2003). Several factors prevent them from realizing their full potential to make a greater contribution to the society. As part of this study, we focus on the key success factors of Vietnamese SME entrepreneurs. Researches have shown that success is closely linked to level of education (Staw, 1991; Meng & Liang, 1996), experience (Ziemmerer & Scarborough, 1998) and age (Sletten & Hulaas, 1998). Indarti and Langenberg (2005) also indicated that demographic factors affect the commercial success of SMEs. Demographically, age, sex, education and work experience were found to have an impact on entrepreneurial success. Well-trained people are more creative, and they are always looking for something unique (Ndubisi et al., 2003). People aged from 25 to 44 are more likely to be involved in entrepreneurial activity (Reynolds et al., 2000). These demographic factors are taken into account in the theoretical framework of this study in the context of Vietnam, which aims to identify the key success factors of SME entrepreneurs. Hence, the study of the key factors affecting the success of Vietnamese entrepreneurs can be divided into: (1) demographic characteristics; (2) knowledge of business and management, (3) management skills; and (4) personal characteristics.

We therefore propose that:

Hypothesis 1: The demographic characteristics (such as *age*, *education* and *experience*) of SME entrepreneurs significantly influence the success of SMEs.

Knowledge of business and management: The entrepreneurs of SMEs have not only a general knowledge of the business and the business environment of the company but also knowledge of general administration and corporate governance. Indeed, knowledge of general administration, strategic management and administrative functions are necessary to help entrepreneurs of SMEs understand the process of governance, the operating and planning systems, and the deployment strategies in an environment which has permanent change. In addition, SME entrepreneurs need to learn and to lead the implementation of management and operational functions such as human resources, financial management, administration, accounting, purchasing and sales, marketing management and brand management, consultation, if necessary, public relations, integration and globalization, etc.

Hypothesis 2: Business and managerial knowledge of SME entrepreneur (such as *general knowledge on business, on management and additional knowledge*) are significantly and positively associated with the success of SMEs.

Management skills: Management skills required for SME entrepreneurs need to be trained and regularly improved. SME entrepreneurs must understand and be able to implement planning and organization of the company, distribution of rights, leadership, management, staff training, resolution to problems and change management, etc. The experience in management and in business is the key component to help SME entrepreneurs improve their management skills. According Whetten's research (2002), management skills mainly

include:

- The planning skills, including self-awareness skills, thinking skills, skills of defining goals and of planning, etc.
- The skill of organization requires that entrepreneurs have the opportunity to build a team and make personal decisions.
- The leadership skills include assigning work to others, communication skills, skills to encourage and influence others, etc.
- The control skills through conflict management. The control skills help entrepreneurs to actively prevent risks and to cope with changes.

In addition, to manage his company, an entrepreneur must also have skills of time and stress management and skills of staff training, etc. We therefore propose that:

Hypothesis 3: The SME entrepreneur's management skills (such as *planning, organizing, leadership and encouragement, controlling and time management*) have significant and positive impacts on the success of SMEs.

Personal characteristics: Personal characteristics are essential for a good entrepreneur. Entrepreneurs must have the right attitude towards work, be serious and careful. They must have the will, confidence and passion for work as well as the adventurous spirit and determination, creativity, patience, the ability to question and strategic vision but very detailed in operations, etc. The qualifications for the success of SME entrepreneurs in business are: (1) flexibility and business acumen; (2) Innovative thinking and creativity; (3) Confidence; (4) Adventurous spirit and determination; (5) Patience; (6) Capacity of generality; (7) Punctilious spirit; and (8) Eagerness to learn.

Hypothesis 4: The personal characteristics of SME entrepreneur (such as *flexibility, creativity, confidence, adventurous spirit, patience, capacity of generality, punctilious spirit and eagerness to learn*) influence significantly and positively the success of SMEs.

In short, studying the elements of the SME management capacity which includes knowledge of business and management, management skills and personal characteristics of entrepreneurs, we propose the research model below. In this model, the independent variables have a positive and significant impact on the success of the SME entrepreneur (dependent variable - success).



Figure 1. Research model of key success factors of SME entrepreneurs

3. Methodology

To test the hypothesis and research model, we use the quantitative method for collecting and analyzing primary and secondary data. The search for secondary data is also used to gather information on the overall situation of development of companies in Vietnam in general and in SMEs in particular; the development of entrepreneurs, including those of Vietnamese SMEs and management skills development programs undertaken for SME entrepreneurs in the country.

The questionnaire survey with a larger sample combined with a case study aims to gather information on the state of management capacity, the causes of weaknesses, influences and measures to develop management capacity of SME entrepreneurs in Vietnam. With 206 questionnaires that satisfy all the criteria and provide all necessary information for the survey, we perform the evaluation of the current state of the SME entrepreneurs' management capacity.

Table 1. Survey samples

| Criteria | Number of SMEs | (%) | Criteria | Number of SMEs | (%) |
|---------------|----------------|-------|----------------------|----------------|-------|
| Sex | 206 | 100% | <i>Formation</i> | 206 | 100% |
| Men | 180 | 87,4% | Before baccalaureate | 4 | 1,9% |
| Women | 26 | 12,6% | Baccalaureate | 16 | 7,8% |
| Age | 206 | 100% | License | 122 | 59,2% |
| Under 30 | 37 | 18,0% | Mastery | 28 | 13,6% |
| 30-39 years | 64 | 31,1% | Master, PhD | 36 | 17,5% |
| 40-49 years | 46 | 22,3% | <i>Experience</i> | 206 | 100% |
| 50-59 years | 40 | 19,4% | Less than one year | 21 | 10,2% |
| Over 60 years | 19 | 9,2% | 1-3 years | 28 | 13,6% |
| | | | 3-5 years | 76 | 36,9% |
| | | | Over 5 years | 81 | 39,3% |

Source: Survey Results.

The regression model is formulated as follows:

$$y = a_0 + a_1x_1 + a_2x_2 + \dots + a_{19}x_{19} + \varepsilon$$

With y : the dependent variable SME success as assessed by the entrepreneur;

a_i : coefficients to estimate.

x_i : independent variables presented in Table 2.

ε : error.

Table 2. Description of the independent variables

| Variable | Coding | Measure |
|--|------------|---|
| <i>Demographic characteristics:</i> | | |
| Age | Age | Age of SMEs entrepreneur |
| Education | Formation | Education level of the SMEs entrepreneur |
| Experience | Experience | Experience level of the SMEs entrepreneur |
| <i>Knowledge of business and management:</i> | | |
| General knowledge of business | KTKD | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Knowledge of Management | KTQL | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Additional Knowledge | KTBT | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| <i>Management skills:</i> | | |
| Planning | KNHD | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Organization | KNTC | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Leadership and encouragement | KNLD | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Control | KNKS | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Time management | KNTG | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| <i>Personal characteristics:</i> | | |
| Flexibility | CNLH | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Innovative Thinking and Creativity | CNST | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |

| | | |
|--------------------------------------|------|---|
| Confidence | CNTT | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Adventurous spirit and determination | CNMH | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Patience | CNBQ | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Capacity of generality | CNTM | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Punctilious Spirit | CNHH | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |
| Willingness to learn | CNLH | Measuring by Likert 5-point scale according to the assessment of the SMEs entrepreneurs |

4. Research Results

According to the result of regression, the R and R squared values are higher than 0.6, which suggests that the analysis model reflects the reality of SMEs and management capacity of entrepreneurs. The R-value of 0.818 indicates that the relationship between variables in the model is highly correlated. The regression analysis result of the model showed that the value of R^2 (R squared) is 0.670; this means that the accuracy of the model is 67%, that is to say, 67% of the variance in the dependent variable *success* is explained by the independent variables of the model. The analysis of variance shows that the F value is significant with Sig. = 0.000 (< 0.05). This means that the regression model is adequate with the collected data and the variables are statistically significant at 5%. Thus, the independent variables in the model are significantly associated with the dependent variable *success* of the model.

Table 3. Regression results

| Variable | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|------------|-----------------------------|------------|----------------------------|---------|-------|-------------------------|-------|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | -4.581 | 0.843 | | -5.435 | 0.000 | | |
| KTKD | 0.211** | 0.061 | 0.188 | 30.488 | 0.001 | 0.609 | 1.643 |
| KTQL | 0.232** | 0.070 | 0.164 | 30.309 | 0.001 | 0.721 | 1.386 |
| KTBT | 0.097 [†] | 0.050 | 0.089 | 10.955 | 0.052 | 0.860 | 1.163 |
| KNHD | 0.416*** | 0.056 | 0.393 | 70.449 | 0.000 | 0.637 | 1.570 |
| KNTC | 0.142** | 0.051 | 0.131 | 20.784 | 0.006 | 0.807 | 1.239 |
| KNLD | -0.039 | 0.053 | -0.035 | -0.729 | 0.467 | 0.788 | 1.268 |
| KNKS | 0.539*** | 0.078 | 0.438 | 60.924 | 0.000 | 0.443 | 2.259 |
| KNTG | -0.016 | 0.059 | -0.014 | -0.274 | 0.784 | 0.664 | 1.506 |
| CNLH | 0.135* | 0.064 | 0.121 | 20.114 | 0.036 | 0.543 | 1.843 |
| CNST | -0.059 | 0.055 | -0.049 | -10.068 | 0.287 | 0.837 | 1.194 |
| CNTT | 0.032 | 0.051 | 0.027 | 0.627 | 0.531 | 0.927 | 1.078 |
| CNMH | 0.297** | 0.089 | 0.221 | 30.355 | 0.001 | 0.410 | 2.436 |
| CNBQ | 0.035 | 0.054 | 0.029 | 0.639 | 0.523 | 0.877 | 1.141 |
| CNTM | 0.213** | 0.076 | 0.195 | 20.795 | 0.006 | 0.366 | 2.729 |
| CNHH | 0.127 | 0.079 | 0.077 | 10.610 | 0.109 | 0.774 | 1.292 |
| Sex | 0.127 | 0.168 | 0.034 | 0.755 | 0.451 | 0.861 | 1.162 |
| Age | -0.005 | 0.048 | -0.005 | -0.108 | 0.914 | 0.765 | 1.307 |
| Education | -0.021 | 0.063 | -0.015 | -0.332 | 0.740 | 0.885 | 1.129 |
| Experience | 0.136* | 0.062 | 0.106 | 20.192 | 0.030 | 0.753 | 1.328 |
| R | 0.818 | | Adjusted R Square | | | 0.636 | |
| R Square | 0.670 | | Std. Error of the Estimate | | | 0.744 | |
| F | 19.857 | | Sig. | | | 0.000 | |

[†] $p \leq 0.1$ * $p \leq 0.05$ ** $p \leq 0.01$ *** $p \leq 0.001$

Based on the above regression results, we will analyze more deeply the impact of the key success factors of

entrepreneurs on the success of the latter in Vietnam. For factors concerning *knowledge of business and management*, regression analysis results in the table above shows that the variable *general knowledge of business* has a significant and positive impact on the success of entrepreneurs with the value $B = 0.211$, the confidence level is 95% (sig. < 0.001). Results of regression analysis in the above table also show that knowledge of management has a significant and positive impact on the success of entrepreneurs with the value $B = 0.232$ at the 95% confidence level (sig. < 0.001). It is the same for the variable *additional knowledge* if we take into account the 90% confidence level. These results allow us to **validate the second hypothesis** that knowledge of business and management has significant and positive impact on the success of SMEs. The more extensive the knowledge of business and management is, the higher the level of success of entrepreneurs is. By analyzing the current situation of the entrepreneurs' management capacity, most participants said that the SME entrepreneurs' knowledge of business is still modest (30.6%) and very modest (21.8%). Only 30.8% (=19.9% + 1.9%) of participants consider entrepreneurs' knowledge of business very good. Similarly, knowledge of the management of SME entrepreneurs in Vietnam is estimated to a normal level (51.9%) by most participants. 25.2% of responses give a good evaluation.

Concerning *management skills*, regression analysis results in the table above show that the variables *planning and organization* significantly and positively influence the success of entrepreneurs at the 99% confidence level ($B = 0.416$ with Sig. = 0.000; $B = 0.142$ with Sig = 0.006). The control factor also has a significant and positive impact on the success of entrepreneurs with the value $B = 0.539$ and the confidence level of 99% (Sig. = 0.000). Thus, planning and controlling are skills that have a significant impact on the success of SME entrepreneurs. Planning has an important role in the proper functioning of companies. SME entrepreneurs have paid great attention to this work in their business management; however, according to the assessment of the survey's participants, these skills of entrepreneurs do not really meet expectations. 28.6% of respondents assessed the SME entrepreneurs' planning skills to the normal level and 25.2% low level. The numbers of participants who felt the entrepreneurs' planning skills at high and very high level represents 42.8% (21.4% + 21.4%). For control skill, in general, Vietnamese SME entrepreneurs were strong enough, which is demonstrated by the proportion of 40.8% (29.6% + 11.2%) of responses which evaluated it as good and very good. However, there are still 24.7% (=2.4% + 22.3%) of responses assessed the control skill of SMEs entrepreneurs bad or very bad. Among management skills, factors have no significant impact on the success include leadership skill and time management. These results **validate partially our third hypothesis**: entrepreneur's management skills such as planning, organization and control have significant and positive impacts on the success of SMEs.

Regarding personal characteristics, the variable *adventurous spirit* has a significant and positive impact on the success of entrepreneurs with the value $B = 0.297$ at 95% confidence level (Sig. < 0.001). In detail, 39.3% of respondents assessed the role of this factor for the success of the company to the normal level, and 33.5% (=28.6% + 4.9%) bad and very bad. Thus, the variables *flexibility* and *punctilious spirit* of the entrepreneur significantly and positively contribute to the success of SMEs. The factors that have no significant impact on the success of entrepreneurs include *creativity, confidence, patience, capacity of generality and willingness to learn*. Thus, in the context of SMEs in Vietnam, these qualities do not contribute to the success of entrepreneurs. We can therefore partially **validate our fourth hypothesis**: The entrepreneur's personal characteristics such as flexibility, adventurous spirit and punctilious spirit significantly and positively influence the success of SMEs.

Concerning demographics characteristics, only the entrepreneur's experience contributes to the success of SMEs; those such as age, education had no significant impact on the success of SMEs. We partially **confirm the first hypothesis** that the experience of the entrepreneur significantly and positively contributes to the success of SMEs

6. Concluding Remarks

This research clarified and systematized some theoretical questions based on the ability of management and the improvement of the SME entrepreneurs' management capacity by building a specific model of SME management capability and drawing lessons on development of the SME entrepreneurs' management capacity in Vietnam. Through the survey of 206 entrepreneurs of SMEs in Vietnam, this research has shown the weaknesses, strengths, and success of the management capacity. It also gives impact of the key success factors of entrepreneurs. According to the results of this research, business and managerial knowledge (such as knowledge of business and management, additional knowledge), management skills (such as planning, organizing and controlling), some personal characteristics (such as flexibility, adventurous and punctilious spirit) and experience of the entrepreneurs are the factors that significantly and positively influence the success of SME entrepreneurs. On this basis, we propose measures to facilitate and support the development of SMEs entrepreneurs' management capabilities to enhance the competitiveness of these companies in their integration into the international economy. This is the public awareness of the need to develop management capacity, knowledge of

business and management skills in general and the skills of planning and controlling in particular, and personal characteristics as well.

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