

On Cooperation Between Small and Medium Enterprises and Major Companies

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Small and medium enterprises (SMEs) play an important role in the national economy although their competitiveness and technical capacity are moderate. They have little potential for big markets but they compete well in local ones.

According to criteria suggested by the World Bank, SMEs have a work force of under 300 employees; assets of under US\$15 million and total sales of under US\$15 million. The European Commission defines SMEs as ones with work force of under 250; assets of under 50 million euros and sales of under 43 million euros. In Vietnam, Decree 90/2001/NĐ-CP defines SMEs as economic concerns that register their businesses as required by current law, have the legal capital of VND10 billion at most and the average work force of 300 at most.

In 2003, there were some 16 million SMEs in Europe representing 90% of economic concerns and employing 65 million laborers. In Asia-Pacific, SMEs account for 90% of economic concerns and 50% of jobs. In economies in transition, SMEs constitute the backbone of the economy.

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In Vietnam, SMEs have contributed a lot to changes in the structure of economy, economic growth, job creation, poverty alleviation and preservation of traditional trades. They also account for some 7% of the national budget income.

Most of SMEs in Vietnam were established in recent years. In 2001, 19,773 concerns were registered. This figure was 21,523 in 2002; 27,751 in 2003; 36,795 in 2004; and some 45,162 in 2005, bringing the total number to some 189,000 concerns.

Of these concerns, 55.4% are limited companies; 31.8% private companies; 12.5% joint stock companies; and other forms 0.3%. Regarding their business, 55% are in the service sector; 17% in the light industry; 14% in construction and 14% in agriculture.

The biggest problems with SMEs are their poor business performance and competitiveness which will become great obstacles to their integration into the regional and international markets. Main measures to develop this sector are:

- Maintaining and making the best use of their untapped potentials,

- Dealing immediately with managerial skills, market for their output, capital, technology and information.

History of relations between major companies and SMEs shows that these relations are not always cooperative ones. During a monopolistic period independent SMEs met with great difficulties in winning a market niche. To survive the competition, SMEs tended to enlarge their capacity and output and concentrate factor input; that is, to become major ones. Fast development of industrial production and concentration of resources in major companies became a general trend in the late 19th century and early 20th century. In the U.S. in 1904, of 216,180 concerns, some 1,900 were major ones. Five years after these figures were 268,491 and 3,060. Some three thousand major companies operated in 258 industries and they held some 50% of the industrial output although they represented only 1% of the number of economic concerns. In such a situation they could easily form monopolistic trusts or conglomerates; and carry out various measures to kill rivals. Between SMEs and major companies, there was

no cooperation but a war in which the weaker certainly ended in bankruptcy. And as a result, SMEs tended to become subsidiaries or subcontractors for major ones. In such a role, they can get help from major companies in terms of human resource, investment, technical assistance, information and marketing.

At present, the concentration process still continues and mergers take place from time to time, which makes major companies become giant groups or companies. In 1996, there were 22,729 mergers all over the world. In 1998, there were 108 mergers in Japan, a three-fold increase compared with 1997. Giants kept developing and became multinationals. According to the UN, the number of multinationals rose from some 7,000 in 1970 to 37,000 in 1995 while their total sales increased from US\$5,500 billion to 6,860 billion in the same period, twice as high as the national budgets of the world's seven richest countries put together.

Besides the concentration, the decentralization also made its appearance, which produced SMEs. And this sector has developed very fast. In the U.S., the number of

SMEs rose from five million in 1960 to 13 million in 1980 and 19 million in 1989. Their development is due to the following factors:

- They help increase the output and economic growth.

- They can adjust themselves quickly to changes in the market.

- They are ready to launch new and risky ventures.

- They can experiment with new products because their size requires small investments only.

- They can innovate and replace facilities without requiring additional capital.

- They can combine mechanization and automation.

- They can produce high-quality goods in spite of poor infrastructure.

- They can act as satellites for major companies and operate in depressed areas.

- They help reduce the gap between the rich and the poor, and reduce social inequality.

Thus, the decentralization trend and establishment of SMEs came from new changes in the market and new strengths and comparative advantages developed by SMEs.

In fact, however, even independent SMEs are still affected by monopolistic conglomerates that could decide on specifications and standardized quality of products. SMEs are usually content with the

role as suppliers of specific goods and services. Relations between them became more diverse. SMEs can act as subcontractors or satellites for major companies, and their services allows major companies to save some expenses on training or management.

In Japan, effective cooperation between big and small concerns constituted a dynamic for the economic growth after the Second World War. Although Japanese SMEs operated in numerous industries, they tended to form relations with one another with the result that they have a similar organization of a group of companies without a holding one. Statistics show that some 75% of major companies in Japan employ at least 100 SMEs as their subcontractors. A major one could have up to 50% of their products made by subcontractors. Thus, SMEs have become parts of the production

lines run by major companies. This means that the relation between big companies and SMEs is determined by technical features of the production process, which makes the cooperative relation sustainable and long lasting. As for major companies, the cooperative relation allows them to tap potentials of SMEs and enhance their competitiveness by reducing overheads.

When major companies accept SMEs as parts of their production lines, they have to invest in SMEs to a certain extent, provide them with skilled managers and technicians and business information and act as buyers of SMEs output.

In Vietnam today, SMEs face keen competition from both local and foreign rivals while they lack ability to enhance their technological and managerial level, gather business information, secure sources of finance and enter into new markets.

Most of them engage in trading or service businesses; others produce traditional goods that they could only export through major companies although they account for 95% of the number of companies. The cooperation between them hasn't been developed with the result that their competitiveness and quality of products were not improved. In my opinion, the cooperation between SMEs and major companies in Vietnam must include the following two aspects:

- SMEs and major companies could be turned into holding and subsidiary companies with SMEs undertaking different stages in the production process of major companies. This solution requires arrangement of companies in the same or different industries in which a holding company can control and manage its subsidiaries operating in different provinces, and support them in terms of capital, technology, information and marketing.

- SMEs in traditional businesses should apply modern technologies to tap local potentials. The government should help SMEs by providing training courses, business information, technical solutions, etc., and establishing an organization specializing in promoting the cooperation between major companies and SMEs. ■

Pho to by Huỳnh Thọ

