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Article

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The Factors of Financial Performance of SMEs (Case of Vietnam)

Hieu Minh Vu¹ and Hieu Tran Chi²

ABSTRACT

In the present environment, innovation is now treated as a prime source to earn a competitive edge in the market. Moreover, from a theoretical perspective, the emerging trend towards public relations can also be seen in the prior literature, which adds value to the firm's financial performance. Along with these practices, recent statistics in the literature showed concern towards the complimentary issue; investment strategies and their impact on firms' financial performance. Therefore, seeking to extend research by exploring these three constructs altogether, the study attempts to scrutinize the impact of public relations, innovation practices, and investment strategies on SMEs' financial performance in the context of Vietnam. Authors employ both quantitative approaches with primary data to explore subjects and gain insightful information. The primary data has been gathered from the survey with business owners, managers, and officers in 202 SMEs. The results indicate that public relations, innovation, and investment practices have a positive association with SMEs financial performance. The theme of results concludes that public relations are expected in the future virtue to search for the appropriate practices adapting with the digital transformation of media and communication, wherein SMEs ought to have digital literacy and comprehensive knowledge of public relations practices. This also study contributes to the existing literature to both theoretical and managerial approaches for better awareness of public relations, innovation, and investment practice in the research industry setting.

KEY WORDS: public relations, investment strategies, innovation, financial performance, small and medium-sized enterprises (SMEs).

JEL Classification: P33, P45, O31.

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1. Introduction

Vietnam is perceived as one of the emerging countries which rapidly adapts to the digital transformation trend in the era of 4.0 Industrial Evolution. The introduction of digital media channels shows the influence upon stakeholders' behaviour (Kot et al., 2021; Rabrenović et al., 2020). The public relations notion is known as managing relationships influencing positive sales performance and customer loyalty. According to Mehta et al. (2021), public

relations depicts crucial impacts on organizational decision-making by its creation of the dialogue platform from its two-way communication approach. Thus, public relations affects communication programs management in the organization increasingly, and indeed, public relations' role is to strategically establish and maintain the mutually beneficial relationship between organizations and stakeholders through communication programs (Hussain et al., 2021; Limba et al., 2020). Additionally, Bektas (2018) depicts public relations practices must adapt

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to the evolution of new media, contribute to an organization's strategic management, and enlighten to the foreseeable theory development and practice (Baloch et al., 2021; Chien et al., 2021a; Ehsanullah et al., 2021). The understandings of public relations roles contribute greatly to strategic communication management in all organizations. A study conducted by Vlahović et al. (2020) also examined the relationships of public relations and firm performance and suggested that future studies should also examine this area because the public relation changes with time and different impact on firm performance. Thus, to fulfil this gap, the present study investigated the impact of public relations practices on the financial performance of SMEs in Vietnam.

The investment strategies of an organization also play a significant impact on the financial goals and its achievements. These strategies strengthen the organizations to make decisions and improve the ability of the organization to compete in the market and also improve the financial position (Chien et al., 2021b; Li et al., 2021; Munir, 2020; Zhao et al., 2020). In addition, the investment strategies, especially in SMEs, need special attention because SMEs do not have enough finance, and their best investment strategies make them able to survive in the market (Hsu et al., 2021; Falkowski et al., 2020). Moreover, investment strategies provide an effective business plan that improves the overall strength of the organization and enhances financial earning (Braslauskas, 2021; Chien et al., 2021c; Huang et al., 2021a). Thus, it is considered the most essential element and needs to be investigated frequently. In addition, the SMEs in Vietnam contribute extensively to GDP and need to examine the investment decisions and strategies frequently. These elements motivate the researchers to examine the investment strategies of SMEs on their financial performance. A study accomplished by Nashtaei et al. (2020) also examined the nexus among the financial strategies and financial performance and suggested that future studies should also examine this aspect because the strategies related to the investment are frequent in nature and change with time. Thus, the current article fulfills this gap and examines the role of investment strategies on financial performance.

The innovation adoption decisions of SMEs also

influence the SMEs' financial conditions and their financial decisions. As a country with oriental philosophy culture like Vietnam, a relationship is an influential factor to business performance which is known as the "Guanxi concept". Promotional content is commonly disseminated information acting for the interest of the organization. Organizations build relationships with media and journalists to facilitate positive messages toward stakeholders. Thus, corporate image is enhanced and generation of sales. Consistently, the relationships for both internal and external communication with their crucial roles establish the mutual understanding for the vibrancy and momentum of the business (Chien et al., 2021d; Huang et al., 2021b). Additionally, public relations encourages effective communication between managers and employees for performance improvement, enhances the employees' high standard performance and achieves the positive creation of the public trust, and gains competitive advantage through communication management. Technology adoption can improve the process of the organization and develop competitive advantages characteristics in the organizations. The increasing number of SMEs in Vietnam is required to adopt innovation and technology in their process that reduces the time and cost of the organization, which leads them towards success (Bierwiazzonek et al., 2020; Huang et al., 2021c; Peón Menéndez et al., 2021). The changes in the technology required frequent investigation. Thus, SMEs in Vietnam has also need to examine the innovation adoption practices that improve the SMEs' financial performance and create competitive advantage. Thus, this importance motivates the researchers to investigate the innovation practices' role in the financial performance of SMEs. In addition, a study by de Oliveira, Basso et al. (2018) recommended that innovation adoption is a changing phenomenon and needs to examine frequently. Therefore, the present article fulfills this gap and investigates the impact of innovation adoption on the financial performance of SMEs in Vietnam. This way, the study contributes in several ways, first, it adds empirical knowledge from emerging economy i-e, Vietnam in the existing literature. Secondly, it helps other academicians or researchers as well who wish to dig deeper in the

phenomenon. The study also highlights that managers have to be innovative and maintain this characteristic in continuous manner in order to attain superior financial performance.

2. Literature Review

This part of the study provides the background of the study as well as the literature on the relationships among the understudy constructs such as public relation and financial performance, investment strategies, and financial performance and innovation adoption, and financial performance.

2.1. SMEs in Vietnam

Not only in the literature but also in practice, the SMEs' contribution to the economy and development of countries in the world has been recognized. Vietnamese SMEs create a considerable contribution of 47% to Gross Domestic Product - GDP, which is equalized as 40% of the state budget (Hussain et al., 2021; Li et al., 2021). And significantly, like other emerging countries, the businesses are highly pressured and competitive to deal and remain the sales and performance due to the current existence of the world globalization and constant change of environment. Public relations' significant contribution to the shared benefits in multi-facets has been acknowledged in both businesses and academic studies (Castillo-Vergara et al., 2021; Mohsin et al., 2021). In the past, the limited perception of public relations activities from the public Vietnam has been proved in the study of Loan (2014) because it is overlapping understood as one of the Marketing functions like brand enhancement, customer relations, and/ or product promotion, etc. Along with the development of the businesses, public relations practice is required to have clear objectives to be aligned and achieved with objectives of effective strategic communication (Chen et al., 2020; Nawaz et al., 2021; Othman et al., 2020; Xiao et al., 2021). One of the underpinned challenges for Vietnamese businesses is the unfulfilled awareness or confused perceptions of the public relations practices and the strategic contribution to business performance (Sadiq et al., 2021c; Žmuidzinaitė et al., 2021). Besides, further exploration in the field has been

suggested to be more explored. Therefore, to fill this gap, the exploration of Public Relations awareness, perception, and practices within SMEs is the aim of this paper, which hopes to contribute to the management and research perspectives from the study findings. Also, it is considered as an example in the pedagogical prospect.

On Vietnam Briefing, Shira and Associates state 98% of enterprises in Vietnam are SMEs, contributing to 40 percent of GDP and 50 percent of employment or 1.2 million jobs, in which 96% are either small-sized or micro-sized. Under Vietnam laws, particularly in Article 6 Decree no 39/2018/ND-CP, SMEs are categorized into three economic scales such as micro-scale business, small-sized business, and medium-sized business in which businesses have human resources not exceeding ten employees, 50 employees, and 300 employees respectively (Hussain et al., 2020; Tomal & Nalepka, 2020; Xiang et al., 2021). In the globalization context, promotional policies and programs for SMEs uphold significant forces for national economic reforms (Prokop et al., 2021; Quynh & Huy, 2018; Tan et al., 2021). The SMEs in Vietnam have contributed marvelously to the nation's competitive advantages in international competition. Household businesses in Vietnam are formalized into unregistered and registered ones, but their crucial contribution is recorded as VND (Vietnamese Dong) 2,249 billion revenue which accounts for 2% of the national tax. These micro-scale firms are unaffordable to consume the exponential cost of formalization thereupon, these businesses stay informal structure for stability and convenient management (Le et al., 2018; Sadiq et al., 2021b). Despite intense and major supports from the government, SMEs still have challenges and difficulties in common as limited capital, inadequate human resources, and shortage of technological innovation, lack of management skills, and strategic thinking. Therefore, Vietnam SMEs are at a disadvantage to international counterparts, especially the household enterprises are considered as vulnerable and behind even in the domestic competition (Sadiq et al., 2021c; Štreimikienė & Ahmed, 2021).

Since 2016, the "online tendency" transformation has led 50% of businesses to change their businesses

to be online, and 80% of them do their business through e-commerce flat form. In 2020, with the global outbreak of COVID-19, Vietnam was noted as well-coped with the abrupt circumstances. It requires not only Vietnam but all other countries in the world to adapt to the digitalizing business model. In Vietnam, from the survey result, 47% of surveyed businesses “accepted” to transform to the digital business (Fadly, 2020). To support more for SMEs, Government has issued the new decree No.37/2020/ND-CP; three major incentives for SMEs sectors have been built up to recover post-COVID-19 pandemic as SMEs in the operation of product distribution chains, technical support facilities, and the working spaces for start-ups. Thus, the present study contributes to the knowledge of public relations and financial performance literature with reference to SMEs in Vietnam. In addition, the present study also contributes to the literature on innovation and financial performance and also provides insight into the nexus between investment strategies and financial performance in the context of SMEs in Vietnam.

2.2. Public Relations and Financial Performance

As defined by Ferguson (2018), The term “Public relations” is the managerial communication process between an organization and its public. Communication management is to establish mutually beneficial relationships strategically. Beneficial relationships are determined by mutual understanding and shared behaviours of the stakeholders that enhance the financial performance of the firms. Galloway and Swiatek (2018) explain that public relations in the organization influence stakeholders’ behaviour. The mutual behaviour between the organization and its public is formed, which is perceived as synchronic communication and improving organizational performance. The notion of relationship management is determined by positiveness, openness, and assurance in communication. The organization-public relationship is clarified by the symbolic-oriented and behavioural-oriented outcome, which can be achieved through communication. An organization’s communication outcomes are defined as various

purposes regarding the public’s trust, satisfactory level, and commitment reinforcement (Nawaz et al., 2021; VanDyke & Lee, 2020). It is to be noted that there should be unity exists among public relations, human resources, managerial functions, marketing, finance, and R & D in order to have effective financial communication to various stakeholders. This way, the firm would be able to achieve desired financial performance (Tosun, 2004).

Public relations practices in the modern context are recognized as the implication of two-way communication symmetrical model that allows the organization to communicate with critical publics on a dialogue basis. Dialogue public relations, in a study, is asserted to have relatively connected to the internet, website, and social media. Public relations influence mass media coverage. Organizations formulate strategic relationships with stakeholders through usual engagement wherein public relations have an increasingly influential role in management setting and financial performance (Shair et al., 2021; Wright & Hinson, 2017; Xueying et al., 2021).

Moreover, public relations as the inclusive part of organization culture is interpreted as a “symbolic, interpretive function” which relates to organization statements and financial performance (Farte & Obada, 2018; Sun et al., 2020; Zhao et al., 2021). Public relations is the integral function of strategic management and is differently applied in different countries and cultures regarding the ‘poly centric’ public relations management thought that enhances financial performance. Communication program management thereby fosters the accuracy of corporates’ publicity, mutual understanding, and acceptance between organization management, employee, and its customers. Thus, PR is recognized as an integral function of a marketing communication program that improves the firm’s financial position. Tabibzadeh and Ghasemi (2019) describe it as ‘Marketing-Public Relations – MPR is a technique for organization achievement of its market-oriented objectives. In addition, MPR as the strategic composition of communication programs in mass media influences the corporate image and financial performance. Moreover, MPR is relatively conceived to holistically deliver messages toward stakeholders for sale-boost and product awareness

enhancement. Indeed, MPR is confirmed as public relations practices overlapping and communication function of marketing and financial performance (Wu & Tian, 2021; Zhuang et al., 2021). Thus, public relations significantly influence financial performance, and the current study has developed the following hypothesis:

H1: Public relations have a positive association with the financial performance of SMEs in Vietnam.

2.3. Innovation Adoption and Financial Performance

The excellent innovation adoption practices are strategically managed by the organization. There are many recognized innovation tools like product innovation, process innovation, and supplier innovation that improve the firm's financial performance (Malagueño et al., 2018). In terms of the innovative contributions to the businesses, innovation provides beneficial information. It promotes mutual understandings with essential processes and employees by providing information that improves the financial position of the firms. The dissemination of beneficial information facilitates the strategic decision-making process for both organizations and their stakeholders and also improves the financial condition of the firm (Chien et al., 2021f; de Oliveira et al., 2018; Liu et al., 2021a). Through innovation, the organization positively influences the business processes in terms of the organizations' interests and improves financial performance. Thus, stakeholders' awareness and innovation adoption are concurrently enhanced, leading to reputation enhancement and improving firm performance. Indeed, innovation adoption influences an organization's effectiveness and competitiveness, enhancing firm profitability (Chien et al., 2021e; Liao, 2018). Along with social network impacts, innovation practices have interfered with organizational performance. Ho et al. (2018) assert that innovation creates impactful content of the posts through the improving processes and also enhances the company profitability. Thus, SMEs' innovation adoption is perceived as a necessary element that creates persuasive impacts for sale boost and enhances firm profitability. Thus, innovation adoption significantly influence the financial performance and the cur-

rent study has developed the following hypothesis:

H2: Innovation adoption has a positive association with the financial performance of SMEs in Vietnam

2.4. Investment Strategies and Financial Performance

As known, customers choose a brand due to their trust; therefore, investment strategies bring the organization's quality that they developed the products based on customer trust to attract and retain customers easily. Also, as the internal customers, the workforce loyalty can be affected by positive and effective investment strategies that provide them financial benefits. In contrast, regular and effective investment strategies are well targeted to reach the right decisions of the investment that enhance the firm performance (Maingi, 2018). In addition, Kuzey et al. (2021) affirm effective investment strategies depend on various factors within and without the organization, funding of public relations programs, training of personnel on public relations, and others. As per the study of Secinaro et al. (2020), due to globalization, investment strategies have been consequentially taken place in a multicultural environment that positively influences business performance. For instance, the cultural context influences investment strategies by comparing low-context and high-context cultures, but effective investment strategies could lead the organizations to success (Liu et al., 2021b; Martí-Ballester, 2020). As known, Asian investment strategies are academically developed following the Western context. Thus, investment strategies influence the decisions of the organizations and their performance. Miralles-Quirós et al. (2020) explicated the determinants for organizations' investment strategies, including financial decisions about the investment in product and development, investment in investment employees and infrastructure, etc. Thus, all of the effective decisions lead the organization towards high financial performance. According to Indriastuti and Chariri (2021), investment strategies are shaped by practitioners' educational backgrounds and preliminary working experience that significantly influence the firm's financial performance. Thus, investment strategies significantly influence

financial performance, and the current study has developed the following hypothesis:

H3: Investment strategies have a positive association with the financial performance of SMEs in Vietnam.

3. Methodology

This study explores the public relations, innovation, and investment practices that impact the financial performance of SMEs in Ho Chi Minh City, Vietnam. Authors employ both quantitative approaches with primary data to explore subjects and gain insightful information. The primary data has been gathered from the survey with business owners, managers, and officers in 202 SMEs. The authors used the question-

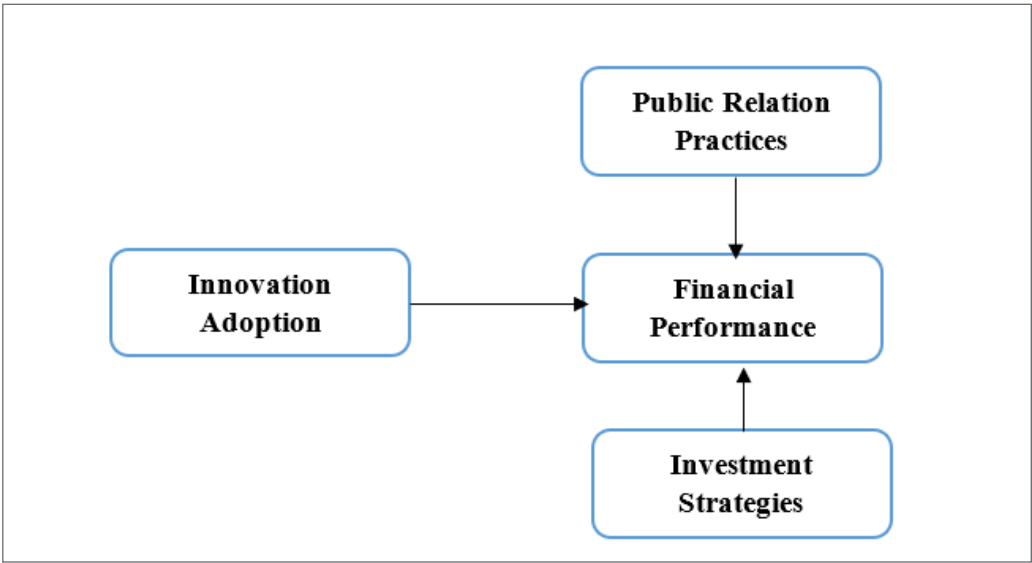
naire survey with business owners, managers, and officers of 202 SMEs in Ho Chi Minh City by the simple random sampling technique. A total of 590 surveys were sent to the owners, managers, and officers of the selected SMEs, but after ten days, only 296 returned and were used for analysis representing around 50.17 percent response rate.

To increase the response rate, anonymity and confidentiality have been applied. Also, the pilot test was done with ten respondents for checks of comprehensibility, validity, and reliability of the questionnaire. The authors have also used the Smart-PLS to test the validity and nexus among the constructs. This tool provides effective findings because it also operates effectively when the data set is large, and the framework is com-

Variables

Dependent Variable	Financial Performance	10 items
Independent Variable	Public Relations	8 items
	Innovation Adoption	5 items
	Investment Strategies	6 items

Figure 1
Theoretical Framework



plex (Hair et al., 2017). The current study has used financial performance (FP) as the dependent variable with ten items. In addition, three predictors were adopted by the researchers, such as public relation (PR) practices with eight items, innovation adoption (INA) with five items and investment strategies (IS) with six items. Figure 1 shows the framework of the study.

4. Findings

The results indicated the convergent validity that shows the correlation between items. The figures show that average variance extracted (AVE) and

loadings values are higher than 0.50, hence fulfilling the tentative threshold. In addition, the results also highlighted that composite reliability (CR) and Alpha values are bigger than 0.70, hence are acceptable as the threshold of CR is 0.7 and alpha is 0.6. Table 1 highlights the convergent validity.

The results indicated the discriminant validity that shows the correlation between variables. The figures of Fornell Larcker and cross-loadings show that the values that show the nexus with the variable itself are bigger than the values that highlighted the links with other constructs. Table 2 and Table 3

Table 1
Convergent Validity

Constructs	Items	Loadings	Alpha	CR	AVE
Financial Performance	FP1	0.588	0.892	0.914	0.573
	FP10	0.808			
	FP2	0.797			
	FP3	0.783			
	FP4	0.660			
	FP5	0.815			
	FP6	0.788			
	FP8	0.786			
Innovation Adoption	INA1	0.879	0.965	0.973	0.878
	INA2	0.950			
	INA3	0.953			
	INA4	0.947			
	INA5	0.953			
Investment Strategies	IS1	0.847	0.932	0.946	0.746
	IS2	0.860			
	IS3	0.864			
	IS4	0.873			
	IS5	0.875			
	IS6	0.863			
Public Relations	PR1	0.816	0.907	0.926	0.641
	PR3	0.829			
	PR4	0.774			
	PR5	0.758			
	PR6	0.819			
	PR7	0.829			
	PR8	0.776			

Table 2
Fornell Larcker

	FP	INA	IS	PR
FP	0.757			
INA	0.485	0.937		
IS	0.417	0.416	0.864	
PR	0.512	0.479	0.438	0.800

Table 3
Cross-loadings

	FP	INA	IS	PR
FP1	0.588	0.360	0.201	0.307
FP10	0.808	0.337	0.344	0.397
FP2	0.797	0.393	0.334	0.451
FP3	0.783	0.431	0.376	0.464
FP4	0.660	0.350	0.246	0.259
FP5	0.815	0.411	0.333	0.445
FP6	0.788	0.309	0.300	0.346
FP8	0.786	0.330	0.355	0.369
INA1	0.426	0.879	0.392	0.446
INA2	0.450	0.950	0.415	0.468
INA3	0.469	0.953	0.367	0.435
INA4	0.454	0.947	0.411	0.464
INA5	0.472	0.953	0.369	0.435
IS1	0.340	0.337	0.847	0.311
IS2	0.354	0.348	0.860	0.389
IS3	0.337	0.336	0.864	0.376
IS4	0.323	0.364	0.873	0.385
IS5	0.376	0.377	0.875	0.404
IS6	0.416	0.386	0.863	0.399
PR1	0.411	0.374	0.337	0.816
PR3	0.455	0.449	0.365	0.829
PR4	0.372	0.310	0.348	0.774
PR5	0.393	0.397	0.351	0.758
PR6	0.408	0.369	0.339	0.819
PR7	0.452	0.454	0.374	0.829
PR8	0.360	0.309	0.343	0.776

shows the discriminant validity.

The results indicated the Heterotrait Monotrait (HTMT) ratios to test the discriminant validity. The figures indicated that the ratios are not bigger than 0.90. Table 4 shows the discriminant validity using HTMT ratios.

The path analysis highlighted the nexus between the constructs. The results highlighted that innovation adoption, investment strategies and public relations practices have a positive impact on the financial performance of SMEs in Vietnam. Table 5 shows the path analysis.

5. Discussion

The results of the current article show that public relations practices have a positive association

with the financial performance of SMEs in Vietnam. These results are similar to the past study findings such as Ogwoka et al. (2017), who examined that effective public relations practices significantly impacted the financial performance of the firms. In addition, past literature such as Zabawa and Kozyra (2020) also investigated that the public relationships practices could improve the relation of the organization with their stakeholders the enhance the firm financial performance, and these outcomes are similar to the present study findings. The result of the current article shows the investment strategies have positive association with financial performance of the SMEs in Vietnam. These results are in line to the past study findings such as Ivanisevic Hernaus (2019), who examined that effective investment

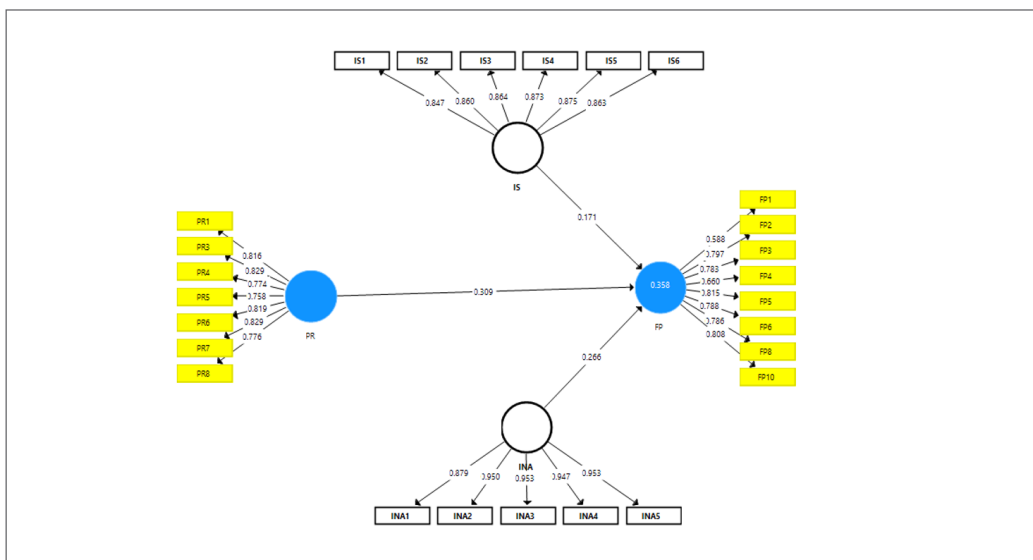
Table 4

Heterotrait Monotrait Ratio

	FP	INA	IS	PR
FP				
INA	0.522			
IS	0.449	0.438		
PR	0.557	0.508	0.475	

Figure 2

Measurement Assessment Model



strategies significantly impacted the financial performance of the firms. In addition, past literature such as Revelli and Viviani (2015) also investigated that investment strategies could enhance the firm's financial performance. These outcomes are similar to the present study findings. The results of the current article show that innovation adoption have a positive association with the financial performance of SMEs in Vietnam. These results are matched to the past study findings such as Przychodzen and Przychodzen (2015), who examined that the effective innovation adoption practices significantly impacted the financial performance of the firms. In addition, past literature such as Černe et al. (2015)

also investigated that innovation adoption could enhance the firm financial performance, and these outcomes are in line with the present study findings.

6. Conclusion

The paper underpins the outlook of the practices of public relations, innovation and investment strategies in the Ho Chi Minh context. The knowledge and awareness in SMEs in Vietnam, presented in the findings that public relations are expected in the future virtue to search for the appropriate practices adapting with the digital transformation of media and communication, wherein SMEs ought

Table 5
Path Analysis

Relationships	Beta	S.D.	T Statistics	P Values	L.L.	U.L.
INA -> FP	0.266	0.074	3.570	0.000	0.119	0.381
IS -> FP	0.171	0.072	2.373	0.010	0.037	0.265
PR -> FP	0.309	0.065	4.781	0.000	0.212	0.428

Figure 3
Structural Assessment Model

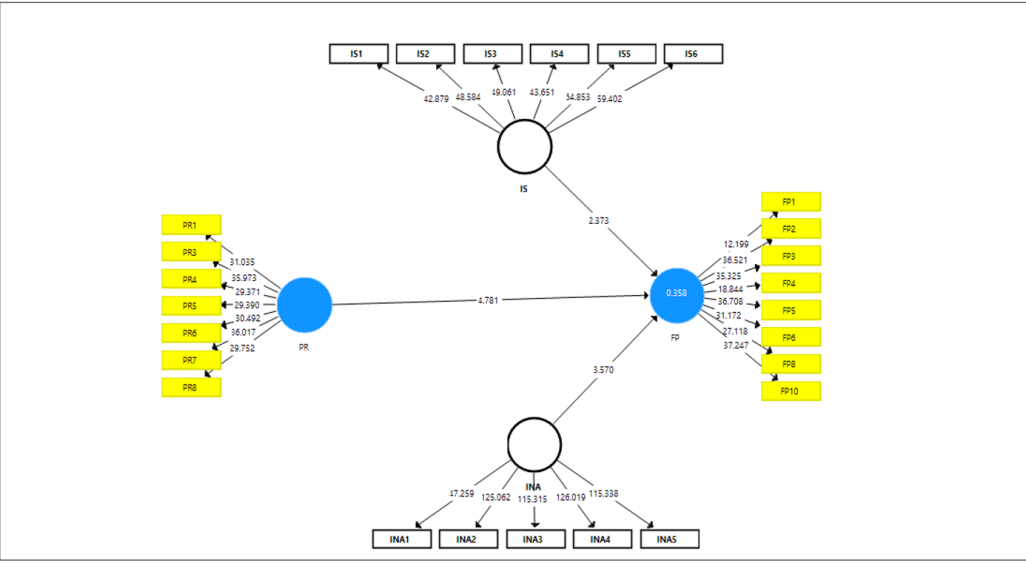


Table 6*Results Discussion*

Hypotheses	Comments/Findings	Result
H1	It was found that public relations have a positive & significant impact on financial performance	Support H1
H2	It was found that investment strategies have positive & significant impact on financial performance.	Support H2
H3	It was found that innovation adoption practices have a positive & significant impact on financial performance.	Support H3

to have digital literacy and comprehensive knowledge of public relations practices. Also, the finding is drawn out to contribute to the existing literature to both theoretical and managerial approaches for better awareness of public relations practice, innovation adoption and investment strategies in the research industry setting. Furthermore, the study adds additional value to body of literature by emphasizing the fact that public relation activities are crucial to manage corporate reputation and public relation professional can produce such kind of strategies that results in better financial image of company. Thus, the present study concluded that effective practices of public relations and innovation adoption along with effective investment strategies are adopted by the SMEs of Vietnam that is the reason for high financial performance and significant contribution to the GDP of the country.

As for the study limitation, it firstly lies in the questionnaire survey that somehow leads respondents by providing a primitive checklist for exploration purposes. Secondly is the choice of location as to Ho Chi Minh City, where owns the cultural diversification. Further study is recommended to have the expansion of study setting or others with a specific cultural issue. The present study has taken only three predictors such innovation adoption, public relations practices, and investment strategies, and suggested that future studies should add more factors in the studies. Finally, the present study ignored the mediating and moderating role in the model and recommended that future studies add these aspects in their analysis.

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