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Legal Policy Implications for Promoting Innovation Capability and Business Efficiency: A Case Study of Small and Medium Enterprises in Vietnam

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Abstract

Background: Legal policy plays an important role in promoting innovation. It creates a legal framework and favourable environment for research, development, and application of new technologies and contributes to improving the business efficiency of small and medium enterprises.

Objective: The study evaluates critical factors affecting the innovation capability and business efficiency of small and medium enterprises in Vietnam.

Methodology: The author applied a quantitative method, using a descriptive survey as the instrument for data collection and a structured questionnaire as the sample size. The sample size was 500 managers representing 500 small and medium enterprises (SMEs). The study's model was tested using a structural equation model, and results were presented in tables.

Result: Research results show that eight factors affect innovation capability based on a significance level of 1%. The factors are (1) total quality management, (2) organisational learning, (3) government support, (4) collaboration network, (5) ability to absorb knowledge, (6) internal human resources, (7) strategic vision, and (8) technology application. Moreover, innovation capability influences the business efficiency of small and medium enterprises.

Conclusion: The research results contribute particular academic value and are a reference for research on innovation capacity. The study adjusted the scale for innovation capacity, knowledge absorption capacity, cooperation network, organisational learning, and comprehensive quality management following actual data conditions farewell in Vietnam.

Unique Contribution: This study is beneficial in both theory and practice in measuring innovation capacity and related variables impacting innovation capacity on business efficiency.

Key Recommendation: From the above results, the author proposes eight policy recommendations to improve small and medium enterprises' innovation capability and business efficiency in the context of development and integration in Vietnam. To take advantage of this opportunity, it is necessary to synchronously implement the above solutions to remove institutional bottlenecks and promote innovation capability in Vietnamese enterprises.

Keywords: Legal policy recommendations; innovation capability; business efficiency; SMEs.

Introduction

Small and medium enterprises (SMEs) play an essential role in economic development and are one of the main contributors to economic growth. In a fiercely competitive business environment, innovation is crucial for surviving and seizing new opportunities, seeking to protect knowledge assets, and striving to gain a competitive advantage in the market. Developing and launching innovative new products using advanced technology before or after competitors is critical to achieving a first-mover advantage, product success, gaining market share, increasing profits steadily, and developing sustainably. Implementing innovation is unavoidable for SMEs, particularly as international integration continues to expand. Information technology is advancing rapidly, competition intensifies, and customer demand is becoming more varied and dynamic (Sari et al., 2023). This is a significant obstacle for the local small and medium enterprises. Furthermore, groundbreaking advancements from rivals in

the sector can exert significant pressure on organizations to innovate. SMEs must innovate consistently to survive and grow to satisfy rising competitive demands.

These businesses are pioneers in R&D and innovation activities, spreading to other industries and creating momentum for the entire economy to grow. However, to survive and develop, businesses must continuously improve their innovation capabilities to enhance competitiveness (Zhang et al., 2021). But in Vietnam, in the current period, due to many subjective and objective reasons, the innovation capacity of these businesses is still minimal. Therefore, to improve innovation capacity, it is necessary to identify the factors affecting it. Ultimately, the author suggests legal policy recommendations to enhance Vietnamese enterprises' innovation capability and business efficiency.

Literature Review

Innovation Capacity (Y1)

An organization's innovation capabilities are committed to creating new products or improving production processes. It is affected by the level of human resources and ability to learn and accumulate knowledge. More broadly, an organization’s environment can influence innovation capacity. Innovation capacity refers to a business's ongoing enhancement of its abilities and resources to discover and take advantage of opportunities to create new products that fulfill market demands (Sari et al., 2023).

Business Efficiency (Y2)

In any business, all activities are aimed at a specific outcome. To achieve certain results, we must coordinate using elements of the production and business processes using human and material resources. In practice, business owners care about results and, more importantly, to what extent those results are created, at what cost, and in what amount of time because this reflects the quality of the operation that produces results (Sari et al., 2023). Economists have shown that efficiency is a concept that demonstrates the use of resources to achieve identified goals (Agyapong & Acquaah, 2021).

Total Quality Management (X1)

Total quality management: The relationship between innovation capabilities and the principles of Total quality management (TQM) is found in. Specifically, he observed that successful innovative businesses always have a strong culture, a clear mission and vision, and a business philosophy that promotes teamwork and innovation. Continuous improvement, customer satisfaction orientation, and total quality management (AlShehail et al., 2021). TQM aims to enhance corporate culture, boost employee involvement, foster teamwork, and enhance quality to achieve specific organizational objectives.

Organizational Learning (X2)

Organizational learning: Studies show that learning efforts are the source of knowledge production for innovation activities because innovation often originates from absorbing knowledge in research and development (R&D), learning, and asking for other businesses (Jin & Li, 2023). In addition, employees’ ability to learn is demonstrated through the absorption and transformation of internal information, which contributes to improving the efficiency of an enterprise's innovation activities. In addition, the market-oriented perspective approach of some researchers emphasizes the results of organizational learning that has improved sales, profit growth, customer satisfaction, and, most importantly, customer satisfaction renewal (Arias-Pérez & Cepeda-Cardona, 2022).

Government Support (X3)

Government support: Studies have demonstrated that the government acts as an investor and financial supporter of business research and development while stimulating network activities among organizations involved in the innovation process (Choi & Lee, 2020). Government assistance benefits small and medium enterprises facing a shortage of internal resources. In addition, economists acknowledge that failures in innovation stem from information leakage and diffusion, which reduce private profits. Other studies show that government intervention is effective when the market cannot overcome these problems (Cravo & Piza, 2019).

Collaboration Network (X4)

Collaboration network: Studies recognize that firm innovation outcomes can be achieved through system capabilities, that is, by utilizing expertise from other partners in the chain. The results suggest that by exchanging and coordinating resources and information among value chain members, businesses can benefit by taking advantage of specialized skills or resources from other partners within their systems to achieve higher product or process innovation levels (Petruzzelli & Murgia, 2023). In addition, inter-enterprise collaboration will help organizations overcome gaps in information and scientific knowledge, as well as limitations in resources and capacity.

Ability to Absorb Knowledge (X5)

Ability to absorb knowledge: Studies have analyzed the relationship between an organization's absorptive and innovation capacity. The results show that businesses need to know how to apply knowledge by searching for and disseminating knowledge to innovate (Jasimuddin & Naqshbandi, 2019). Knowledge absorptive capacity is a business's ability to develop and improve its new products by adapting and applying external technological sources. It also includes the ability to absorb the technology created by others and adapt it to specific applications or business processes. Absorptive capacity represents the process of developing new knowledge (Coad et al., 2016; Donate & Sánchez de Pablo, 2015).

Internal Human Resources (X6)

Internal human resources: Studies have confirmed the relationship between human resources and business innovation capacity by assembling a workforce with valuable skills and expertise for the job performance process (Coad et al., 2016). Internal human resources are the human resources that an organization/business needs to achieve its goals. The better the human resources a business possesses, the higher its ability to achieve common goals. Human resources are essential and can create a competitive advantage over tangible resources (Park, 2019).

Strategic Vision (X7)

Strategic vision: No business can achieve its defined business goals without a clear link between business and innovation strategies. Because random acts of innovation rarely pay off, we cannot afford to bet blindly or pursue a scattershot that lacks a central focus on change. Companies' ambitions to leverage innovation to drive business growth must proceed through the development of a clear innovation strategy (Imran et al., 2019; Jun et al., 2021). This is a fundamental factor that best exploits potential and maximizes results. Moreover, innovation strategy as a guideline for innovation activities in an enterprise can be understood in many ways and pursued in many different forms.

Technology Application (X8)
Technology application: Technology application is understood as the use of information technology (IT) to support decisions and integrate business work and customer service. According to contingency theory, technology is one of the main variables that play an important role in directly affecting enterprises' production and business efficiency (Shetty & Panda, 2022). Information technology is present and plays an important and indispensable role in managing and operating each enterprise's production and business activities.

Theoretical Framework
Total Quality Management (X1) and Innovation Capacity (Y1)
Today's enterprises in Vietnam's high-tech sector deploy and apply some critical principles of TQM in quality management. There are many TQM principles, such as (1) leadership support and planning, (2) customer orientation, (3) human resource management, (4) operational process management, and (5) performance evaluation and continuous improvement. Each study emphasized the importance and superiority of each component. Another study suggested that governance is an urgent factor in guiding all activities and requires leaders to demonstrate strong commitment to the initial steps to implement TQM (Nasim, 2018; Zhang et al., 2021). Therefore, H1 proposes the following hypothesis:

H1: Total Quality Management (X1) positively influencing Innovation Capacity (Y1).

Organizational Learning (X2) and Innovation Capacity (Y1)
Innovation is a process for solving existing problems. Indeed, innovation capacity for problem-solving is a learning process that can integrate different types of knowledge and become the basis for innovation. For this reason, in this study, the author measures organizational learning through the following four components: (1) learning culture, (2) learning environment, (3) sharing culture, and (4) learning strategy. The authors believe that organizational learning factors (Migdadi, 2019). Therefore, H2 proposes the following:

H2: Organizational Learning (X2) positively influencing Innovation Capacity (Y1).

Government Support (X3) and Innovation Capacity (Y1)
Similar studies also highlight the government's preferential policies supporting innovation for small and medium enterprises through tax subsidies for new product development. The author expects the importance of the government through four criteria: (1) easy access to loan capital, (2) preferential interest rates for innovation activities, (3) the government creates conditions for companies to train and develop, and (4) sponsor innovation programs (Tsuruta, 2020; Park & McQuaid, 2023). Government support can significantly impact innovation capacity by providing the necessary financial resources. Thus, H3 proposes the following hypothesis:

H3: Government Support (X3) positively influencing Innovation Capacity (Y1).

Collaboration Network (X4) and Innovation Capacity (Y1)
Collaboration also helps to establish standards within an industry and improves the application of new technologies (Kapetaniou & Lee, 2019). However, depending on the development goals, businesses will choose different types of partners in the value chain and geographical area to achieve optimal efficiency. In summary, the above arguments have helped the author agree on the positive role of the Collaboration Network in this research with the following four factors: (1) links between businesses and universities, (2) links between businesses and research institutes, (3) linking businesses with manufacturers and distributors, and (4) links between domestic and foreign businesses (Johnston & Huggins, 2018; Rodríguez-Gulías et al.,

2018). Thus, H4 proposes the following:

H4: Collaboration Network (X4) positively influencing Innovation Capacity (Y1).

Ability to Absorb Knowledge (X5) and Innovation Capacity (Y1)
if absorptive capacity is higher, it will promote the development of R&D ability and then increase innovation performance, which includes the following four elements: (1) collecting information, (2) synthesis of information, (3) information processing and analysis, and (4) use of information to make innovative and creative decisions (Johnston & Huggins, 2018). The ability to absorb knowledge significantly impacts innovation capacity by fostering organizational learning, enhancing knowledge management, supporting continuous training and development, and leveraging external knowledge sources. Therefore, hypothesis H5 proposes the following:

H5: Ability to Absorb Knowledge (X5) positively influencing Innovation Capacity (Y1).

Internal Human Resources (X6) and Innovation Capacity (Y1)
Among the different types of intellectual capital, human capital should be recognized as the most valuable asset, and the amount of money spent to improve the efficiency and productivity of human resources should be placed on par with other investments, which is especially important for small and medium enterprises with specialized scientific knowledge, where employee skills are the foundation for development activities. There are four elements in this context: (1) the quality of human resources, (2) equipment serving production and business activities, (3) business management skills, and (4) capital (Anker, 2021). Therefore, hypothesis H6 proposes the following:

H6: Internal Human Resources (X6) positively influencing Innovation Capacity (Y1).

Strategic Vision (X7) and Innovation Capacity (Y1)
An explicit innovation strategy helps companies focus on their capabilities and deploy the appropriate processes most effectively to meet innovation goals and align with the business's overall strategy towards effective innovation efficiency, delivering value, and building competitive advantage. A competitive strategy emphasizes product innovation and finding new market opportunities, including four internal elements: (1) enterprises are leaders in innovation in their industries; (2) enterprises operate in a broad product field; (3) the product array of the enterprise is periodically redefined; and (4) enterprises believe in becoming industry leaders in developing new products (Jun et al., 2021). Therefore, hypothesis H7 proposes the following:

H7: Strategic Vision (X7) positively influencing Innovation Capacity (Y1).

Technology Application (X8) and Innovation Capacity (Y1)
Technological innovations improve product quality, create new products, diversify products, increase output, increase labor productivity, and rationalize and economically use raw materials. This will increase competitiveness, expand markets, promote rapid growth, and improve production and business efficiency (Kurniawati et al., 2021). Scientific and technological progress and technological innovation are the right directions for a potential industrial enterprise, in which there are three elements composed as follows: (1) applying modern technology, (2) investing in research and technology development, and (3) using artificial intelligence and machine learning. Therefore, hypothesis H8 proposes the following:

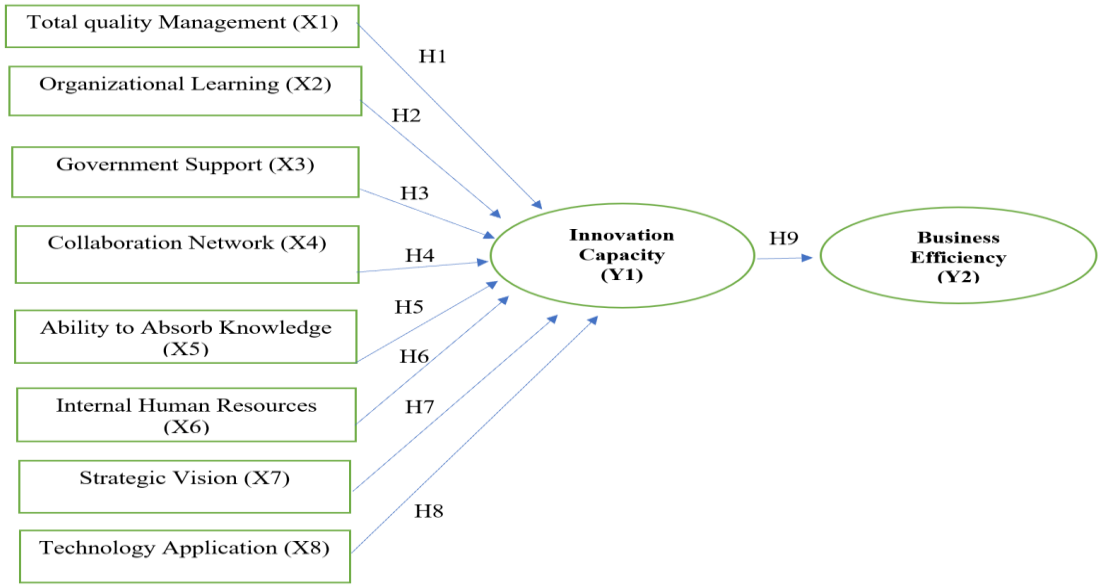
H8: Technology Application (X8) positively influencing Innovation Capacity (Y1).

Innovation Capacity (Y1) and Business Efficiency (Y2)

Innovation capacity affects the business performance of enterprises, which will undoubtedly bring more innovation, ideas, products, and projects than other companies with low innovation orientation; however, these ideas, products, and projects can lead to higher risk and uncertainty (Avenyo & Kraemer-Mbula, 2021). Therefore, businesses need more information to decide whether there is any uncertainty in their work; information is necessary to evaluate potential competitors' actions and the needs of customers. Innovation impacts all parts of a company, especially data on innovation strategy (Agyapong & Acquaah, 2021). Therefore, hypothesis H9 proposes the following:

H9: Innovation Capacity (Y1) positively influencing Business Efficiency (Y2).

Based on the results of analyzing the above-related studies, the author proposes a research model with eight factors affecting innovation capacity and business efficiency; the author suggested the form of a structural equation model below.



Source: The author proposed

Figure 1: *The model for eight factors influencing innovation capacity*

Figure 1 shows that the research model has eight factors affecting innovation capacity, which in turn affects business efficiency in SMEs.

Research Methods

The article is conducted through two stages: (1) stage 1 for qualitative research and (2) Stage 2 for quantitive research to evaluate the influence of factors on innovation capacity.

(1) Stage 1 for qualitative research: Regarding the theoretical context, domestic research mostly stops at the level of analyzing the current situation, with few studies exploring and building innovation capacity theory. For this reason, the author clarifies the research problem of this article, which is to identify factors affecting the innovation capacity of businesses in some key provinces in Southern Vietnam, particularly Ho Chi Minh City, Binh Duong Province, Ba Ria-Vung Tau Province, and Dong Nai Province. Accordingly, qualitative research was conducted through discussions with 15 managers of SMEs who have been managing their businesses for more than 10 years and 15 experts in business management who are lecturers at 15 universities in Ho Chi Minh City. The author interviewed experts and

managers on subjects related to the research problem, specifically factors affecting the innovation capacity and the innovation capacity business efficiency of SMEs. The survey was conducted from August 2023 to September 2023.

(2) Stage 2 for the quantitive research: The author applied quantitative research with an official sample of 500 managers representing 500 businesses to test the model and research hypotheses. Survey subjects for quantitative research are senior managers of small and medium-sized enterprises and are concentrated in Southern Vietnam, distributed in Ho Chi Minh City, Dong Nai Province, Binh Duong Province, Ba Ria-Vung Tau Province, in the following primary fields: information technology and telecommunications; pharmaceuticals, biotechnology; nanotechnology, energy; mechatronics, automation, microelectronics, and high-tech services. From the arguments of the official research program of the study, 500 survey questionnaires were issued, 465 valid questionnaires were collected, and the rate reached 93.00%, which was conducted from September 2023 to December 2023. The structural equation modeling analysis method simultaneously tests the proposed research model with their proposal for the theoretical model (Hair et al., 2018). To measure the fit of the research model to the data, the primary indicators used were Chi-square (CMIN), chi-square adjusted for degrees of freedom (CMIN/df), good fitness index (GFI), comparative fit index (CFI), Tucker and Lewis Index (TLI), and root mean square error approximation (RMSEA) < 0.08. A research model is considered suitable for market data if the chi-square test has a P-value > 5%; CMIN/df $\leqslant$ 2; in some cases, CMIN/df can be $\leqslant$ 5; GFI > 0.8; and TLI, CFI $\geqslant$ 0.9 (Hair et al., 2018). Finally, the author discusses the results and policy recommendations for credit risk management at commercial banks in Vietnam.

Study Results

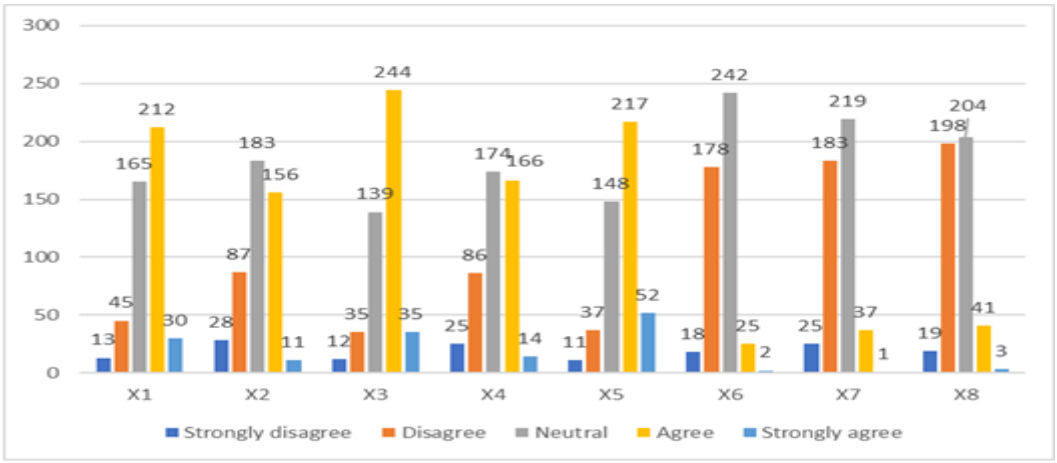
Descriptive statistical results for innovation capacity and business efficiency

Table 1: ***Descriptive statistical results for innovation capacity and business efficiency***

Factors affecting innovation capacity and business efficiency	N	Min	Max	Mean	Standard Deviation
X1: Total quality management	465	1.00	5.00	3.432	0.859
X2: Organizational learning	465	1.00	5.00	3.075	0.924
X3: Government support	465	1.00	5.00	3.548	0.840
X4: Collaboration network	465	1.00	5.00	3.125	0.929
X5: Ability to absorb knowledge	465	1.00	5.00	3.563	0.879
X6: Internal human resources	465	1.00	5.00	2.602	0.672
X7: Strategic vision	465	1.00	5.00	2.583	0.724
X8: Technology application	465	1.00	5.00	2.594	0.734
Y1: Innovation capacity	465	1.00	5.00	2.503	0.627
Y2: Business efficiency	465	1.00	5.00	2.587	0.729

Source: Data processed from SPSS 20.0

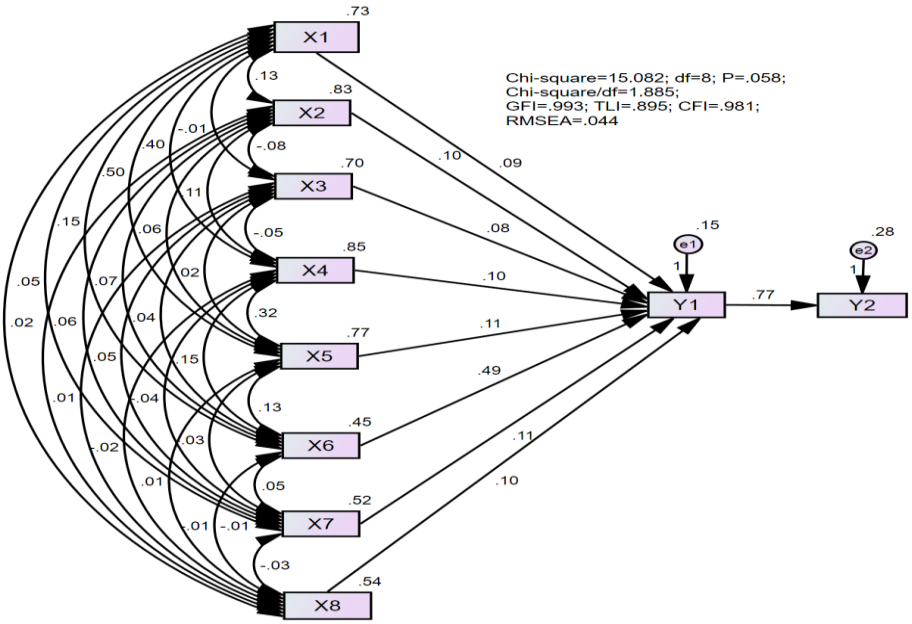
Table 1 shows the average values for determinants of innovation capacity and business efficiency; n = 500 (465 samples and 465 values; 35 lack of information). The standard deviation is given in parentheses, and the value is approximately the same. Besides, Table 1 presents the mean values of all components, approximately 3.0.



Source: The data processed by SPSS 20.0 and Excel

Figure 2: ***Frequency of statistical results for innovation capacity and business efficiency***

Figure 2 showed that shows that the research results are over 50 percent from level 3 to level 5. In addition, in 2020 and 2021, despite being heavily impacted by the COVID-19 pandemic, the expansion of the small and medium-sized enterprise sector in recent years has caused the structure of economic sectors to shift in a positive direction, increasing dynamism and using resources effectively.



Source: The data processed by SPSS 20.0 and Amos

Figure 3: ***Testing factors affecting the innovation capacity and business efficiency***

Figure 3 displays the testing outcomes for the eight factors affecting innovation capacity and business efficiency, with a statistically significant level of 0.05. Eight components must be considered: X1: Total quality management; X2: Organizational learning; X3: Government support; X4: Collaboration network; X5: Ability to absorb knowledge; X6: Internal human resources; X7: Strategic vision; and X8: Technology application. All standardized regression weights in the critical model reach the significance level (p = 0.000, so it is statistically significant) and have large values varying from 0.45 to 0.85, all larger than 0.4.

Table 2: ***Factors affecting the innovation capacity and business efficiency***

Relationships			Unstandardized Estimate	Standardized Estimate	S.E.	C.R.	P	Bias	Results
Y1	<---	X1	0.094	0.128	0.031	3.056	0.002	0.002	Accepted H1
Y1	<---	X2	0.096	0.140	0.020	4.708	***	0.001	Accepted H2
Y1	<---	X3	0.079	0.106	0.022	3.631	***	0.001	Accepted H3
Y1	<---	X4	0.096	0.141	0.023	4.117	***	0.000	Accepted H4
Y1	<---	X5	0.114	0.160	0.028	4.126	***	0.000	Accepted H5
Y1	<---	X6	0.492	0.525	0.029	17.146	***	0.004	Accepted H6
Y1	<---	X7	0.114	0.132	0.026	4.478	***	0.001	Accepted H7
Y1	<---	X8	0.100	0.117	0.025	4.051	***	0.001	Accepted H8
Y2	<---	Y1	0.766	0.671	0.041	18.845	***	0.001	Accepted H9

*Note: *** is significance 0.01; Source: Data processed from SPSS 20.0, Amos*

Table 2 displays the testing results for eight factors affecting innovation capacity and business efficiency with sig. 0.05. Research results showed that innovation capacity positively influences business efficiency with unstandardized estimate $\beta = 0.766$, P value = 0.000, so hypothesis H9 is accepted. Next, regarding the direct and indirect effects of factors on the performance of businesses, the research results show that innovation capacity has the most substantial influence on the business efficiency of companies with standardized estimate $\beta = 0.671$, P value = 0.000. The results estimated by bootstrapping with N = 15000 are averaged and show that although there is, the bias appears tiny (details according to Table 3, C.R < 2). Therefore, it can be concluded that the estimates in the research model were reliable.

Discussion of Findings

Innovation capability is the process by which a business creates new products, services, processes, or management systems in response to changing market conditions, technologies, or competitive patterns. The capacity of small and medium enterprises is improved through innovation, which allows them to compete more effectively in the market. Currently, small and medium enterprises in Vietnam have many opportunities but face many difficulties when implementing innovation. According to a survey, 500 survey questionnaires were issued, 465 valid questionnaires were collected, and the rate reached 93.00% and having research discussions below.

Hypothesis H1, H2, H3, H4, H5, H6, H7, H8, and H9 were accepted at the 95% confidence level (Table 2). This means that TQM principles contribute to improving innovation capacity in small and medium enterprises; this is a valuable management tool in innovation and enhancing enterprises' competitive advantage. Therefore, if an organization applies TQM principles to its operating system, it will achieve unexpected innovation results. This result is consistent with international research that has confirmed that learning efforts are the source of knowledge production for innovation activities because innovation often originates from the absorption of knowledge in the research and development process development (R&D), inspection in small and medium enterprises in Vietnam, and organizational learning promotes its role in improving innovation capacity.

The government needs to implement many policies and programs to support innovation in science and technology, such as the Vietnam Innovation Support Program, which supports value chain research through scientific and technological research, technology, and innovation projects. From there, it reaffirms that some previous research results are consistent and states that innovation and technical progress are a product of a network of relationships, and many studies also demonstrate that the number of cooperative relationships the company establishes is crucial because it corresponds to the effectiveness of innovation.

Previous empirical studies also confirm this result that absorptive capacity is a resource

in the economic development and innovation implementation of enterprises; only companies with higher absorptive capacity are more likely to establish links with external sources of knowledge or can exploit understanding better. Absorptive capacity is an essential factor that affects the ability to innovate technology. This confirms the author's expectations and many international empirical studies that successfully implement innovation when behind it is a team of personnel who understand functional tasks and are highly specialized. Improving employee skills and knowledge will increase innovation capabilities, contributing to increased business efficiency.

The research results are also consistent with the arguments of earlier studies and suggest that companies develop adaptive strategies based on their perceptions of the environment, which allows some businesses to adapt to the environment more skeptically or sensitively to their business environment than other businesses. Although the application of technology in business activities is considered a natural issue in the period of information technology development, in Vietnam, the use of computers and Internet connections is at a high rate in the developing country's industry. Combining businesses with the same need for innovation in the same field overcomes the problem of limited resources in the private sector. Currently, industry associations should be a bridge between businesses in the industry to conduct innovation capacity activities jointly (Sari et al., 2023).

Conclusion and Recommendations

Innovation, creativity, and commercial acumen are crucial for the growth of small and medium firms. When innovation demonstrates its efficacy in sustainable development and the development of better items, business orientation assists organizations in comprehending client wants and enhancing their operations. Enhancing service quality and refining items according to client preferences and feedback. Descriptive statistical tools were used to measure the mean value, standard deviation, and structural equation models of 465 valid votes, reaching a rate of 93.00%. This study identified the factors and evaluated their impact on the innovation capacity of small and medium enterprises, which were tested in some key provinces in Southern Vietnam. The results of the study identified eight factors that affect innovation capacity and the business performance of small and medium enterprises. Thus, the author provides policy recommendations for improving innovation capacity and business efficiency. The novelty of the article lies in its eight innovation capacity and business efficiency determinants. Finally, the study's findings can help policymakers and enterprise managers apply research results to develop innovation capacity and business efficiency policies following:

First, improve X1: Total quality management. This factor had an average value of 3.4323, and the standardized estimate was 0.128 with sig. 0.002 (Table 1 & 2). The results show that total quality management affects innovation capacity with a significance of 5 percent, which is the same result as that of many studies (AlShehail et al., 2021). TQM is a quality management method that is highly valued by Vietnamese businesses. According to business managers, TQM can establish core values for technology, quality, and customer services. Therefore, the principles of TQM, especially continuous improvement and customer orientation, are always applied thoroughly. The article's official results also emphasize the role of this factor in stimulating innovation capacity.

Secondly, improve X2: Organizational Learning. This factor had an average value of 3.0753, and the standardized estimate was 0.140 with sig. 0.000 (Table 1 & 2). The research results show that organizational learning affects innovation capacity with a significance of 5 percent, which is the same result as that of many other studies (Jin & Li, 2023; Arias-Pérez & Cepeda-Cardona, 2022). Prioritizes training and recruiting talented people and has a training policy, expanding new universities or majors, building and strengthening existing technical universities, encouraging training through international scientific exchange and cooperation, and sending students for training to create some critical high-tech industries abroad.

Thirdly, improve X3: Government support. This factor had an average value of 3.5484, and the standardized estimate was 0.106 with sig. 0.000 (Table 1 & 2). The results show that government support affects innovation capacity with a significance of 5 percent, which is the same result as that of many other studies (Choi & Lee, 2020; Tsuruta, 2020; Park & McQuaid, 2023). For this recommendation, it is necessary to thoroughly understand that businesses and the government are in close coordination, placing Vietnamese businesses in general and medium enterprises in the southern provinces at the heart of the international innovation system.

Fourthly, improve X4: Collaboration network. This factor had an average value of 3.1247, and the standardized estimate was 0.141 with sig. 0.000 (Table 1 & 2). The research results show that the collaboration network affects innovation capacity with a significance of 5 percent, which is the same result as that of many studies (Petruzzelli & Murgia, 2023; Rodríguez-Gulías et al., 2018). First, businesses must clearly define the role of international links in scientific research, establish long-term plans and specific solutions, seek opportunities for global integration, and proactively exploit them. Explore and participate in projects in the same field.

Fifthly, improve X5: Ability to absorb knowledge. This factor had an average value of 3.5634, and the standardized estimate was 0.160 with sig. 0.000 (Table 1 & 2). The results show that the ability to absorb knowledge affects innovation capacity with a significance of 5%, like the results of many studies (Coad et al., 2016; Donate & Sánchez de Pablo, 2015; Kebede & Fikire, 2023). Therefore, one of the most important recommendations for enhancing absorptive capacity is to improve human resources, which has been discussed in detail in human resource development solutions.

Sixthly, improve X6: Internal human resources. This factor had an average value of 2.6022, and the standardized estimate was 0.525 with sig. 0.000 (Table 1 & 2). The results show that internal human resources affect innovation capacity with a significance of 5 percent, which is the same result as that of many studies (Anker, 2021). SMEs must design training programs to enhance creativity and learning. Organizations should provide different types of training to employees to enable them to perform multiple tasks. There is no need for training directly related to employees' jobs, which increases the diversity of employee skills and training sessions must be conducted.

Seventhly, improve X7: Strategic vision. This factor had an average value of 2.5828, and the standardized estimate was 0.132 with sig. 0.000 (Table 1 & 2). The results show that strategic vision affects innovation capacity with a significance of 5 percent, which is the same result as that of many studies (Jun et al., 2021). SMEs need to proactively improve their operational and financial management capacity to access bank credit capital and enhance competitiveness, building dynamic, flexible, and efficient SMEs compatible with each other, commensurate with the potential and strengths of this type in the national economy.

Finally, improve X8: Technology applications. This factor had an average value of 2.5935, and the standardized estimate was 0.117 with sig. 0.000 (Table 1 & 2). The research results show that the application of technology affects innovation capacity with a significance of 5 percent, which is the same result as that of many studies (Shetty & Panda, 2022). SMEs need to increase investment and application of technology in preparing accounting books, tax declarations, electronic customs, and banking transactions via the Internet to reduce transaction costs and connect and share financial information with credit institutions to make financial information transparent and create trust in the market.

Limitations and future research: The innovation capacity research model is inherited and developed from models worldwide; therefore, the scale system has not been entirely built. This has caused variance in explaining the concept of innovation capacity to be low. Innovative capacity cannot increase immediately after increasing the independent variables; therefore, a multiwave survey is necessary for this study. In addition, the scope of the article's research

could be conducted nationwide.

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