

ENTREPRENEURSHIP IN VIETNAM

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In order to understand entrepreneurship in Vietnam, it is important to take into consideration the influence of cultural and socioeconomic factors, particularly the impact that traditional Confucian values have had on attempts to develop a sustainable entrepreneurial spirit within the community and processes that can support creation and growth of entrepreneurial businesses. Hoang and Dung² noted that, based on their review of Vietnamese writings and history, there is a long-standing perception that “doing business, conducting trades and loving profits/money are something not good” and businesspeople are generally portrayed in Vietnamese legends and stories as “mostly bad people, characterized by greed, ugly cultural traits, evil thoughts, source of deteriorating social ethics, and a counter-example of the ‘gentlemen’ notion”. They argue that these largely negative impressions of businesspeople and entrepreneurship have persisted in Vietnamese culture even in the face of evidence that commerce is a path to achieve higher living standards and create jobs for many people in the society. Another relevant culture-based factor in Vietnam is the long-standing practice of social ranking that classifies persons into particular hierarchical strata. In this ranking system, “tradesmen, consisting of traders and entrepreneurs, have for long been ranked lowest in terms of dignity in society”. The reasons for this are complex; however, Hoang and Dung speculate that those in power under the traditional feudal system, including the Confucian scholar-official gentry, saw economic freedom as a threat to their authority and thus moved to suppress it but for the activities needed to generate tax payments. Warfare and chaos have also been constant occurrences over the course of Vietnamese history and the corresponding lack of social stability has increased the challenges of activities normally associated with entrepreneurship, including identifying and exploiting opportunities, assuming calculated risks and being able to focus on business targets with substantial perseverance. Finally, Hoang and Dung observed that many Vietnamese businesspeople generally prefer to keep a low profile and often retire from business activities to follow other more socially-valued paths rather than continuing as entrepreneurs and building larger firms that may ultimately provide benefits to the wider community.³

¹ The material in this report will appear in *Organizational Management and Administration: A Guide for Managers and Professionals* by Dr. Alan S. Gutterman and is presented with permission of Thomson Reuters/West. Copyright 2011 Thomson Reuters/West. For more information or to order call 1-800-762-5272. Dr. Gutterman is the Director of the Center for Management of Emerging Companies [www.managingemergingcompanies.org].

² V. Hoang and T. Dung, “The Cultural Dimensions of the Vietnamese Private Entrepreneurship”, *The IUP Journal of Entrepreneurship and Development*, VI (3 & 4) (2009), 54-78.

³ *Id.* The authors frequently mentioned the well-known difficulties that Vietnamese entrepreneurs encounter in obtaining bank financing and speculated that entrepreneurs, when faced with the prospect of having to increase their personal risk by investing even more of their own funds in a business naturally conclude that it simply is not worth it to

The role of the State with respect to supporting and encouraging entrepreneurship in Vietnam is also interesting and important. Nguyen et al. surveyed Vietnamese small-and medium-sized enterprises (“SMEs”) to explore the evolving relationships between the role of the State and market factors such as business support services, business training and professional development, technological and information support services and the development of SMEs in Vietnam and their findings included the following⁴:

- The respondents reported shortages of good technical advisors and information, including difficulties identifying the appropriate sources for qualified information and concerns regarding the quality of technological consulting services. The information that was available was perceived as being too “general” and respondents complained about the lack of detailed information on important such as incentive policies and relative legal regimes. As a result, SMEs were forced to rely on informal sources of information and the public media rather than “official” sources supported by the State. Another issue was the inability to find quality technical consulting services that could be relied upon for information needed to purchase essential equipment and other assets. As a result, entrepreneurs felt that they lacked the support necessary to take on risky and demanding business relationships with foreign partners.
- There has been a failure in Vietnam with respect to the development and nurturing of formal linkages between businesses, particularly in the SME sector, since most cooperation still continues to flow through the informal relationships that are so important in the Confucian cultural system. This situation has made it difficult for SMEs aspiring to rapid growth to identify the alliance partners necessary to achieve a competitive advantage in crucial areas such as production and supply and outbound value chain activities. Similarly, the lack of formal linkages makes it more difficult for entrepreneurs to gather information that might be available through regular communications with other network members.
- Government failure to support training activities for SMEs hampered the development and improvement of SMEs’ managerial skills and deprived SMEs of the ability to improve the quality of their products, reduce their costs of production and increase their overall level of competitiveness.

continue, particularly when society does not reward this additional personal risk-taking with appreciation and celebration of entrepreneurship. The authors also referred to the importance of “trusting relationships” in Confucian societies, such as Vietnam, and argued that such relationships do not exist among Vietnamese entrepreneurs and bankers while, at the same time, the bankers are willing to provide loans to SOEs that have long-standing relationships with Vietnamese banks.

⁴ T. Nguyen, Q. Alam, D. Prajogo and A. Duong, “The Importance of the State’s Entrepreneurial Role, Business Support Services and Technological Assurances to the Development of Vietnamese SMEs”, 1(4) (October 2008), 3-9. The researchers explained that their findings were based on an analysis of qualitative data collected from 17 semi-structured interviews conducted with randomly selected entrepreneurs in Ho Chi Minh City in June 2006. The focus of the data collection was identification of the effectiveness of various SME-related policies overseen by the State in Vietnam.

- The respondents were critical of the skills of government officials and commented that they often felt those officials were unable to adapt to a more market-oriented economy and that their lack of skills and knowledge discouraged them from working with SMEs. The government's purported efforts to provide officials with the necessary resources and knowledge to provide assistance in business management have apparently not been successful and it appears that government officials remain undertrained and unable to provide accurate information regarding governmental policies and legal regimes. Respondents complained that instead of providing helpful advice, government officials simply tie up entrepreneurs with "red tape" and victimize SMEs with corruption and the researchers speculated that government officials were fearful of something "new" and the impact that market-orientation might have on their status and power in society.
- Training programs offered directly by the government and through supporting agencies were generally criticized as lacking quality and too general and respondents complained about the difficulties in identifying and selecting suitable programs and the lack of programs tailored to specific markets, technologies and management topics. Another issue for SMEs was the costs associated with seeking advising from consulting firms and the inability of SMEs to pay for qualified services from those firms meant that the SMEs were largely ignored and thus forced to rely on the uneven and inadequate programs offered directly through the government. Even when funds were available to tap into private advisory services, SMEs had difficulty ascertaining the quality of the offerings since providers of such services were not closely regulated and there was no certification process to measure the efficacy of such services.
- Respondents highlighted a number of concerns regarding what they believe to be unclear and inadequate legal guidelines in a number of crucial areas, including property rights; patents and trademarks; technological transferring; and importation of used equipment. A related problem in the eyes of SMEs is a failure of the Vietnamese anti-monopoly and competition law system to remove or reduce perceived preferences to SOEs.
- Technology transfer to SMEs was hindered due to the lack of formal network linkages and technological cooperation among technological research institutions, between SMEs and supporting institutions, and with other firms. The respondents believed that most of the technology transfer in Vietnam occurred among the SOEs and noted that technology transfer was essential to the development of the SME sector given that most firms in that sector lacked the funds to conduct their own research and technology activities. The respondents complained that the government had failed to articulate and implement an effective overall national technological research and development strategy. As a result, much of the technology and equipment used in Vietnam is outdated in relation to competitors in other countries in the region and the rate of investment by Vietnamese SMEs in technological innovation lags far behind similarly sized firms in India and Korea.⁵ Government

⁵ D. Le, *Businessmen, business entrepreneurs and economic reform*, (Ho Chi Minh City: The Youth Publishing House, 2006) (investment for technological innovations as a percentage of revenues among Vietnamese SMEs was just 0.2-0.3% while Indian and

programs designed to incentive technological research are considered to be inappropriate for SMEs.

- The lack of formal linkages referred to above was not limited to technology matters and SMEs observed that there were poor linkages among academic and research institutions, government management entities, industrial and business associations, supporting services and SMEs. As a result, SMEs operated in a very unsettled and risky business environment that made it even more difficult for them to garner the support of lenders who could provide capital needed for business operations and expansion. Put another way, investors and lenders will reluctant to provide support to SMEs that lacked an established network of alliances in key areas such as technology, production and sales and distribution.

Korean SMEs invested 5% and 10%, respectively, of revenues on technological innovations).