

MOVING FROM NECESSITY-DRIVEN ENTREPRENEURIAL ACTIVITY TO DEVELOPMENT OF HIGH PERFORMANCE SMEs IN VIET NAM



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The exponential growth in small businesses

Viet Nam started to shift from the command economy to market-based economy by the end of the 1980s. As part of the shift, private ownership and private business was allowed. The first law on private business was introduced in 1991, giving a legal framework for the formal establishment of private SMEs in the country¹.

¹This paper addresses the SMEs in the private sector in Vietnam. 97% of private sector in Viet Nam are SMEs. State-owned enterprises (SOEs) and Foreign Invested Enterprises (FIE) are often of larger size. Private enterprises in Viet Nam faced double problems. One is because of the small size and one is due to the discrimination between them and SOEs and FIEs. The discrimination is being gradually removed but problem remains.

The law was introduced with timid reforms. High barriers for business entry remained. Among them were the extremely complicated registration procedures, high capital requirement, endless bureaucratic procedures. As a result, merely 49,000 private enterprises were registered during the 1991-1999 period.

The brake which constrained the entrepreneurship of the Vietnamese people was truly removed in 2000 with the introduction of the epochal Enterprise Law. The law, among many other improvements, strengthened the freedom to do business of the people and scrapped most of the complicated bureaucratic procedures in business registration. Market entry barriers were abolished and lowered. Capital requirement was removed.

Together with the procedures being simplified and entry barriers pulled

Abstract

Since 1980s, Viet Nam has allowed the development of private business and SMEs. Starting with some timid reforms in the 1990s in private SMEs development, bolder reform was introduced in 1999 through Enterprise Law. The country then experienced a boom in private SMEs. They have now become a strong part of the national economy and have made significant contribution to economic growth, job creation, exports and poverty reduction. SMEs have been mostly driven by entrepreneurs and the quality of growth remains a problem in many aspects. Private SMEs now faced with new development challenge are moving into higher performance, higher productivity and stronger competitiveness. Government policies and programs targeting SMEs are also being revised in this direction.

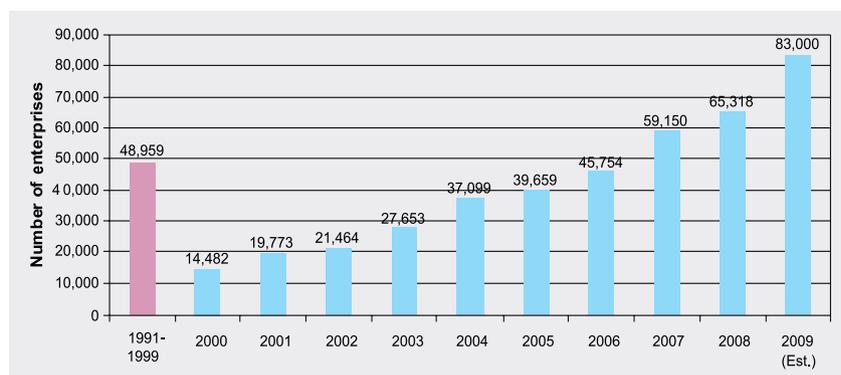


Fig. 1. The number of enterprises registered annually

Source: Agency for Enterprise Development, Ministry of Planning and Investment, Viet Nam

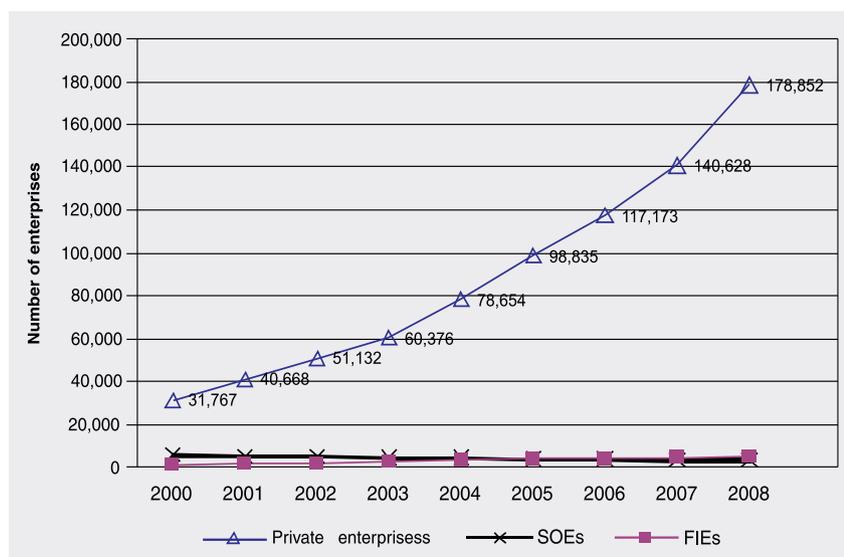


Fig. 2. The number of active enterprises

Source: Nation-wide enterprise surveys from 2001 to 2009, General Statistics Office

	Enterprises in the private sector		
	2000	2008	Growth rate (%)
Number of acting enterprises	31,767	178,852	563.01
Net turnover (million VND)	193,426,783	3,084,200,626	1594.51
Profit	1,721,082	46,098,782	2678.48
Total assets	105,272,100	2,622,028,085	2490.72
Equity capital (million VND)	38,753,082	657,975,647	1697.87
Averaged equity capital/ 1 enterprise (million VND)	1,220	3,679	–
Averaged profit / 1 enterprise (million VND)	54	258	–
Averaged assets/ 1 enterprise (million VND)	3,314	14,660	–
Averaged net turnover/ 1 enterprises (million VND)	6,089	17,244	–

Table 1. Some averaged indicators of enterprises in the private sector

Source: Viet Nam's General Statistics Office and calculation by the author

down, property rights and private ownership are also strengthened by different laws and regulations. Business and trade opportunities also abounded thanks to the US Vietnam Bilateral Trade Agreement, the integration into the regional economy and into ASEAN and recently to the adhesion of the country to the WTO.

These seem to be sufficient to give a boom to the unprecedented growth of private SMEs in Viet Nam. Also

driven by necessity to earn a living in a growing economy where there is less and less jobs offered by state-owned enterprises and by the public sector, Vietnamese people miss no chance to prove their tremendous entrepreneurship which had been locked for so long.

Figure 1 illustrates the impressive growth in number of SMEs in the last decade. According to the Ministry of Planning and Investment, as of the end of 2009, there were nearly 460,000

private SMEs registered in Viet Nam. There are almost 85,000 new businesses registered each year now.

Taking account the total number of enterprises registered, this represented a 15 times increase from 31,000 enterprises in 2000 in only 9 years – an unprecedented growth in the country's economic history.

As far as the survival rate is concerned, the national General Statistic Office also conducts annual survey and takes census of existing enterprises. According to latest survey by the Office in 2009, there were 178,852 private enterprises (out of the total 201,112 enterprises in all economic sectors nationwide) (Fig. 2). This figure is regarded as the number of active enterprises which are registered and are still in business.

As such, although the number of registered enterprises is high, the survival rate is less than 50 percent. Though such a survival rate is not seen a big problem, it also reflects how challenging the business environment in Viet Nam remains.

Enterprise incidence in Viet Nam is currently 5 enterprises over 1000 people. The Government is aiming at 1.5 million private SMEs by 2015, bringing up the incidence to 12-14 enterprise per 1000 people to narrow the gap with more advanced countries in the region.

Improvement in performance of small business

The volume of enterprises' equity in the private sector has increased significantly. Total equity capital of private enterprises soared 17 times from 38,700 billion VND in 2000 to 657,000 billion VND in 2008² (Table 1). The current averaged equity of a private enterprise is 5.2 billion VND, compared with that of 1.2 billion in 2000.

²The average exchange rate in 2009 is approximately US\$ 1 = VND 18,000

Equity is the foundation for SMEs to expand and develop their business. In general, the rise in private enterprises' equity is accompanied with an impressive improvement in net profit (nearly 16 times), profit (27 times), and total assets (24 times) in the 2000-2008 period. Especially, the total assets and profit have been growing at a much faster rate than equity, revealing that investment capital of investors and shareholders in private enterprises have been used in an increasingly efficient manner. In terms of profitability, a private enterprise on average could generate VND 54 million in profit in 2000. This rose dramatically to VND 258 million in 2008. Currently, the average asset and turnover per one SMEs are VND 14 billion and VND 17 billion VND respectively – a very positive improvement as compared with 2000.

Table 2 shows the improvement in the key financial performance of SMEs in Viet Nam in the last decade.

On average in 2000, with 100 VND of equity capital, an SME could generate 271 VND of asset, and 4.4 VND of profit. In 2008, with the same monetary value of equity, it can produce 398 VND of asset and 7 VND of profit. These improvements are achieved after tenacious efforts exerted by the private sector SMEs. However, even at this average level of profitability which is lower than the average bank lending interest rate, many of the SMEs are running at loss or at subsistence level.

Champion in job creation

Table 3 shows the improvements in some indicators about the use of labor and job creation by private enterprises in the period 2000-2008 and the growth rate in this period.

According to the table, among enterprises officially registered, private sector SMEs quickly surpassed enterprises of other economic sectors to become the biggest provider of jobs in the country.

	2002 (%)	2008 (%)
Total Assets/Equity	271.65	398.50
Profit/Equity	4.44	7.01
Profit/total assets	1.63	1.76
Turnover/Equity	499.13	468.74

Table 2. Selected key financial indicators of SMEs in 2000-2008

Source: Viet Nam's General Statistics Office and calculation by the author

	Private enterprises		
	2000	2008	Growth rate (%)
Number of enterprises which are still in business	31,767	178,852	563.01
Number of workers employed (person)	858,622	4,339,579	505.41
Worker average income (million VND/year)	85	33,19	390.51
Average number of worker per enterprise (person)	27	24	–
Average turnover per worker (million VND)	225.3	710.7	–

Table 3. Use of labor in private enterprises

Source: Viet Nam's General Statistics Office and calculation by the author

	2000 (number of employees)	Nationwide proportion (%)	2008 (number of employees)	Nationwide proportion (%)
SOEs	2,088,531	59.05	1,575,131	19.6
Cooperatives	182,280	5.15	292,485	3.64
Private enterprises	858,622	24.28	4,339,579	54.01
Foreign invested enterprises	407,565	11.52	1,827,867	22.75

Table 4. Number of employees in enterprises by ownership type

Source: Viet Nam's General Statistics Office, the Enterprise Survey from 2001 to 2009

In 2000, 31,000 private SMEs created 850,000 jobs, which accounted for 24.28 percent of total jobs generated by all types of enterprises, and just about 65 percent of jobs created by the central SOEs (Table 4).

But this has changed after 9 years. As of the end of 2008, private enterprises generated about 4.3 million jobs, which accounted for 54 percent of total jobs created by all enterprises, and as much as 2.8 times the number of jobs created by larger SOEs. Therefore, the number of jobs generated by private enterprises in this period has increased by 505 percent. Figure

3 shows the impressive capacity to create jobs of private enterprises as compared with enterprises in state and foreign investment sectors.

The jobs created have contributed greatly to the economic development, and income improvements for people, and has supported the restructuring of the national economy. Together with foreign invested enterprises, private SMEs have become the safety net for many of the workers who are laid off by the SOEs and the public sector, especially at the transition from the command to a market-based economy. In this period, about 3.5 million new jobs

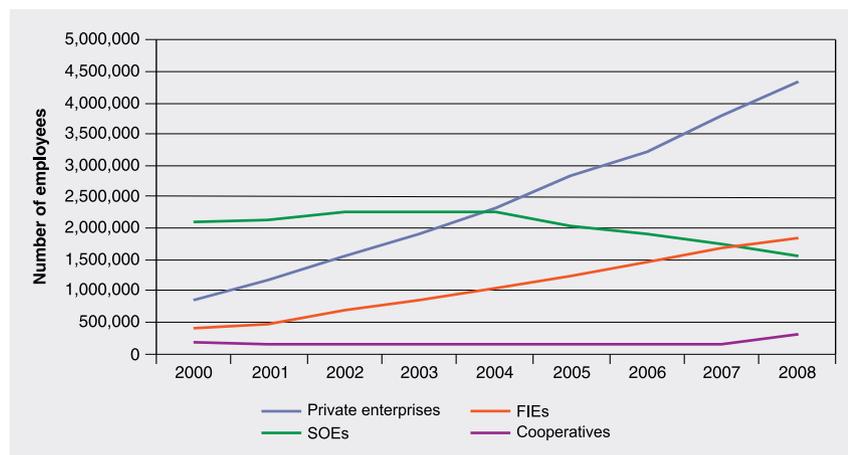


Fig. 3. The growth of labour employed by types of enterprise

Source: Vietnam's General Statistics Office, the General Survey on Enterprises from 2001 to 2009

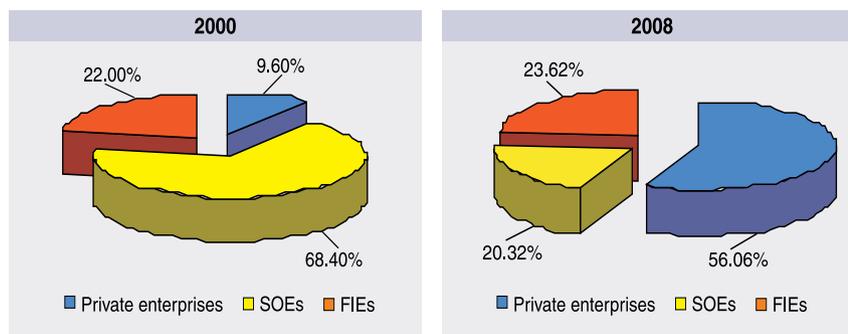


Fig. 4. Comparison of structure of labor employed by enterprises of different economic structure between 2005 and 2008

Source: Vietnam's General Statistics Office, the General Survey on Enterprises from 2001 to 2009, and the research team's calculation

were generated by private enterprises, 1.4 million by FIE while SOEs cut back about 500,000 jobs. They also offer a large number of jobs for the 1.2 million young people entering the labour market each year. SMEs have been the key factor which helps to maintain a low unemployment rate in Viet Nam in the last decade (4-5 percent in this period) (Fig. 4).

The average income of employees in private enterprises almost quadrupled while FIEs could only increase it by

two times. This helps to narrow the gap in average salary between private enterprises and FIEs significantly.

Currently, the average salaries in private SMEs and in FIEs are respectively VND 33 million and VND 34 million per year. In 2000, the average salary were VND 8 million per year in private enterprises and VND 20 million per year in FIEs. The narrower gap in income helps to improve the attractiveness of private SMEs vis a vis FIEs in terms of the job offered.

The missing middle is a critical problem

According to the Vietnam Report 500, a report which ranks the 500 top Vietnamese enterprises and was recently

released by VietNamNet³ and the Vietnam Report Company in 2009, 28.9 percent of enterprises in the top 500 enterprises are categorized as of the private. The ratio of private enterprises in the 2009's VNR 500 is higher than that of 2008's VNR 500, which was 24 percent of the total. However, most of the enterprises which grows into larger size status graduated from State-owned Enterprises (SOEs) through privatization. Few of the middle or large sized enterprises really graduated from original micro and small private enterprises and household business, e.g. Dong Tam, Kinh Đô, Trung Nguyen, Hoa Phat, Hoang Anh Gia Lai, Saigon Invest, SSI, and CMC, etc.⁴

In fact, the growth of SMEs is challenging. Unfavourable business environment and limitations in corporate governance, capital, and technology, human resources... have been the key factors which hinder private SMEs from becoming the turbo engine for economic growth. In order for the economy to grow faster, to buffer well from economic turbulences and to drive itself into high value-added, technology and capital intensive, knowledge-based growth highway, larger enterprises are critically needed. Capital amalgamation needs to be accelerated for the formulation of such larger enterprises. Larger enterprises in Viet Nam should include not only SOEs but also private enterprises. However, the number of private small enterprises which hold the potential to grow into the middle size category and then the larger size one seems to be negligible.

Among the top 200 largest enterprises ranked by UNDP in Viet Nam, there were only 17 private enterprises. This number was also quite small. According to that report, the number of large private enterprises which developed from a private business was limited. Majority of the 17 large private enterprises were the equitized one^{5,6}.

³One of leading e-newspapers in Viet Nam.

⁴See more details at <http://www.vnr500.com.vn>.

⁵Vietnamese term for privatization.

⁶Scott Cheshire and Jago Penrose. (2007). "Top 200: Industrial Strategies of Vietnam's Largest Firms". UNDP.

The absence of middle and large enterprises also means that it is not possible for Viet Nam to have a multinational brand name owned by a private company in Viet Nam in the mid-term. Development of Vietnamese brand names which can be recognized in other countries should be implemented by private enterprises as well. One should not count only on SOEs to achieve this objective. Some private enterprises, by one way or another, have made strong efforts to establish Vietnamese brand names in international market such as Hoàng Anh Gia Lai, Trung Nguyên, Phô 24, Sacombank, CAVICO, etc. However, becoming a multinational company is still a long journey ahead for private SMEs.

With 150 private enterprises ranked in the top 500 biggest enterprises released by VietnamNet and Vietnam Report, and 17 private enterprises listed in the top 200 enterprise report published by UNDP, and given the fact that over 80 percent of private enterprises in Viet Nam is small-sized (80 percent of SME has capital of less than VND 5 billion and 87 percent employ less than 50 people)⁷, it is obvious that **there is a critical “missing middle” in the overall SME structure in Viet Nam.** This has become a policy issue which needs to be addressed in the coming time when Viet Nam is aiming higher in its economic development process.

Uneven geographical distribution

According to the Agency for Enterprise Development of the Ministry of Planning and Investment, over 80 percent of total enterprises newly registered annually are concentrated in some large cities and provinces, such as

⁷CIEM and UNDP. (2008). “An assessment on 2 years of implementing Enterprise Law and Investment Law”.

	Private enterprise		SOEs		FIEs	
	2005 (%)	2008 (%)	2005 (%)	2008 (%)	2005 (%)	2008 (%)
Total assets/equity	271.65	398.50	334.73	365.66	221.41	250.76
Profit/Equity	4.44	7.01	7.87	12.35	19.86	23.95
Profit/total asset	1.63	1.76	2.35	3.38	8.97	9.55
Turnover/Equity	499.13	468.74	199.25	194.96	149.33	220.84

Table 5. Comparing the improvements in financial indicators by types of enterprise in the period 2000-2008

Source: Viet Nam’s General Statistics Office, the General Survey on Enterprises from 2001 to 2009, and calculation by the author

Despite some considerable improvement and tremendous progresses in many aspects, the performance of private SMEs is still poorer than FIEs and even SOEs.

Hanoi, Ho Chi Minh City, Hai Phong, Da Nang, Binh Duong, and Dong Nai. The remaining 20 percent are private enterprises registered in the other 56 provinces and cities.

Categorized by regions, many private enterprises are concentrated in the Red River Delta and the South East Region. The number of private enterprises in the two regions accounts for 70 percent of total enterprises (registered and operating one) nationwide. The number of private enterprises in Red River Delta is increasing remarkably mostly thanks to the rise in number of enterprises in Hanoi. This is also the case for the South East Region with significant contribution of Ho Chi Minh City.

The percentage of enterprises in the other regions of the country does not increase, or even decrease, especially the North West, North East regions and the Mekong Delta. The Mekong Delta, where the poverty and unemployment rates are highest, has seen an increasingly declining proportion of enterprises registered in recent years.

The uneven geographical distribution of private enterprises also reflects the economic development of provinces and cities, and regions, and a possibility of widening income and development gaps among localities in Viet Nam. Obviously, this is another policy problem which needs to be addressed soon.

Performance of private SMEs

Despite some considerable improvement and tremendous progresses in many aspects, the performance of private SMEs is still poorer than FIEs and even SOEs.

Table 5 reveals that some key performance indicators of private sector SMEs have been improved at a much slower rate than those in the state and foreign invested sectors. This is particularly true for the case of such indicators as profit/equity, and profit/total asset. While the profit/equity ratio of private enterprises increased from 4.4 percent in 2000 to 7.1 percent in 2008, that of SOEs increased from 7.9 percent to 12.4 percent in the same period. More impressively, FIEs could increase the ratio from 19.8 percent to 23.9 percent. Similarly, the improvement of profit/total asset ratio by private SMEs are also slower than that in SOEs and FIEs.

Therefore, though improved, the improvements in financial indicators of

	Private SMEs		SOEs		FIEs	
	2005	2008	2005	2008	2005	2008
Average equity/enterprise (million VND)	1,220	3,679	38,752	242,706	71,118	76,871
Average profit/enterprise (million VND)	54	258	3,050	29,964	14,126	18,410
Average asset/enterprise (million VND)	3,314	14,660	129,713	887,488	157,462	192,763
Average net Turnover/enterprise (million VND)	6,089	17,244	77,214	473,188	106,201	169,762
Average number of employee/enterprise (person)	27	24	363	462	267	325
Average turnover/employee (million VND)	225.3	710.7	212.9	1,024.7	397.4	522.0

Table 6. Average size of enterprises by economic sectors

Source: Vietnam's General Statistics Office, the General Survey on Enterprises from 2001 to 2009, and calculation by the author

Modern corporate governance practices, such as those applicable in OECD countries are not yet fully adhered to by Vietnamese private SMEs.

private enterprises are much lower than that in other economic sectors, even in SOEs⁸.

While enterprises in private sector can improve and enhance the quality of their business activities, it seems that enterprises in other economic sectors

⁸This paper looks at the whole population of private sector SMEs. If using another method by selecting a sample of 100 best performing private SMEs, 100 best performing SOEs, and 100 best performing FIEs for the analysis, the findings might have been different. In addition, some issues such as some exclusive rights or absolute competitive advantages of SOEs and even FIEs over private enterprises are not dealt with in this paper.

⁹Le Duy Binh. (2009). "Local Actions to Counter the Fall in FDI and Demand as Consequence of Economic Crisis: Good Practices in some Provinces in Vietnam". Joint publication of OECD/ILO (forthcoming).

can do that at a more accelerated speed. It makes the average size of private SMEs increasingly smaller in comparison with that of SOEs and FIEs.

The figures in table 6 show how small private SMEs are in comparison with SOEs and FIEs. For example, although the equity of a private enterprise tripled in the period 2005-2008 to VND 3.6 billion/enterprise, it is still tiny as compared with the average equity of SOEs and FIEs which are at VND 242 billion and 76 billion per an enterprise respectively. This is also the case for other indicators, such as average profit/enterprises, average asset/enterprise, and average turnover/employee.

This situation has become more and more obvious with dozen of large SOE behemoths being established, and FDI projects worth hundreds of million and even billions USD being licensed in recent years.

It doesn't seem to be appropriate to compare SOEs, FIEs and private SMEs in terms of registered capital due to the too obvious advantages of the two formers. However it makes sense to reflect the growth trend and the development pattern of enterprises

in the economy. And of course, it is an issue which needs to be taken into account when policy-makers are finding ways to restructure the national economy in a new phase of development⁹.

Corporate governance in private SMEs

Modern corporate governance practices, such as those applicable in OECD countries are not yet fully adhered to by Vietnamese private SMEs. Many private SMEs, despite many years being in business, are still run like a family business. This is partly driven by the motivation to keep secret the family "know-how" in doing business and to keep the wealth earned among family members. There is also a prevailing lack of trust in outsiders when it comes to financial information.

Even in many private enterprises nowadays, the relationship among shareholders is restricted within family members or close relatives.

In some cases, the key role in a private enterprise is often taken by a man, either the father or grandfather with strong power in a family rather than by the biggest shareholder. In terms of capital mobilization, it is uncommon for Vietnamese private enterprises to borrow from banks to mobilize funds through the stock market. The most common way is to raise funds from relatives or from friends.

Almost all private enterprises in Viet Nam are small in size and nepotism is a common sight. Shareholders are also directors, managers, key technicians, accountants, etc. Shareholders in an enterprise (especially in case of joint stock or limited liability companies) assume many functions at the same time. Shareholders or founders of companies are often related by blood or have close relations. Corporate management functions are rarely defined. In many cases, there is no, or little at best, distinction between corporate assets and family assets. Job de-

scription, functions and role between shareholders, directors, managers, accountants, etc. are not clearly defined. This resulted in an opaque management style and non-transparent information system in many private SMEs. This has had adverse impacts on the accessibility to funds from banks and the stock market, or the merger and acquisition process, thus further constraining the capital amalgamation and eventually the growth of small enterprises.

Lacking long-term strategy and confidence

Few private SMEs have formulated a long-term development strategy and sustainable business plans with clearly defined targets and vision. The decision of many entrepreneurs to start up their business, in most of the cases, is driven by necessity and by the need to find a way to earn a living. Many are still at this stage of development. As such, it is not unusual to see that they take quite an opportunistic approach by simply looking for quick-cash, easy profit-making business opportunities. Few have spent time and resources on corporate strategy and long-term development plan.

According to the "Doing Business" surveys annually published by World Bank, the legal system protecting the rights and benefits of minority investors in Vietnam is quite weak¹⁰. Thus, private SMEs have generally not been able to gain the full trust of investors, especially small investors. They face difficulty to attract long-term investors too. Although the stock market has been developing rapidly recently, it has not been a good means to channel funds from small investors into business operation and productive investment.

¹⁰See more on: www.doingbusiness.org

¹¹"Diagnosis of Constraints to Scientific Advancements", on 26/12/2009 <http://www.tinmoi.vn/Di-tim-can-benh-can-tro-tien-bo-cua-khoa-hoc-cong-nghe-1298882.html>

Lack of transparency and of motivation to disclose

In a standard management system, transparency is a crucial condition to protect shareholders' rights and interests. Adequate and on-time information about the enterprise could help investors make the right investment decision. It is important that the information and data on the value of enterprise and the management quality is made available to the public and investors. Once the market spots a negative signal from the management of the enterprise, the share price will immediately go down. This, in its turn, will require adjustments by the company management.

Nevertheless, lack of transparency in SMEs' financial management is quite common in Viet Nam. Many enterprises fail to fulfill their obligations in financial report disclosure. Or once disclosed, often the reports are carelessly prepared or lack material information. Some estimates put it that less than 3% of financial reports of private SMEs are audited annually. Book keeping system and financial reports are mostly prepared for the tax agencies. Though not all private enterprises will raise funds on the stock markets or from banks – when the disclosure of financial information are mandatory, this non-transparency itself has hindered the healthy growth of private SMEs.

Besides, lack of human resources and expertise is also one of the reasons which explains for this situation. Most of SMEs, especially smaller ones, are weak in accounting and finance management and in corporate governance.

It is also a wide belief among Vietnamese private enterprises that the more they are transparent, the more they are at disadvantage vis-à-vis their peers and competitors. When a company disclose information, for example, it will be easier for its rivals to attract company's current customers by copying its busi-

The investment of the whole society on science and technology is considerably low, with only five US dollars (in 2007) per capita.

ness strategy, product strategy or market strategy, etc. Moreover, it will mean costs to set up a proper accounting system and to have their books audited. In Viet Nam now, in order to protect shareholders, transparency should always go hand in hand with equality and fairness in doing business.

Some other issues such as separating the enterprises' assets and founders or shareholders' assets, protection of the minority shareholders' rights and interests, respecting fundamental principles in corporate governance are still far from good practices. The management information system set up by SMEs is weak and fail to support this. This is still a problem which can be seen in many SMEs, even in larger ones which go public in the stock market. Clearly, the issue needs to be properly addressed.

SMEs, R&D and technology transfer

In the science and technology field, the state sector still plays a leading role until now. According to the latest survey of the Ministry of Science and Technology, there are approximately 1,200 scientific and technological institutions all over the country with 15,000 civil servants. The investment of the whole society on science and technology is considerably low, with only five US dollars (in 2007) per capita. This is unfavorably compared with the Chinese and Korean governments which respectively spend 20 US dollars (in 2004) and 1,000 US dollars (in 2007)¹¹ per capita on science and technology research. Breakthroughs need to be achieved in the field of science and technology if Viet Nam is to achieve

In the last 7 years, there is no evidence to show that R&D spending by Viet Namese SMEs has been significantly improved.

the objective of tripling its GDP by 2020 compared with that in 2010. In this process, private SMEs are expected to play an increasingly important role in research and technology transfer. Nonetheless, currently, research on science and technology among private SMEs are extremely limited.

According to a survey by the German Technical Cooperation (GTZ) and the Vietnam Chamber of Commerce and Industry (VCCI), on 1,200 Vietnamese enterprises in 2003, enterprises spend less than 0.1% of their total annual revenue on research and development in order to produce new products and renovate technology. In the last 7 years, there is no evidence to show that this figure has been significantly improved. Of the total annual import, technology import by private enterprises account for less than 10% of total import value. This is only equivalent to one forth of the proportion often seen in developed countries'. The restrictions on technology and equipment renovation of enterprises lead to

limitation in product diversification. The out-dated technology also contributes to the huge and unnecessary material consumption, environmental pollution, low productivity, etc.¹².

Another VCCI's survey (2009) on 630 enterprises reveals a little more rosy renovation of the enterprises. 67.8% of the enterprises surveyed produced new products or renovated remarkably, and 57.3% of respondent enterprises said they introduced new or innovated services. But most of the renovation is nothing seen as breakthrough. The majority of the innovation were done by the SMEs. Cooperation with the other companies or foreign or domestic research institutes in product or technology innovation is limited with only 3% of goods manufacturing and 7% of service enterprises said they did so. The cooperation mechanism among enterprises including private enterprises and research institutes is not developed, and is a critical problem of technology application and transfer. This situation, if not addressed properly, will impede the national development and the competitiveness of the SME sector in particular and of the national economy as a whole.¹³

Another survey conducted recently by Ho Chi Minh Department of Science and Technology aiming at assessing the science and technology status of 630 domestic and foreign enterprises in the city. The survey indicates that there are many limitations on technology renovation existing in the enterprises. The proportion of enterprises obtaining the degree of entire automation of production line account for only 25%, those of semi-automation makes up 60%, and the rest 15% of the enterprises surveyed do all of the work manually. The majority of technological equipments originate from China with few ones from the U.S, Japan, and other Western countries. Dr. Ho Sy Hung, Director General of Department of Enterprise Development (of the Ministry

of Investment and Planning) reveals that that 80% of SMEs in Viet Nam are using technology which are three or four generations older than their counterparts in regional countries. Most of SMEs still use the technology dated back from the 1980s and the capacity of technology renovation research appears to be significantly restricted. Lack of capital, expertise and skills are often quoted as the major reasons which explain why SMEs spend too little effort on R&D, technology transfer and innovation¹⁴.

The State government has been introducing new policies aimed at boosting technology renovation, including many incentives for enterprises. The Law on Corporate Income Tax ratified by the National Assembly dated 03 June 2008, stipulates at the Article 17: "The enterprises which are established according to the law may deduct 10% from the annual income tax of the enterprises in order to set up the Science and Technology Development Fund." The Law on Advanced Technology approved by the National Assembly dated November 13 2008 creates a legal corridor for the development of Viet Nam Science and Technology. The Law identifies the priority fields such as information technology, biology, new material, and automation. The government introduces favorable policies for the organizations and individuals, which are engaged in R&D in high technology. For there entities the Law also allows for charging the most favorable enterprise income tax, personal income tax, value added tax, export tax and import tax¹⁵. The new policies are expected to build up significant momentum for research, application development and technology renovation of Vietnamese enterprises.

Corporate social responsibility and environment protection

Corporate social responsibility (CSR)¹⁶ is quite a new concept to the Vietnam-

¹²Vietnamese has not focused on innovating technology, <http://vnexpress.net/GL/Khoa-hoc/2008/05/3BA02B4B/>

¹³SMEs Be Alone in Technology Innovation, New Hanoi on 4/1/2010, http://hanoimoi.com.vn/newsdetail/Cong_nghe/304051/cac-doanh-nghiep-phai-tu-may-mo-doi-moi-cong-nghe.htm

¹⁴Dan Nhiem. (2009). "Science and Technology – Not a Short Sighted Approach". The New Hanoi.

¹⁵Vietnam Express. (2008). "Scientists Allowed to Establish High-tech Business". <http://vnexpress.net/GL/Khoa-hoc/2008/11/3BA086C5/>

¹⁶Responsibility to market and consumers, responsibility to environment protection, responsibility to employers, and responsibility to the community.

ese businesses in general. SMEs in Viet Nam are still at the very early stage of this learning curve. So are they with the notion of environment protection, climate change, and green development.

SMEs working as sub-contractors for international buyers or importers in US, European and Japanese markets are under stronger pressure to adopt good practices in CSR and environment protection and have introduced ISO 8000 and ISO 14000 standards in their factories.

Larger enterprises like ACB, Duy Loi, Kinh Do, Mai Linh, Tan Tao, Techcombank... have been proactive in introducing corporate social responsibility in their development strategy¹⁷ and become increasingly active in community development activities. For many SMEs, the most common form of corporate social responsibility, according to them, are in the form of contribution to charity, school building, support to the poor, the disadvantaged or the disabled.

But this is not the case for most of the SMEs in Viet Nam – the majority of them are still very much preoccupied with their subsistence. Less than 25% SMEs fully pay the social insurance and health care insurance for their employees. In some enterprises, among their 35 full-time employees, only 8 are covered with social insurance and health insurance¹⁸. This is just an example of many, many social responsibilities which SMEs have failed to fulfill.

The working conditions in factories, plants, working sites, labour safety standards are far from standards in many SMEs. Local newspapers reported regularly on water pollution,

¹⁷Nguyen Dinh Cung, Luu Minh Duc. (2009). Corporate social responsibility – CRS Some issues of arguments and innovative requirements in state management to CSR in. www.vnep.org.vn.

¹⁸Sài Gòn Economic Times online January 5, 2010.

The SME sector needs to be geared towards a new development phase in which stronger performance, higher productivity, higher value-added and stronger sense of social and environmental responsibility should be seen as the core values.

soil contamination, public health diseases which are caused by reckless actions by local enterprises.

Most of the entrepreneurs blame on their lack of resources, on their hard struggle to survive, on their subsistence level for the maltreatment to the environment and for the negligence of social responsibility. There is little sympathy for this excuse.

Conclusion

Needless to say, it is high time that Viet Nam move from necessity driven entrepreneurship to development of higher performance SMEs and higher quality growth of the business sector. With the country lifting itself to the middle income status and making strong efforts to avoid the middle-income country trap, high performance and high quality growth in all aspects of the economy is needed. The SME sector, an increasingly important sector of the economy, need to be geared towards a new development phase in which stronger performance, higher productivity, higher value-added and stronger sense of social and environmental responsibility should be seen as the core values.

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