

The Influence of Vietnam's Administrative Reform on Entrepreneurial Orientation in Micro-Enterprises

Dr. Mai Thi Thanh Thai, HEC Montreal, Canada

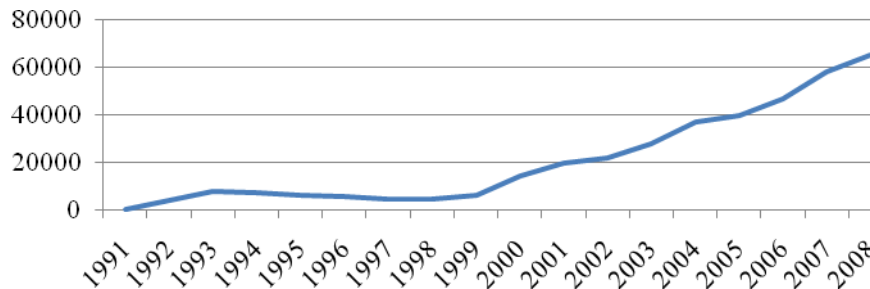
ABSTRACT

Basing on the results of a face-to-face survey and secondary data from General Statistics Office of Vietnam, we found that the administration reform of Vietnam has had a positive impact on entrepreneurial orientation (EO) on all of its three dimensions, namely managerial perception, firm behavior, and resource allocation in Vietnamese micro-enterprises. The firms have shown to take higher risks and be more proactive but they have not put an emphasis on innovation yet. In this paper, we present the reform's milestones and the evolution of EO in Vietnamese microenterprises along these three dimensions.

INTRODUCTION

Under an ambitious administrative reform scheme since 1986, Vietnam has been transforming itself from a centralized economy to a socialist-oriented market economy. From 1986 to 1990, Vietnam employed a multi-sector commodity economic system and exercised trade liberalization, privatization of state-owned enterprises, and the renovation of the financial system. Between 1990 and 2000, Vietnam eliminated state monopoly in distributing goods and services, authorized enterprises of various economic sectors to engage in trade, and cancelled all restrictions on the circulation of goods. In 2000, the Communist Party started to implement strategies to make Vietnam a socialist-oriented market economy. Since then, the country has been following this direction.

Figure 1: Number of new business registrations in Vietnam (Le, 2004); (ASMED, 2009)



The reform has created a pro-business environment in which essential legislations and regulations on enterprise establishment, market entry, business operations, and market exit for all types of enterprises of all scopes have been promulgated and the State Bank of Vietnam no longer has administrative intervention into the lending service of credit organizations. The country has enjoyed a healthy economic growth even during the Asian economic crisis in the late 1990's and the recent global financial crisis (WB, 2009). At the same time, new business registrations in has augmented dramatically (figure 1). Micro-enterprises have grown dramatically (particularly in the private sector) and become active in wider a range of industries (figure 2). The number of exporting and importing small and medium-sized enterprises (SMEs) accounts for 80.6% and 84.2% respectively of the total number of enterprises participating in import-export activities in Vietnam (ASMED, 2006).

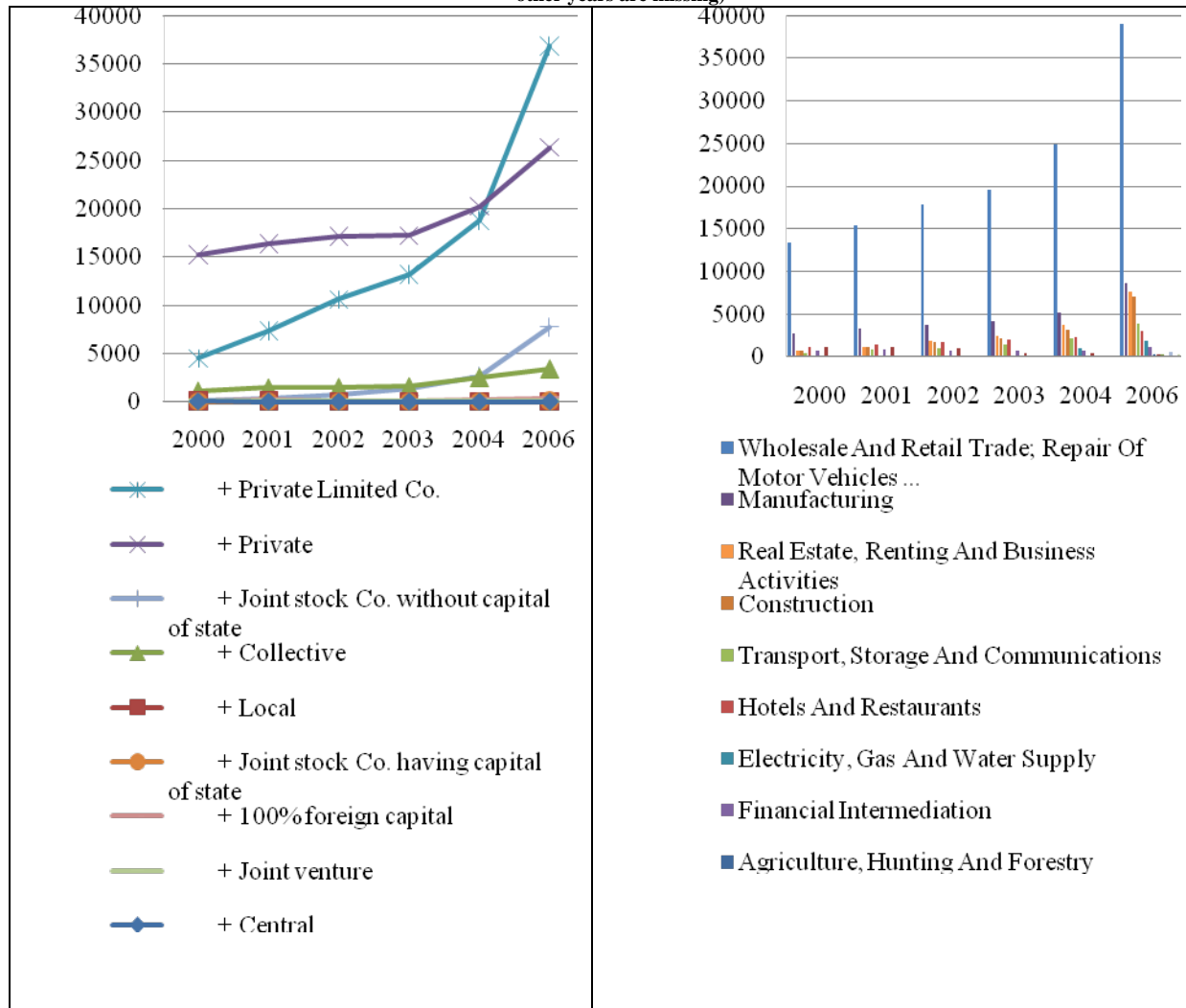
About 60% of Vietnamese enterprises are microenterprises (GSO, 2009) so their behavior must be subject to changes during the transition of the business environment in Vietnam. Therefore, this research was aimed at finding out how the administrative reform has influenced entrepreneurial orientation in Vietnamese micro-enterprises.

CONCEPTUAL MODEL

Entrepreneurial orientation (EO) is a firm-level construct (Covin & Slevin, 1991) that is closely linked to strategic management and the strategic decision making process (Lumpkin & Dess, 1996). EO is strongly associated

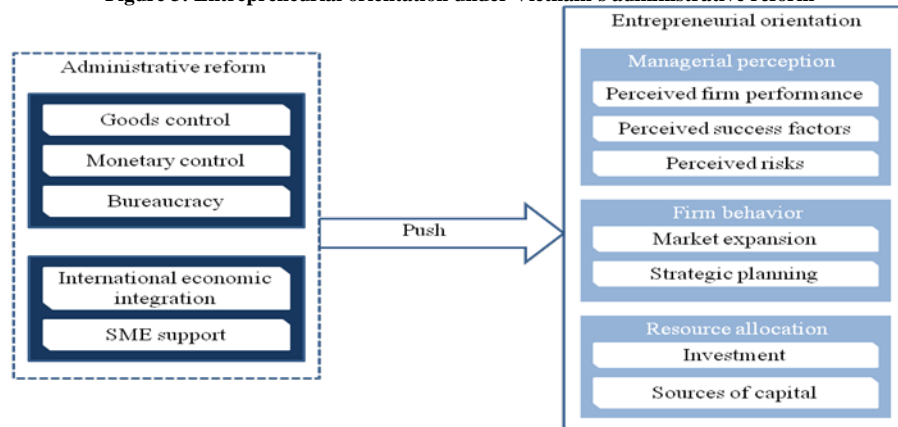
with a motivation to engage in entrepreneurial activities (McClelland, 1961) and contributes to firm performance, defined as a compound measure incorporating dimensions of growth as well as financial performance (Wiklund, 1998). In fact, it is regarded as a key ingredient for a firm's success (Wang, 2008). A firm's EO is the company's top management's propensity to take calculated risks, to be innovative, and to demonstrate proactiveness (Morris & Paul, 1987). In short, it is an entrepreneurial process comprising of the methods, practices, and decision-making styles managers use to act entrepreneurially (Lumpkin & Dess, 1996).

Figure 2: Number of active microenterprises classified by economic sector and economic activity (compiled from GSO, 2009, data for other years are missing)



Previous studies found that EO is moderated by the level of environmental change (Becherer & Maurer, 1997). In Vietnam, the administrative reform has brought about critical changes in the business environment every 5 years since 1986 after each National Congress of the Communist Party of Vietnam, which is the ruling party of the country. The launch of the reform in 1986 was marked by an official recognition of personal economic interests that transformed public perception of entrepreneurs who were long seen as demons during the era of centralized economic system. Another importance change right after that was the abolition the checkpoint inspection system that required goods in transit to be frequently inspected and relaxed regulations on private inflow of money, goods, and tourists from overseas. In 1990, Vietnam officially recognized the lawful existence of non-state economic sectors and started privatizing state-owned enterprises.

Figure 3: Entrepreneurial orientation under Vietnam's administrative reform



Between 1991 and 1995, the government enacted series of laws aiming at promoting private enterprises and domestic investment. In the next five years, a significant number of laws and bylaws were implemented to reduce bureaucracy and promote entrepreneurial activities. The enactment of the Enterprise Law 2000 marked an important milestone. The abolition of requirements of registered capital and government approval before business registration, which shortened waiting period from 6 months to 1 week and reduces business registration costs by over 100-300 times (Brown, 2002), and the removal of 84 of almost 300 licenses controlling market access. Between 2001 and 2005, the government further relaxed its control over international trade with monetary and fiscal policies. Since 2006, entrepreneurs are allowed pursue business activities regardless of their social position. In short, the government has purposefully relaxed its control on flow of goods and capital and reduced bureaucracy at a controlled speed.

Furthermore, the reform has allowed Vietnam to integrate into the world economy. It became a member of ASEAN in 1995 and then APEC in 1998. The Bilateral Trade Agreement with the United States in 2000 opened the door for Vietnamese businesses to the world market. And in 2006, Vietnam became a member of the World Trade Organization (WTO). The international economic integration process has been increasingly liberalizing the exchange of goods and capital to and from Vietnam. As a result, the domestic market becomes more competitive while opportunities in the international market keep growing. This compelled Vietnamese firms to innovate to survive and develop. Fortunately, their effort has been given strong support by the government. Most notably is the enactment of Decree 90/2001/ND-CP dated November 2001 on SME development support in Vietnam (which was the first legal document to clearly define SMEs and set forth plans to promote their development) and then Decree No. 56/2009/ND-CP dated June 2009 on supports to SMEs (which details how to support SMEs in the new international economy).

Therefore, we can hypothesize that reduction in government control together with deeper international economic integration and stronger SME supports promotes entrepreneurial orientation (figure 3). Using approaches set forth by (Lyon, Lumpkin, & Dess, 2000), we operationalized the EO concept by managerial perception (the firm's performance, success factors, and risks), firm behavior (its market expansion and strategic planning) and resource allocation (investment and source of capital). Because the administration reform has been purposefully set to unroll gradually at 5-year intervals and in parallel with the international economic integration process, we measured changes in entrepreneurial orientation in micro-enterprises according to the same intervals.

METHODOLOGY

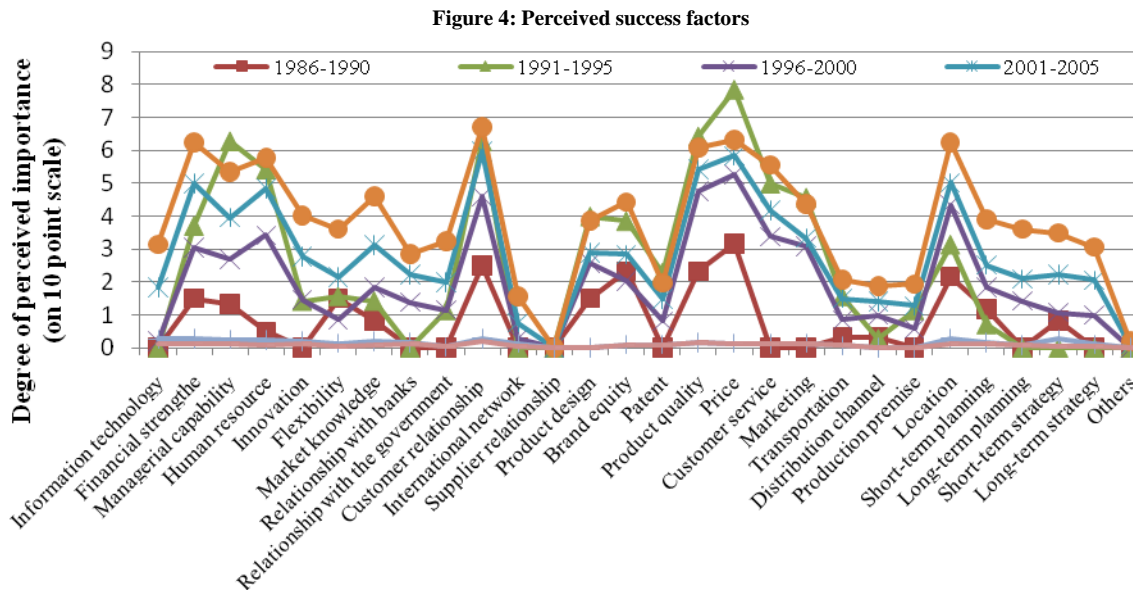
Our research was based on both secondary and primary data for micro analysis. The secondary data comes from publications by General Statistics Office of Vietnam, Agency for SME Development of Vietnam, and the World Bank and it is used for analysis at the aggregate level. The primary data was gathered by means of structured interviews because we needed to meet the microentrepreneurs to make sure they were the actual informants and the questions were always answered within the same context concerning the respondents' reflection of cause and effect in the past (Balnaves & Caputi, 2001; Ragin, 1994). Moreover, we needed to control for the representation of respondents in each economic sector for comparative analysis.

Stratified random sampling technique was used in this research because it helped us conduct analysis of subgroups and make cross comparison (Fink, 2003). We aimed at having half of responses from firms established after the enactment of the Investment Law in November 2005 (which is the legal foundation for all investments) and about a third of the rest established before the enactment of the Enterprise Law in January 2000 (with which businesses in the non-state sector were recognized). This strata structure is relative to the configuration of new business registrations (Le, 2004; ASMED, 2009). From the current Vietnamese business directory, we contacted microenterprises to express our interest in studying their responses to changes in business environment. Our 6 month field trip successfully secured interviews with controlling owners and/or managing directors of 112 firms; 99 responses of which were valid and used in our analysis.

DISCUSSION OF FINDINGS

Managerial perception

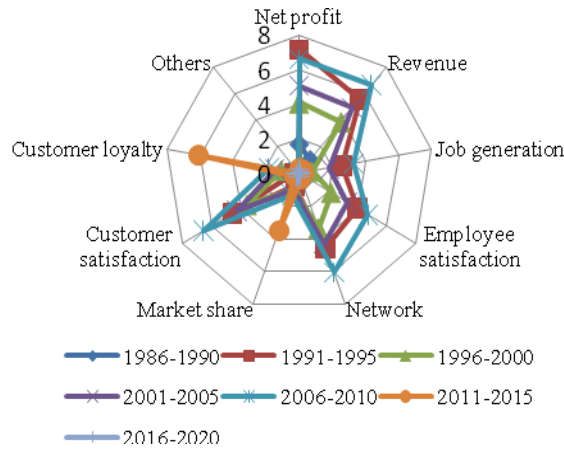
The factors perceived to be the most important to the firm's success are quality of customer relationship, location, product quality, price, and financial strength (figure 4). What's interesting is that the relative importance of all 24 firm-specific factors that we asked remained almost unchanged but their absolute value increased dramatically since 1986. This shows that the firms were been given more autonomy to behave the way they wanted and they became more proactive.



The relative weight of each performance measurement criterion used in the surveyed firms has not been changed significantly (figure 5). Net profit has always been the most important measurement. Then come revenue and network. Interestingly, customer satisfaction has been given considerably high importance only recently. Moreover, customer loyalty will be a particularly strong criterion in the 2011-2015 period. This will translate into a significant change in the firms' business strategy. Although the firms considered net profit and revenue the most important measurements and the firms had significant growth in these aspects, the firms felt that they were less and less successful. Perhaps it was due to the fact that they put in much more investment capital and expected higher returns than what they received. This drive for higher achievement and increased competition due to lower barriers from the government will certainly push the firms to be more proactive.

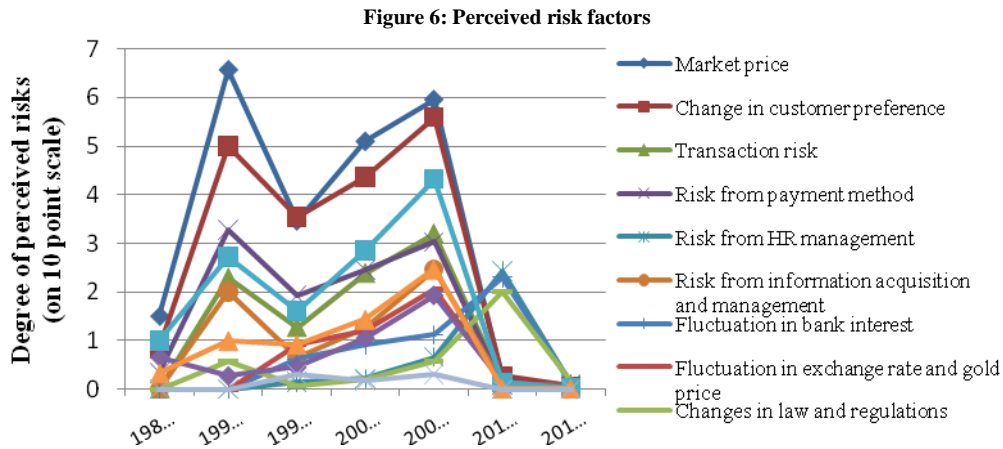
It is noteworthy that strategic planning has been given more importance in the surveyed firms. Prior to 1996, neither business strategy nor planning was given attention. Between 1996 and 2000, the firms put an average score of under 0.5 on a 10-point scale on their importance to their success. But after each of the next periods, their importance was given a higher score. In the 2006-2010 period, short-term planning, long-term planning, short-term strategy, and long-term strategy were scored 3.9, 3.6, 3.5, and 3.1 respectively.

Figure 5: Performance measurement criteria



That pattern could be a result of the managers' perception of risks. The managers felt the business environment to be increasingly risky (figure 6). The relative degree of perceived risk in all 13 environment factors augmented after each period. Nevertheless, the fact that the surveyed firms increased their investment and get involved in more business activities shows that they were ready to take higher risks. It should be noted that they are more concerned about risks from human resource management, fluctuation in bank interest, and change in laws and regulations in the coming period 2011-2015 while overlooking other types of potential risks. Very few think of what may happen five years from now.

The period of 1991-1995 was an exception. The manager's perception of risks was remarkably high compared to adjacent periods. Perhaps it was due to the enactment of the Private Enterprise Law and Company Law with which non-state sectors became legal. In other words, firms in existence prior to this period were in the state sectors that feared competition from the private sectors and no one knew what consequences the legislation change would bring about. Meanwhile, firms formed during this period were new with inexperienced managers so it was not unexpected for them to be particularly concerned.



Firm behavior

We found that most of the surveyed firms do not have any planning for longer than 5 years. Only 10% had answers to our questions for the 2011-2015 period and only 2% had answers to our questions for the 2016-2020 period. Nevertheless, they have realized how important strategic planning is but it will take time for them to actually do it. Furthermore, it could be a result of the type of information used in their decision making (figure 7). Over 80% of their input information comes from informal channels such as family, friends, and acquaintances so it is very hard to make any concrete long-term plan on it. Since 2001, the firms have considered information from the

press, trade fairs and business associations but these sources have only taken a modest place in the firms' information acquisition practice.

Even with the absence of strategic planning, the level of investment in the surveyed firms increased (figure 8) and their market presence was progressively expanded after each period (Table 1). Before 1990, all of the surveyed firms operated only in their home province; in the years 1991-1995 with the enactment of the Private Enterprise Law many firms were encouraged to expand to other provinces. After the Law on Promotion of Domestic Investment was implemented in 1995, there was a significant increase in investment level (127% on average), market penetration throughout Vietnam, and expansion into other Asian countries. Since 2006, Vietnamese microenterprises have increased their market presence not only in neighboring Asian countries but also in Europe and America. This could be explained by the fact that Vietnam signed a Bilateral Trade Agreement with the United States in 2000 and became the member of the World Trade Organization in 2006. These agreements reduced obstacles for Vietnamese firms to participate in the international market arena. It is noteworthy that 98% of internationalizing microenterprises were created in 2006 (when Vietnam joined the WTO) and after.

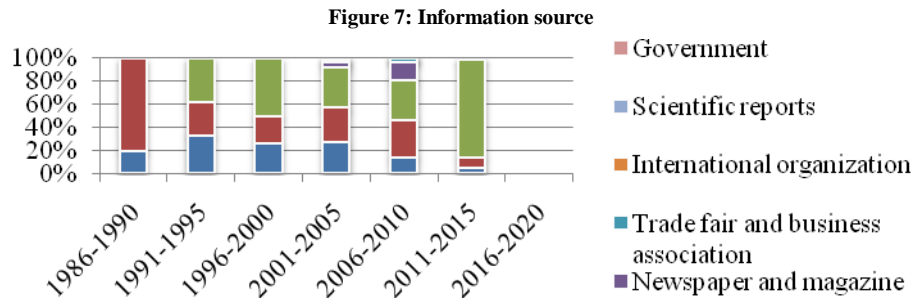
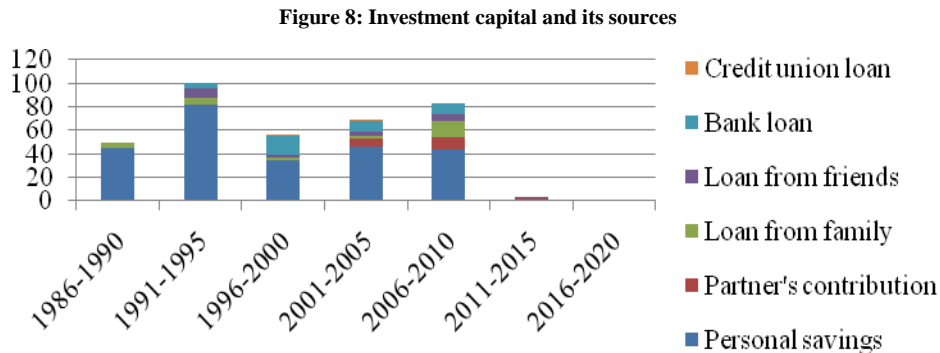


Table 1: Percentage of firms operating in each regional market

	Within home province	Other provinces but within home base	Other regions but within	Other ASEAN countries	Other Asian countries	Western Europe	Eastern Europe	North America	South America	Africa
Before 1986	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1986-1990	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1991-1995	98%	2%	0%	0%	0%	0%	0%	0%	0%	0%
1996-2000	94.90%	3%	1%	0%	1%	0%	0%	0%	0%	0%
2001-2005	47.95%	16.44%	9.6%	1.37%	1.37%	0%	0%	0%	0%	0%
2006-2010	82.8%	44.3%	8.2%	4%	2%	1%	2%	2%	2%	0%



Resource allocation

In the 1986-1990, the micro-entrepreneurs had to rely solely on personal savings and borrowings from family. But in the next period they began to take bank loan. This means they became more confident about their business and willing to take higher risks because all bank loans in Vietnam require collaterals. Nevertheless, most of their new capital investment was always from personal savings, albeit its proportion decreased over time. Since 2001, about 10% to 12% of the new capital mobilized by the surveyed firms came from their partners' contributions, implying a positive change in risk management behavior of the firms. Although none have ever received government grant or fund from SME promotion programs, the surveyed firms increased their new capital investment

by approximately 20% after each period. This could mean that the level of commitment for entrepreneurial activities increased in those firms.

CONCLUSION

Our paper has demonstrated the development of entrepreneurial orientation in Vietnamese micro-enterprises that is essentially the product of Vietnam's administrative reform since 1986. Of the three EO dimensions, namely managerial perception, firm behavior, and resource allocation, we saw a considerable higher degree of pro-activeness and risk-taking. However, the firms' innovation was not evident from our data set. Nevertheless, the significant increase in the other two elements of the EO construct convinces us that the administrative reform in Vietnam has pushed entrepreneurial orientation in microenterprises in this country to a new height. Future research can look into how managerial characteristics such as age, gender, education background, experience, etc. influence the level of impact that the administrative reform has on micro-enterprises' entrepreneurial orientation.

REFERENCES

- ASMED. 2006. Small and Medium Enterprise Development: 5 Year Plan 2006-2010. Hanoi, Vietnam: Agency for SME Development, Vietnam's Ministry of Planning and Investment.
- ASMED. 2009. Vietnamese Small and Medium-sized Enterprises: Agency for SME Development.
- Becherer, R. C. & Maurer, J. G. 1997. The Moderating Effect of Environmental Variables on the Entrepreneurial and Marketing Orientation of Entrepreneur-led Firms. *entrepreneurship: Theory & Practice*, 22(1): 47-58.
- Covin, J. G. & Slevin, D. P. 1991. A conceptual model of entrepreneurship as firm behavior. *Entrepreneurship: Theory & Practice*, 16(1): 7-25.
- GSO. 2009. Statistical Censuses & Surveys: Enterprises General Office of Statistics Vietnam.
- Le, D. D. 2004. Enterprise Law and the Development of the Domestic Private Sector in Vietnam, Hanoi, Vietnam.
- Lumpkin, G. T. & Dess, G. G. 1996. Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance. *Academy of Management Review*, 21(1): 135-172.
- Lyon, D. W., Lumpkin, G. T., & Dess, G. G. 2000. Enhancing Entrepreneurial Orientation Research: Operationalizing and Measuring a Key Strategic Decision Making Process. *Journal of Management*, 26(5): 1055-1085.
- McClelland, D. C. 1961. *The achieving society*. Princeton, NJ: Van Nostrand.
- Morris, M. H. & Paul, G. W. 1987. The relationship between entrepreneurship and marketing in established firms. *Journal of Business Venturing*, 2: 247-259.
- Wang, C. L. 2008. Entrepreneurial Orientation, Learning Orientation, and Firm Performance. *Entrepreneurship: Theory & Practice*, 32(4): 635-657.
- WB. 2009. World Development Indicators, WDI online: World Bank.
- Wiklund, J. 1998. Small firm growth and performance: Entrepreneurship and beyond. Unpublished Dissertation, Jönköping International Business School, Jönköping, Sweden.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.