

# **Innovative Entrepreneurial Approach in Vietnamese Companies**

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*The study aims to encourage understanding of the unique cultural setting and socio-economic factors in Vietnam that may impact how Vietnamese companies embrace innovation. Based on the dynamic capabilities framework we develop propositions and suggest that Vietnamese companies are more likely to consider improvisation rather than a radical innovation. Therefore companies are more likely inclined towards gradual innovation focusing on the development or improvement of products and services customized to local need to improve profitability. The study may have implications in developing universal models in entrepreneurship research in a cross-cultural setting*

## **INTRODUCTION**

The paper reviews two national culture dimensions drawn from the Hofstede cultural values and three socio-economic indicators and discusses how they pose challenges to how Vietnamese companies embrace innovation. To date previous research explored entrepreneurial activities from various dimensions and most of the research suggested that efforts need to be made to include the key contextual characteristics in the environment (Giannetti & Simanov, 2009). Earlier studies revealed the importance of exploring the nature of entrepreneurial activities and innovation, especially in emerging economies, to develop new theories (Bruton, Ahlstrom & Obloj, 2008).

Vietnam is an emerging economy. The GE Global Innovation Barometer research examined factors that could be drivers and deterrents of innovation, and they analyzed specific approaches and policies that both enable innovation and drive growth in 25 countries (GGIB, 2013). The GEM 2013 Report concluded that the need to focus on innovation is among the top three crucial suggestions for future development path for Vietnamese companies (GEM, 2013). The 2014-2015 Global Competitiveness Report ranked Vietnamese companies' innovation as 142 out of 144 (where 1 is the best). The 2013-2016 Swiss Economic Cooperation and Development on Vietnam Country Strategy reported that country specific challenges need to be studied and tackled to improve Vietnamese companies' entrepreneurial pursuits. Based on these specific report findings on Vietnam and previous scholarly research on the need to study the nature of entrepreneurial activities, especially in emerging economies, we determined that studying the role of a few dimensions of national culture and socio-economic factors on the nature of innovative entrepreneurial activities of Vietnamese companies would be timely and worthwhile.

In this paper we review some country specific cultural and socio-economic challenges in Vietnam and develop propositions based on the dynamic capabilities theory. Then we suggest a research agenda for

further empirical research that could help develop country specific programs and policies that will facilitate Vietnamese companies' entrepreneurial pursuits. This study could be used as a framework for future country specific entrepreneurial studies that will shed light into companies' entrepreneurial pursuits.

### **Theoretical Framework**

The framework of this paper is drawn upon the dynamic capabilities perspective. The term "dynamic" refers to the capacity to renew competencies to keep up with the changing business environment. Dynamic capabilities perspective explains the deployment and development of a firm's competencies and resources ((Helfat et al.,2007). Dynamic capabilities refer to organizational practices that a firm has developed to cope with the market environment (Molin, 2001). Firms' capabilities are fashioned and adapted as a response to changing environment.

In other words, dynamic capabilities suggest that in order to move ahead of the competition, firms engage in entrepreneurial activity either through the reformulation of a product's function, or through the development of new manufacturing, or through new methods of distribution channels, or basically through the discovery of dimensions of competition that competitors overlooked. As a sequence, dynamic capabilities induce entrepreneurial activity.

Zahra et al (2006) pointed out that dynamic capabilities can develop in response to various conditions in the external environment. It is suggested that dynamic capabilities relate to the managerial perception of the level of dynamism in the external environment (Ambrosini, et al 2009). The dynamism in the external environment refers to the situation of the changing environmental conditions (e.g., rapidly changing legislations, customer needs, etc.). In sum, a perceived dynamic environment indicates fast paced, rapid, unpredictable changes whereas a perceived stable environment indicates predictable and incremental change.

### **Incremental Dynamic Capabilities**

This type of dynamic capabilities requires incremental adjustments as the perceived rate of change in the external environment is slow (Ambrosini, et al 2009). Therefore firms are more likely to engage in continuous improvement. Incremental capabilities bring an adaptive change. In other words these capabilities bring an incremental innovation that builds on existing knowledge to offer a new product, service, method, processes.

### **Regenerative Dynamic Capabilities**

Regenerative dynamic capabilities are more transformational in nature as the perceived rate of change in the external environment is highly dynamic and turbulent (Ambrosini, et al 2009). Innovative responses are required when the rate of technological change is rapid and the nature of the future competition is difficult to determine (Eisenhardt and Martin, 2000; Teece et al, 1997). Therefore in a perceived rapidly changing environment companies may incline towards adapting "radical" capabilities that fit to their surroundings. Firms are pushed into increased renewal activities moving away from previous practices, towards new dynamic capabilities. Regenerative dynamic capabilities facilitate firms' pursuing breakthrough innovation.

Based on the incremental vs. regenerative dynamic capabilities framework we suggest that firms may incline towards adapting incremental dynamic capabilities and pursue incremental innovation when the perceived change in the external environment is slow. In contrast firms may incline towards adapting regenerative dynamic capabilities and pursue radical innovation when the perceived change in the external environment is fast, dynamic and unpredictable.

## **NATIONAL CULTURE AND ENTREPRENEURIAL PROCESS**

National culture was defined as the norms, beliefs, customs and traditions that exist in a society that inspire members of that society to perform certain actions that are consistent with the culture of that

society (Mathers, 2013). It was found that national culture could influence the rate of entrepreneurial activities in a society (Saeed, Yousafzai & Engelen, 2014; Steffens, 2013; Taylor and Wilson, 2012; Engelen, 2010; Freytag & Thurik, 2010). Societies that promote entrepreneurship facilitate and support the entrepreneurial activity through their political, economic and social climate (Steffens, 2013; Engelen, 2010; Lim, et al, 2010; Giannetti & Simonov, 2009). Societies that value entrepreneurship install effective socio-cultural and socio-economic structures that facilitate the rate of economic activity in a society (Saeed, Yousafzai & Engelen, 2014; Steffens, 2013; Thurik, & Dejardin, 2011; Yamakawa, Peng & Deeds, 2008; McMullen, Bagby, & Palich, 2008; Bowen & De Clercq, 2008;). Next we return to the selected Hofstede cultural values.

### **Uncertainty Avoidance**

Hofstede's uncertainty avoidance reflects the extent to which a society has tolerance for uncertainty and ambiguity (Steers, Sanchez-Runde & Nardon, 2010). High uncertainty avoidance cultures try to reduce the occurrence of uncertainty by installing more formal rules, regulations, strict procedures (Aidis, Estrin & Mickiewicz, 2008; Kreiser, et al, 2010) and bureaucratic barriers (Klapper, Laeven & Raven, 2006). Business and financial transactions have more bureaucracy in high uncertainty avoidance cultures. The rate of entrepreneurial innovation and risky entrepreneurial pursuits were found higher in low uncertainty avoidance cultures than in high uncertainty avoidance cultures (Kreiser, et al 2010). For instance, companies in high uncertainty avoidance cultures tend to avoid risky attempts.

We suggest that in high uncertainty avoidance cultures where the perceived rate of change in the external environment is expected to be slow, companies try to reduce the occurrence of uncertainty through more rules and regulations and. Therefore firms may incline towards adapting incremental dynamic capabilities and are more likely to engage in incremental innovations since these innovations may involve less risk and uncertainty.

Radical entrepreneurial innovations deal with ambiguity, rapid change and necessitate dynamic risk taking (Kreiser, et al 2010). Even if the perceived change of the external environment could be high, low uncertainty avoidance cultures can tolerate uncertainty and failure. In low uncertainty avoidance cultures companies may have relatively high levels of government and business R&D expenditure and venture capital financing, and strong public-private collaborations that could facilitate risky innovative entrepreneurial activities. In sum, when the perceived change in the external environment is fast, dynamic and unpredictable firms may incline towards adapting regenerative dynamic capabilities.

Vietnam is a high uncertainty avoidance culture (Hofstede Centre, 2015). Traditional values of Confucian standards are reflected in every aspect of Vietnamese society and corporate sector (Central Intelligence Agency, 2011; Vuong & Tran, 2009). Confucianism values are found to have a strong influence on the willingness to take risk and pursue radical changes and impose constraints on the entrepreneurial spirit (Vuong & Tran, 2009). Uncertainty avoidance is also found as one of the critical factors that moderate the fear of failure (Wennberg, Pathak & Autio, 2013).

Based on the 2013 Global Entrepreneurship Monitor Report, Vietnam has a very high fear of failure rate (56%) compared to the rest of the world (i.e. the average fear of failure rate in Asia Pacific and South Asia region is 41.5%; Europe-EU is 39.8%; Middle East and North Africa is 38.5%; Europe-Non-EU is 30.8%; North America is 30.3%; Latin American and Caribbean is 28.9% and Sub Saharan Arica is 24.5%) (Amoros & Bosma, 2013). Fear of failure is negatively correlated with entrepreneurial activities (Mitchell & Shepherd, 2010; Welppe et al, 2011; Hessels et al, 2011; Mitchell & Shepherd, 2011).

Based on the 2013 Global Entrepreneurship Monitor (GEM) Report high risk perceptions and high fear of failure rate negatively influence the rate of entrepreneurial activity in Vietnam. For example, Tan Phu, an entrepreneurial company in the electronics industry, inclines toward building long-term brand images; maintaining stability and thereby developing trust and confidence. However, this invaluable asset (i.e. trust) could be easily lost if the company takes risky entrepreneurial moves that could impact the company's performance. Therefore the company focuses on continuously improving the product quality, advancing technology and updating skills.

We suggest that high rates of fear of failure and high risk aversion may hinder disseminating new knowledge and pursuing risky entrepreneurial attempts in Vietnam. Vietnamese companies could be hesitant to take risks for radical innovations and may be more inclined for innovations that are done at a slow pace and planned carefully in order to minimize the potential loss. The competitive strategies and innovative entrepreneurial pursuits are built based on existing knowledge and resources.

#### *Proposition #1*

Uncertainty avoidance influences the nature of the entrepreneurial activity such that in Vietnam, a high uncertainty avoidance culture, companies are expected to be more inclined for incremental innovations than radical innovations.

### **Power Distance**

Power distance measures the extent to which members of society expect that power is distributed unequally (Steers, et al, 2010). Subordinates accept the power of those who are higher on the hierarchical ladder. High power distance cultures have inequality in power and have a more rigid bureaucratic structure. (Kreiser, et al, 2010). The ratings of power distance index and corruption index show a positive and significant correlation (Davis and Ruhe, 2003; Seleim and Bontis, 2009).

Vietnam scores high on the power distance dimension (score of 70) (Hofstede Centre, 2015). The members of society accept a hierarchical order and challenges to the higher authority are not well-received (Hofstede Centre, n.a.). The Vietnam 2014 corruption perception index is ranked 119 out of 175 (Transparency International, 2014). Vietnam scores 31 out of 100, and the country's corruption index score remained the same 2012 through 2014 (Towards Transparency, 2014). Business Anti-Corruption Portal (2014) indicates an increase in high-level corruption in Vietnam creates hindrances for investment and business operation. Vietnam Competitiveness Report indicates corruption is a serious problem and that based on the 2009 Provincial Competitiveness Index (PCI) "there has also been deterioration in other areas of governance; most notably in transparency and informal charges" and also difficulty in accessing documents (Ketles, et al, p. 65).

Regenerative dynamic capabilities perspective emphasizes having privileged information and complex interactions or better insights. Companies in low power distance cultures may be more confident in their entrepreneurial attempts for radical innovations as they may have more autonomy in accessing information, documents and various resources and therefore firms can quickly adapt their capabilities to changing circumstances compared to those in high power distance cultures.

In contrast in high power distance cultures the hierarchical boundaries and the rate of corruption could constrain dissemination of information. In Vietnam the perceived inequality in power and perceived corruption may impact Vietnamese companies' dynamic capabilities as firms may have "limited" access to resources, documents and entrepreneurial initiatives. Thus Vietnamese companies may incline towards gradually renewing its capabilities and embrace incremental innovations that improve existing process and methods instead of radical innovations.

#### *Proposition #2*

Power distance influences the nature of the entrepreneurial activity such that in Vietnam, a high power distance culture, companies are expected to be more inclined for incremental innovations than radical innovations.

### **SOCIO-ECONOMIC FACTORS**

Global entrepreneurship research informed that the drivers of entrepreneurial activity vary in countries as national entrepreneurial framework conditions such as socio-economic factors differ among countries (GEM, 2013; Li and Zahra, 2012). National entrepreneurial framework conditions are correlated with the rate of entrepreneurial activity (Zacharakis, et al, 1999). Socio-economic factors play a crucial role in the nature of inventive activities of a society (Li and Zahra, 2012). In this study we focus on three

socio-economic indicators (economic freedom in general, and financial freedom and government spending, as sub-factors) that relate to the national entrepreneurial framework conditions.

### **Economic Freedom**

Economic freedom is defined as the freedom to compete in markets, freedom to secure and protect individual's property and voluntary exchange. Global Economy Index includes four broad categories: Rule of Law that includes property right and freedom of corruption; Government size that includes fiscal freedom and government spending; Regulatory Efficiency that includes business freedom, labor freedom, monetary freedom and Open Markets that include trade freedom, investment freedom and financial freedom (Index of Economic Freedom, 2015). Economic freedom is found highly correlated with the level of the entrepreneurial activities in a country (Wiseman, and Young, 2013). Economic freedom promotes and facilitates the growth of entrepreneurial dynamism in a country (Miller and Kim, 2015).

The Global Economy Index scores economic freedom on a scale of 0 to 100, where a score of 100 represents the maximum freedom. The 2015 Index of Economic Freedom reports Vietnam's economic freedom score as 51.7, making its economy ranked 32nd out of 42 countries in the Asia-Pacific region (Global Economy Index, 2015; Index of Economic Freedom, 2015). The 2015 Economic Freedom indicated that although the country's economic score had improved 1 point in 2015 in government spending, monetary spending etc. still the overall score of Vietnamese economic freedom is lower than the world average (60.4) and regional average (58.5). Global Property Right Index ranks Vietnamese economic freedom in "mostly unfree" category defining its ranking as the greater the level of government interference in the economy and the less economic freedom. 2015 Index of Economic Freedom indicated the general lack of accountability, obstacles in the property rights and corruption, the lack of efficiency in regulatory framework are some ongoing challenges.

Economic freedom is the essence of market competition. Companies respond to competition and challenging conditions in their external environment by adopting an entrepreneurial behavior through dynamic capabilities. In order to move ahead of the market competition, companies engage in entrepreneurial pursuits either through the reformulation of product's function, or through the development of new manufacturing; or through new methods of distribution channels. Economic freedom is found positively related in the level of entrepreneurial activity in innovation-driven economies (J Díaz-Casero, et al, 2012). Radical entrepreneurial attempts are routinely intense and dynamic. Radical innovation requires high levels of economic freedom as the level of economic freedom will improve incentives that drive radical entrepreneurial pursuits creating more opportunities for breakthrough entrepreneurial attempts.

Vietnam, on the other hand, has a lower ranking in economic freedom compared to the region and world average. We suggest that in Vietnam, the perceived difficulty in accessing economic freedom in many areas such as trade, monetary, labor, etc. may hinder some firms' handling radical attempts in their risky entrepreneurial attempts. Therefore firms may incline towards incremental innovations rather than riskier radical innovations.

#### *Proposition #3*

Economic freedom, a socio-economic institutional factor, plays a role in Vietnamese companies' inclination for incremental innovations than radical innovations.

### **Financial Freedom**

Financial freedom is a socio-economic institutional factor that refers to access to an unrestricted banking environment. Global entrepreneurship Monitor (2013) revealed that the national entrepreneurial framework conditions such as the availability of financial resources are critical in the nature of entrepreneurial activities in a society. Access to finance is important for any entrepreneurial venture (Drori, Honig and Wright, 2009). The lack of adequate credit or access to credit for raising investment capital or heavily regulated banks could hinder radical innovative activities. For instance, heavily regulated banks could be more cautious for giving credit for risky radical entrepreneurial innovations

compared to banks in a less regulated system. Research has in common that radical innovation stimulates economies across nations and access to capital is one of the main drivers of such innovation (Tellis, et al, 2010). Strong socio-economic institutional structure and access to financial resources in a country are positively related to the level of innovation in that country (Huang and Xu, 1999). Swiss Economic Cooperation and Development on Vietnam Country Strategy 2013-2016 indicates that “insufficient investments, the lack of sustainable financing of critical urban infrastructure” (pp.10) and “maintaining a stable macroeconomic environment, building up strong institutions and promoting sound economic framework conditions for private sector development” (pp. 14) are some of the challenges for Vietnam. Limited access to credit is among the major constraints that could hinder entrepreneurial activities in Vietnam (GEM 2013 Report, Triodos Facet, 2013).

The Vietnamese business sector considers regulations, accessing credit, bureaucracy and cost of doing business as among the major obstacles in their entrepreneurial activities (Tran and Santarelli, 2013). GEM Report 2013 shows that in the Asia Pacific South Asia region Vietnam has the second lowest rating (i.e. 2.4) in accessing the entrepreneurial finance, i.e. the availability of financial resources-equity and debt for small and medium enterprises compared to the region average (i.e., 3). Although access to credit has improved since 1988 when the Law on State Bank and Law on Financial Institutions was issued in Vietnam, the entrepreneurial business sector still reports difficulties in accessing credit and credit constraints (Tran and Santarelli, 2013). (Dao et, al, 2014) reported that in Vietnam, about 39% of enterprises have difficulties in accessing credit and experience financial constraints. Some studies stated the lack of collaterals as one of the hindrances in accessing credit for Vietnamese enterprises (Phuong and Wang, 2013). Dao et, al, (2014) administered a survey of 2,552 enterprises in Ho Chi Minh City, Nghe An, Ha Tay, Hanoi and six other provinces. They reported that of 756 Vietnamese firms making loan applications, 206 companies experienced difficulties in accessing credit.

Ketels et al, 2010 (pp.55) stated in the Vietnam Competitiveness 2010 Report that “the private business sector in Vietnam lacks both the intellectual foundations and adequate capital to keep up with the demands of today’s global economy...Lack of adequate capital has also prevented private companies from investing in and upgrading their technology.” The Report (Ketels, et al, 2010, pp.55) also revealed that “Land and real estate speculation is usually far more profitable than investment in upgrading technology, developing new products, or improving worker skills. As a result, this problem has severely diverted efforts of many enterprises from activities that increase productivity and enhance competitiveness.”

Surveying more than 3,000 executives in 25 countries, the GGIB Barometer surveyed opinions of senior business executives actively engaged in the management of their firms’ innovation strategy (GGIB, 2013). The innovation environment of 25 countries was rated to find out how well the policy environment of the country supports innovation. Of the 25 countries surveyed the support of policy environment in Vietnam was rated as one of the lowest (15%) compared to that of Germany (85%), US (84%) and Japan (81%) (GGIB, 2013). Based on the GGIB report we suggest that heavy rules and regulations in the policy environment in Vietnam may increase bureaucracy and impact banks’ standards for collateral requirements and giving credit which in turn may discourage firms’ access to capacity building and innovative entrepreneurial pursuits.

In sum, based on the dynamic capabilities theory, the perceived external environment triggers the internal system of the firm and its dynamic capabilities. We suggest that perceived difficulty in accessing credit and financial freedom in the external environment may hamper firms’ dynamic capabilities in stimulating entrepreneurial initiatives. Radical innovations usually require high and risky transaction costs. The perceived difficulty in accessing to financial credit may hinder some firms’ handling unpredicted changes or ambiguous and adverse circumstances in their entrepreneurial attempts. Therefore firms may incline towards less risky incremental innovations rather than riskier radical innovations.

#### *Proposition #4*

Financial freedom, a socio-economic institutional factor, plays a role in Vietnamese companies’ inclination for incremental innovations than radical innovations.

## **Government Spending on Infrastructure**

Government spending, as a socio-economic indicator, refers to the government spending on infrastructure and human capital provisions. For the purpose of the paper we will mainly focus on the “government spending on infrastructure”. The strength of infrastructure plays a crucial role in the rate of the entrepreneurial activity across different countries. Access to a well-developed infrastructure such as electricity, transportation, communications, water, and a good communications network could facilitate companies’ entrepreneurial pursuits.

In Vietnam, despite the government’s efforts to sustain infrastructure projects and investment at 10 percent of GDP, the still inadequate infrastructure (especially electricity and transportation) causes challenges in the business sector (Gordon. 2011; Nguyen and Dapice, 2009). Based on the World Bank Investment Climate Survey (2009), Vietnamese firms stated “transportation infrastructure” as one of the top three obstacles in the business sector (Triodos Facet, 2013). The World Economic Forum’s Global Competitiveness Report 2010-2011 reported that the access to financing and the inadequate infrastructure supply are amongst the top five constraints in doing business in Vietnam. The World Economic Forum (2014-2015) indicated that inadequate infrastructure is a major problem in the country’s competitiveness. Vietnam’s infrastructure was ranked 139 out of 144 in the Global Competitiveness Report 2014-2015 (i.e. 1 is the best). The Global Competitiveness Report ranked innovation of Vietnam as 142 out of 144 (i.e. 1 is the best). Vietnam’s underdeveloped infrastructure was informed as the major challenge in the manufacturing business sector (69.2%) and non-manufacturing business sector (76.9%) (Nguyen and Dapice, 2009).

The 2013 Country Report Vietnam Private Sector Development reported these obstacles in Vietnam se infrastructure supply. “Quality: Vietnam’s infrastructure remains inadequate as it has not kept pace with economic growth. Priority setting: Public infrastructure projects are used to compensate regions with lower growth. Funding: Government and ODA fall short from annual required investment need of US\$12-\$15 billion.” (Triodos Facet, 2013, pp.22).

The dynamic capabilities theory states that perceived external environment impacts firms’ dynamic capabilities. Based on the dynamic capabilities theory we suggest that that firms’ perception of adequate supply of infrastructure in the external environment helps creating new demand and supply curves which in turn impact firms’ dynamic capabilities for new ideas and resources for radical innovations. In contrast Vietnamese firms’ perceived difficulty in accessing to adequate infrastructure may impact firms’ dynamic capabilities in accessing markets.

Inadequate supply of infrastructure may create an obstacle in firms’ dynamic capabilities, such as access to input and technology, access to markets, capacity building, and hinder Vietnamese firms’ entrepreneurial attempts for radical innovation. In sum, Vietnamese firms’ perceived difficulty in accessing to adequate infrastructure may hinder some firms’ handling ambiguous and adverse circumstances in radical entrepreneurial attempts. Therefore firms may incline towards less risky incremental innovations rather than riskier radical innovations. Therefore based on the reasoning above we suggest the following the proposition.

### *Proposition #5*

Government spending on infrastructure, a socio-economic factor, plays a role in Vietnamese companies’ inclination for incremental innovations than radical innovations.

## **DISCUSSION**

In this study we reviewed the roles of national culture, two of Hofstede’s dimensions, and three socio-economic indicators in Vietnam and we highlight some possible unique challenges in the country that could play a role in companies’ entrepreneurial pursuits. This study aims to set up a theoretical framework and develop some propositions that will shed light to future empirical studies that could lead to further development of country specific policy and programs that will pinpoint the obstacles and help Vietnamese companies’ entrepreneurial attempts. This study could be used as a foundation in future

research on entrepreneurship in Vietnam in developing the government measures that specifically designed to reduce any cultural and socio-economic obstacles. We think that as Vietnam integrates into the global economy such that country specific studies not only facilitate Vietnamese entrepreneurs' innovative attitude through access to necessary resources, expertise, technology, connections with potential partners, business and management training, but could also help reducing the challenges arising from international economic integration and fierce competition from foreign companies.

Further, for future research we also suggest looking at other socio-economic indicators such as country's GDP, regulation and legislations, investment and trade freedom, labor freedom, fiscal freedom, the literacy rate, etc. that could each play a role in Vietnamese companies' inclination for entrepreneurial pursuits.

We also suggest exploring other contingency factors such as regional differences. Regional differences could cause differences in values and subcultures among population in different regions. For instance, there could be cultural variations between North and South Vietnam (Nguyen & Mujtaba, 2013). Therefore another future empirical research that investigates social, cultural and socio-economic differences between these two regions could provide an in-depth understanding on the nature of entrepreneurial activities of Vietnamese companies.

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