

# Chapter 14

## Non–State SMEs in Vietnam: Understanding Strategic Situation and Implications for Organizational Performance

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### ABSTRACT

*Small and medium enterprises (SMEs) which are dominated by non-state SMEs play an important role in economic growth, job creation and poverty reduction in Vietnam. However, most of non-state SMEs in Vietnam are young and contain several limitations in performance. Therefore, finding solutions and strategic orientations to enhance SMEs performance becomes the major concern of the policy makers and business practitioners. To generate the implications pertinent to firms for sustaining high organizational performance in long run, understanding the strategic situation of the firms is a vital step. Thus, based on strategic theory of SWOT and strategy formulation, this chapter aims to: (1) Explore the characteristics of dynamic macro environment for development of non-state SMEs in Vietnam; (2) identify the key firm's features; (3) examine firm performance to identify achievements and constraints; (4) suggest strategic implications for enhancement of SMEs performance toward long-run development of non-state SMEs in Vietnam.*

### INTRODUCTION

For nearly three decades, Vietnam has gained one of the highest rates of economic growth and poverty reduction in the world. There are several factors supported this achievement of which two central determinants are the positive innovation of economic policy and the growth of private sector largely composed of non-state SMEs in Vietnam (ADB, 2013). The effective adoption and implementation of Doi moi (revolution) in 1986 are recognized in Vietnam's economic history as a turning point because

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the renovation boosts the development of non-state SMEs and enables them to be a key part in Vietnam's economy. The renovation was started with a series of the reforms that effectively ended the central planning system of resource allocation in 1989. Reforms, therefore, generated a multi-stakeholder economy under socialist-oriented market mechanism. And the private sector is officially considered as a legal component of Vietnam's economy. Hence, this significant revolution has created a lot of opportunities for non-state sector in Vietnam than ever before.

Following this positive movement was the presence of the Enterprise Law in 2009 that took effect in 2010. This is the second turning-point in Vietnam policy revolution that allows non-state enterprises to do business in all lawful economic industries instead of restrictions placed under central planning mechanism. The legal regulations of procedures for business start-up are also much simpler, that has fostered significantly the development of non-state SMEs in Vietnam.

Besides creating more favorably legal framework for opening market and setting up new business, Vietnamese government also put strong effort in implementing several national action plans and support services. These initiatives stimulate the firm SMEs performance. The deeper engagement in international market of Vietnam also enables local entrepreneurs to be more active. These above movements have created a dynamic development of non-state SMEs which become one of the most important components of Vietnam's economy (ADB, 2013). According to the White Paper 2014 launched by Vietnam Ministry of Planning and Investment, the number of active enterprises has increased rapidly, in just 5 years from 1993 to 1997 there were nearly 20 thousand enterprises established and then increased from 98,833 firms in 2000 to nearly 325,000 in 2008, and to 347,000 firms in 2012 that increased by around 16% per year (VMPI, 2014b). Especially, around 97% of which are non-state enterprises (consists of private enterprise, collective name, limited company, joint-stock company composed of less than 50% from government capital, and joint-stock company without government capital) (VGSO, 2013). In addition, according to statistics of VGSO (2012), the large sized enterprises in the non-state sector account for less than 1% (0.81%). It means that SMEs contributes to more than 99% in total number of non-state enterprise. Furthermore, employment in non-state sector contributes increasingly from 29% in 2000 to 59% of total employment in 2011 (ADB, 2013). Therefore, Vietnam's non-state sector in general and non-state SMEs in particular is truly crucial to economic growth of the country.

It is really a huge achievement to reach such development for SMEs but keeping growth for development in long-run of the whole country is the bigger question. Vietnam SMEs grew rapidly at the beginning stage of positive changing policy and opening market but they are now facing a lot of difficulties. Besides, some favourable drivers from macro-environment and expansion of non-state sector, SMEs especially the non-state SMEs are facing several obstacles from external environment such as administrative procedures, limited access to support services, limited access to finance, poor skilled human resource market and other internal constraints as well. Large number of non-state SMEs has been operating with very poor organizational performance, a lot of them are unprofitable and even dissolved and halted-production (VMPI, 2014a). To find the solution for these raising problems, understanding strategic situation to identify the opportunities, threats, achievements and weaknesses in the light of long-run orientation is a vital step of formulating strategic orientation for both firm and policy makers. With the full landscape of external and internal environment, the solid implications will be generated for both policy makers and business practitioners in stimulating firm performance toward long-term development of non-state SMEs in Vietnam.

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