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How to analyze business sectors in emerging markets:

A new framework applied to the retail sector in Vietnam

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EXECUTIVE SUMMARY

The Consulate General of the Netherlands in Ho Chi Minh City, Vietnam, aims to enhance the economic relationship between the Netherlands and Vietnam. To achieve this goal, the Consulate General, among other things, supplies Dutch companies that are considering entering Vietnam with sector-level information. In this study, a University of Groningen student's master thesis, a step-by-step framework for analyzing business sectors in emerging markets is proposed, so that future sector analyses can be conducted consistently. The framework comprises three different widely acknowledged and applied theories: Whitley's business system theory, Porter's diamond of national competitive advantage, and the resource-based view of the firm. These theories facilitate a comprehensive, detailed analysis of business sectors in emerging markets. Moreover, recommendations concerning entry strategies, i.e. joint venture/acquisition vs. greenfield investment, could be offered based on government restrictions, resulting from the application of Whitley and Porter, and the required critical resources and capabilities, resulting from the application of the resource-based view.

In the present study, the proposed framework is applied to the promising retail sector of Vietnam in order to identify the opportunities and threats for Dutch companies to enter this market. Before actually applying the framework, the status quo of the Vietnamese economy, the economic relationship between both countries, and the retail sector in general and, more in particular, the Dutch retail sector are examined extensively. The economy of Vietnam is one of the fastest growing economies in the world in terms of GDP growth. Besides, the Netherlands and Vietnam are strongly related in terms of FDI and trade turnover. Furthermore, the global retail sector is internationalizing quickly, especially due to the attractiveness of emerging markets for Western retailers. However, Dutch retailers are generally only focused on their domestic markets. Therefore, this study could be a stimulus for Dutch companies to benefit from the growth opportunities that Vietnam has to offer.

Based on extensive desk research and twenty semi-structured interviews with managers at (retail) firms that are already present in Vietnam, the framework is applied step-by-step. Firstly, it turns out that the business system of Vietnam is *state organized* and *fragmented*. The impact of the Vietnamese government on both the economic development and on firm behavior is significant, both through the state companies and through the regulatory constraints it imposes. The majority of firms, however, are small or medium-sized;

characterized with a short-term orientation in terms of employment and business relations, and with fierce competition.

Secondly, the application of Porter's theory results in a detailed analysis of Vietnam's retail sector. The favorable demand conditions are particularly determining the attractiveness of the sector: increasing GDP, increasing disposable income, increasing spending on modern retail, a large and young population, increasing brand awareness, and increasing demand for quality products. However, potential threats are a lack of skilled staff, lack of retail space in Ho Chi Minh City and Hanoi, and high rental costs. In addition, high levels of bureaucracy, corruption, and unclear and fast changing regulations are hampering efficient business processes. On top of that, the government is protecting domestic retailers by subjecting foreign retailers' every further shop after the first one to an Economic Needs Test, which hampers the expansion of business activities.

Thirdly, due to the profound lack of available, skilled retail staff, a sustainable competitive advantage can be achieved by successfully recruiting, developing, and retaining skilled employees, especially regarding management positions. These human resource management capabilities must be developed based on a company's individual, already existing resources and capabilities. Attracting, developing, and retaining talented and experienced employees requires both accurate monetary and non-monetary compensations (e.g. corporate citizenship; focus on individual development).

Finally, recommendations concerning entering the retail sector in Vietnam are offered in terms of either a collaborative or an independent entry strategy. Restrictions posed by the government, the high level of corruption, the importance of relationships, and the lack of available, skilled staff all coincide with a collaborative rather than an independent entry strategy. A joint venture or acquisition allows foreign firms to benefit from talented and experienced employees of a domestic retail firm, which facilitates a quicker entry. As competition is rapidly getting fiercer, also for local, skilled employees, this is a first step to achieving a sustainable competitive advantage. For actually achieving this in the long run, a thorough development of recruiting, developing, and retaining skilled employees is necessary.

ACKNOWLEDGEMENTS

During a five-month internship at the Consulate General of the Netherlands in Ho Chi Minh City I've been working on my graduation paper on the retail sector in Vietnam. Finalizing my master degree in International Business and Management in combination with exploring a magnificent country was an unforgettable experience, for which I owe my sincere thanks to several parties.

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GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
BRIC	Brazil, Russia, India and China
CAGR	Compound Annual Growth Rate
CG	Consulate General of the Netherlands
ENT	Economic Needs Test
EU	European Union
EVD	Dutch Agency for International Business and Cooperation
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
FOE	Foreign-owned Enterprise
GC	General Corporation
GDP	Gross Domestic Product
GRDI	Global Retail Development Index
GSO	General Statistics Office of Vietnam
HR	Human Resource
HCMC	Ho Chi Minh City
IMF	International Monetary Fund
JV	Joint Venture
MNC	Multinational Corporation
PwC	PricewaterhouseCoopers
RBV	Resource-based View of the Firm
SMEs	Small and Medium-Sized Enterprises
SOEs	State-Owned Enterprises
SRV	Socialist Republic of Vietnam
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	United States Dollar
VAR	Vietnam Association of Retailers

VDA Vietnam Distribution Association Network Development Investment Joint Stock Corporation
VRA Vietnam Retailers Association
VRIN Valuable, Rare, Inimitable, Non-substitutable
WTO World Trade Organization
Y-O-Y Year-on-Year

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1. INTRODUCTION

Several sector analyses have been conducted already by students from the University of Groningen at the Consulate General of the Netherlands (CG) in Ho Chi Minh City (HCMC), Vietnam (e.g. the banking sector, the cold chain industry, the wastewater treatment sector and the water supply sector). This research focuses on Vietnam's rapidly developing retail sector, which is among 29 other emerging economies the sixth most attractive country to invest in for retail companies (A.T. Kearney, 2009a). Based on the previous reports written by students from Groningen, it could be concluded that Vietnam is a rather attractive country for Dutch companies to invest in.

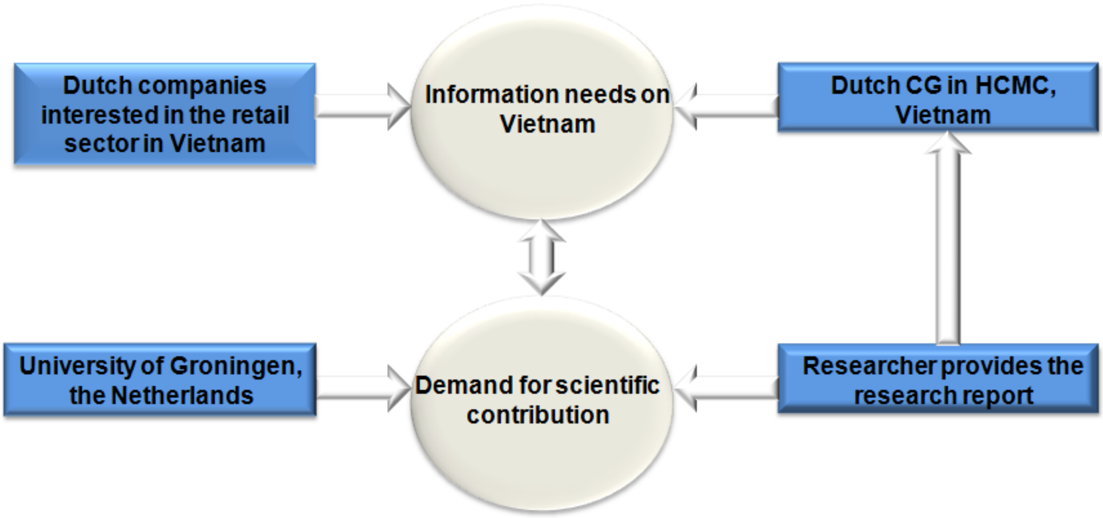
In 2005 the CG in HCMC has requested a framework to analyze business sectors consistently (Smidts, 2006). Although all prior reports have provided valuable and useful information, the requested framework is still lacking. Therefore, this study aims to compose a coherent framework through which emerging countries' business sectors could be analyzed thoroughly. Besides the market-based theories that are already applied before, i.e. Whitley's business systems theory and Porter's diamond of national competitive advantage, the resource-based view of the firm (RBV) will be included as well. Firm resources and capabilities are a primary determinant of competitive advantage in emerging economies (Makhija, 2003), which advocates the application of the RBV. Hitherto, the CG has not been able to provide information to companies concerning firm specific requirements of conducting business in Vietnam. By using the RBV this problem is solved, as this theory facilitates the identification of crucial resources and capabilities that each firm should possess in order to succeed in a given emerging economy's industry (Makhija, 2003). In addition, using the RBV allows for relevant recommendations concerning entry mode choices in emerging markets. Thus, the first objective of this study is to compose a framework for analyzing business sectors in emerging economies.

After that, the framework will be applied to the retail sector in Vietnam. The results of the analysis allow the CG to extensively inform Dutch companies that are considering entering the promising Vietnamese retail sector. The market-based theories and the RBV jointly enable a comprehensive analysis of the retail sector in Vietnam, as well as recommendations concerning entry mode choices in the Vietnamese retail sector. Hence, the next objective of this study is to conduct an adequate analysis of the retail sector in Vietnam, including an examination of the most appropriate entry mode. As the framework for analyzing business sectors is grounded in the CG's need to analyze the retail sector in Vietnam, the main research question of this study is:

"What are the opportunities and threats for Dutch retail companies to enter Vietnam?"

Different parties and information flows are involved in this research (see Figure 1). The CG provides Dutch companies with information if they are interested to invest in Vietnam. By doing so, the trading opportunities between the Netherlands and Vietnam are enhanced. Secondly, as the University of Groningen is a major stakeholder as well, the research aims to contribute to the scientific literature by developing a framework for analyzing business sectors in emerging economies.

FIGURE 1: INFORMATION FLOWS AND STAKEHOLDERS



SOURCE: ADAPTED FROM SMIDTS (2006)

In the remainder of this study, firstly, the research design is described. Next, a framework is composed for analyzing business sectors in emerging economies. Subsequently, background information on the Vietnamese economy, the relationship between Vietnam and the Netherlands, and information on the retail sector in general and, more in particular, on the Dutch retail sector is provided. After that, the framework is applied to the Vietnamese retail sector. Finally, the results are discussed and limitations of the research as well as recommendations for future research are offered.

2. RESEARCH DESIGN

The research design refers to the overall structure and orientation of an investigation (Yeung, 1995). First, the research objective, the main research question, the different sub-questions, and the research demarcations will be delineated. These different components together form the problem statement (De Leeuw, 2000). Subsequently, the methods used and the required data to answer these questions will be explained.

2.1 Problem Statement

2.1.1 Research Objective and Main Research Question

As was already mentioned in the introduction, this study is based on two closely related objectives. That is, (1) developing a framework for analyzing business sectors in emerging economies and (2) the adequate application of the framework to the Vietnamese retail sector. The ground motive of the study is the CG's need to inform Dutch retailers about the retail sector in Vietnam. Accordingly, the main research question of this present research is: *What are the opportunities and threats for Dutch retail companies in Vietnam?*

2.1.2 Sub-questions

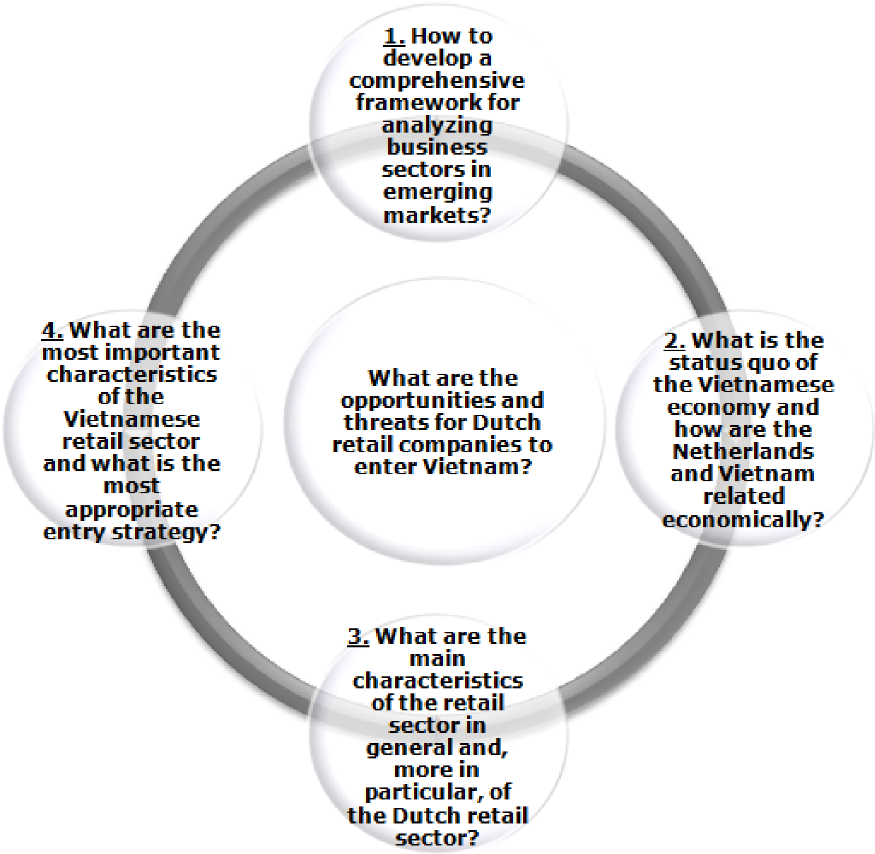
Four different sub-questions are developed in order to eventually answer the main research question. Firstly, a framework for analyzing business sectors in emerging economies will be constructed. Besides market-based information, this framework must allow the examination of firm-specific requirements in the host market. Furthermore, entry mode choices have to be made by foreign investors, which inevitably influence firm performance in the long run (Hill, Hwang and Kim, 1990). Therefore, the framework must contain entry mode choices as well. This leads to the first sub-question: *How to develop a comprehensive framework for analyzing business sectors in emerging markets?*

Before applying the framework to the retail sector in Vietnam it is important to get acquainted with the status quo of the Vietnamese economy. Next to that, the economic relationship between the Netherlands and Vietnam is paid attention to, since the results are eventually aimed at Dutch retailers. Hence, the second sub-question is: *What is the status quo of the Vietnamese economy and how are the Netherlands and Vietnam related economically?*

Then, some clarification on the retail sector in general is needed. Retailing has to be defined in order to demarcate the retail sector, which is very broad in nature. Further, some major trends in the current retailing landscape will be examined. Besides the retail sector in general, focus must be placed on the characteristics of the Dutch retail sector as this study eventually aims to inform Dutch retailers. In line with that, the third sub-question is: *What are the main characteristics of the retail sector in general and, more in particular, of the Dutch retail sector?*

Ultimately, the newly developed framework will be applied to the retail sector in Vietnam. This part of the research comprises the essential information to answer the main research question. The Vietnamese retail sector will be analyzed comprehensively in order to enable the CG in HCMC to inform Dutch retailers about the most significant opportunities and threats in this particular business sector in emerging Vietnam. This includes recommendations concerning entry mode choices; more specifically, to enter the retail sector in Vietnam independently or in collaboration with a local partner. Therefore, the fourth sub-question is: *What are the most important characteristics of the Vietnamese retail sector and what is the most appropriate entry strategy?* Figure 2 presents an overview of the central research question and the four surrounding sub-questions.

FIGURE 2: MAIN RESEARCH QUESTION AND SUB-QUESTIONS[1]



[1] Please refer to Appendix A for a brief checklist per sub-question

2.1.3 Demarcations of the research

Due to time limitations this research is cross-sectional in nature instead of longitudinal, despite the fact that the Vietnamese economy is developing at a rapid pace. This implies that the conclusions concerning the opportunities and threats for Dutch retail companies could have been altered after a relatively short period of time. However, as the sector is currently exceptionally attractive it makes sense to conduct this research now (A.T. Kearney, 2008; A.T. Kearney, 2009a).

With respect to a possible geographical bias, it should be noted that this research is conducted in HCMC. This could possibly impact the results, as the collected primary data will stem from sources in HCMC. Although HCMC could be considered as Vietnam's economic capital, it is important not to underexpose the investment opportunities in other cities or areas. After all, this research is examining Vietnam as an entire country.

2.2 Research classification

This research is qualitative in nature rather than quantitative. By making use of three different theories this study aims to describe the Vietnamese retail sector. At a first glance, it might seem that this research is inductive. However, by combining already existing theories, the study does not coincide with the definition of induction by Gill and Johnson (2002: 40): "induction is the reverse of deduction as it involves moving from the 'plane' of observation of the empirical world to the construction of explanations and theories about what has been observed". Still, a new framework is to be developed that could be used as a tool in order to conduct a market analysis. This framework will not be based on observations of the empirical world, but will be constructed *a priori*. After that, the framework will be applied to the Vietnamese retail sector. Therefore, the analysis of the retail sector can be regarded as a case study. According to Gummesson (2006), qualitative approaches such as case study research can be used to put variables and categories in a context, providing more realistic and relevant information than in a traditional quantitative approach.

2.3 Methods

2.3.1 Desk research

Different methods are used to collect the necessary data, which is also called 'triangulation' (Gill and Johnson, 2002). The most important method used in this study is literature research. By using already existing methods and theories the retail sector will be analyzed. The literature used consists of scientific articles in the field of international business and management, reports by commercial firms and government institutions, and books. (Online) newspaper articles on the retail sector were published plentifully during the period this research took place. However, these articles are always interpreted cautiously, since freedom of press is still limited in Vietnam.

2.3.2 Semi-structured interviews

Next to conducting desk research, primary data are collected as well. The primary data, complementary to the secondary data, will be collected through a number of qualitative semi-structured interviews with managers at retail companies that already entered Vietnam. These interviews are not conducted in order to quantitatively test the theories used, but rather serve as a complementary, practical source of information. According to Yeung (1995), it is unlikely that executives manage their operations in a theoretically standardized manner, so there is a need for a closer and more personal approach to research as well. As the number of Dutch retail companies that already entered Vietnam is rather limited, foreign retail companies are contacted instead. Besides interviewing managers at retail companies, managers at industry-related companies are interviewed as well in order to get a broader view of the sector.

In semi-structured interviews some questions may be prepared beforehand, which does not imply that there is a complete script such as with structured interviews. Hence, the interviewer is required to be able to improvise upon the answers of the interviewee (Myers and Newman, 2007). This type of interviewing is chosen in order to create an interactive conversation, in which the interviewer is able to ask more in-depth questions with respect to specific areas of interest. In accordance with that, Myers and Newman (2007) accentuate the flexibility inherent in semi-structured interviews as a major advantage in comparison with entirely structured interviews. In addition, Yeung (1995) emphasizes the importance of interpreting the data and information obtained from these interviews in context. That is, the interviewer should be cautious how and why the interviewee gives certain answers. The social nature of interviews, i.e. the power relations and other situational aspects, should be a major concern for good qualitative interviewers (Yeung, 1995). In using qualitative interviews there are many potential problems and pitfalls, e.g. a lack of trust on the part of the interviewee, a lack of time, Hawthorne effects[2] and it is even possible to offend or unintentionally insult an interviewee (Myers and Newman, 2007). These potential (social) problems, among others, are taken account of during the interviews.

2.4 Data collection

Twenty persons were interviewed in order to collect the required primary information (see Figure 3[3]). Most of the interviewees are either directors or managers at domestic or foreign retail companies in Vietnam. Some were contacted through the network of the CG, as for example Unilever and FrieslandCampina. However, as the CG's network mainly consists of Dutch companies, it was necessary to actively search for other potential interviewees at Vietnamese and foreign companies. Accordingly, social and business events were visited in order to get in touch with interesting people. Almost all interviews were eventually arranged through networking, since cold mailing and calling did hardly lead to new participants. The retail sector is rather broad in itself, which is also reflected through the varying functions of the interviewees. The most important criterion for selecting the participants was principally whether a person could be considered either an expert on the Vietnamese business system or an expert on the retail sector in Vietnam. Most interviewees have been working in the retail sector for a long time and could hence be considered experts on doing business in Vietnam. Moreover, the diverse occupations of the interviewees is in accordance with the CG's need to inform a broad range of interested retail companies, instead of being focused on one specific aspect of the retail business in Vietnam.

On average the interviews lasted approximately an hour and a half. Some interviews took more than two hours, as sometimes the interviews ended up in a thorough discussion. Other interviewees had limited time and tried to arrange their time several weeks in advance in order to have a 45-minutes interview. Notes were taken during the interview and immediately processed after the interview. In some cases, the interviewee demanded a copy of the processed notes in order to confirm and/or fill up the digitalized notes. Most of the interviews took place at the office of the interviewee, while in several cases a Vietnamese coffee bar was visited to conduct the interview. A brief subjective commentary on the process of interviewing can be found in Appendix B.

[2] Gill and Johnson (2002:60) refer to this phenomenon as follows: "the way in which the novelty of experiencing a new situation, together with their sense of being a special group that had become focus of attention, influenced the participants' response to their situation".
[3] For privacy reasons the names and company names of the interviewees are not published.

FIGURE 3: LIST OF INTERVIEWEES

No.	Name	Company	Function	Date
1	Anonymous	Anonymous	Senior partner	16 September 2009
2	Anonymous	Anonymous	Economic officer	17 September 2009
3	Anonymous	Anonymous	GM/Marketing Manager	18 September 2009
4	Anonymous	Anonymous	Chairman	22 September 2009
5	Anonymous	Anonymous	Director Project Development South-East Asia	23 September 2009
6	Anonymous	Anonymous	Owner and Manager	25 September 2009
7	Anonymous	Anonymous	Marketing and Commercial Manager	27 September 2009
8	Anonymous	Anonymous	Operations Director Shopping Malls	28 September 2009
9	Anonymous	Anonymous	CEO /Chairman	28 September 2009
10	Anonymous	Anonymous	Owner/Director	29 September 2009
11	Anonymous	Anonymous	Sales and Marketing Director	29 September 2009
12	Anonymous	Anonymous	Director	29 September 2009
13	Anonymous	Anonymous	Marketing and Sales Manager	1 October 2009
14	Anonymous	Anonymous	Assistant to Retail CEO	2 October 2009
15	Anonymous	Anonymous	Vice President Customer Development	5 October 2009
16	Anonymous	Anonymous	Sales and Marketing Manager	5 October 2009
17	Anonymous	Anonymous	Owner/CEO	6 October 2009
18	Anonymous	Anonymous	President	6 October 2009
19	Anonymous	Anonymous	General Director	7 October 2009
20	Anonymous	Anonymous	CEO	12 October 2009

2.5 Reliability

Gill and Johnson define reliability as (2002:228): “A criterion that refers to the consistency of the results obtained in research”. In other words, reliability consists in ensuring that a research can be repeated leading to the same results obtained by different researchers (Delattre, Ocler, Moulette and Rymeyko, 2009). The information that is collected through the semi-structured interviews could suffer from a limited reliability, as interviewing is a rather personal process. Furthermore, the information provided by the interviewees could be biased both as a result of possible misinterpretation of the interviewer and of the interviewee. Furthermore, one of the limitations of qualitative approaches in general is that the subjectivity of the researcher and the subjects studied should be taken into account (Delattre et al., 2009).

When the retail sector in Vietnam will be researched in the future based on the same theoretical framework it is highly unlikely that this future study will result in the same results. Thus, it could be argued that the reliability of this research is rather limited. However, in international business research it is unlikely that a different researcher will obtain exactly the same findings under different research contexts (Yeung, 1999).

2.6 Validity

According to Gill and Johnson (2002: 128) “validity refers to the extent to which a scale encoded into a set of questions actually measures the variable it is supposed to measure, i.e. the accuracy of the measurement process”. Regarding the validity of the research, a distinction is drawn between on the one hand the internal validity and on the other the external validity. Delattre et al. (2009:35): “The *internal validity* of the research consists of ensuring the relevance and the internal coherence of the results obtained in the study. However, the *external validity* in a research concerns the possibility of applying the results obtained in the sample to other elements in different time and place situations”.

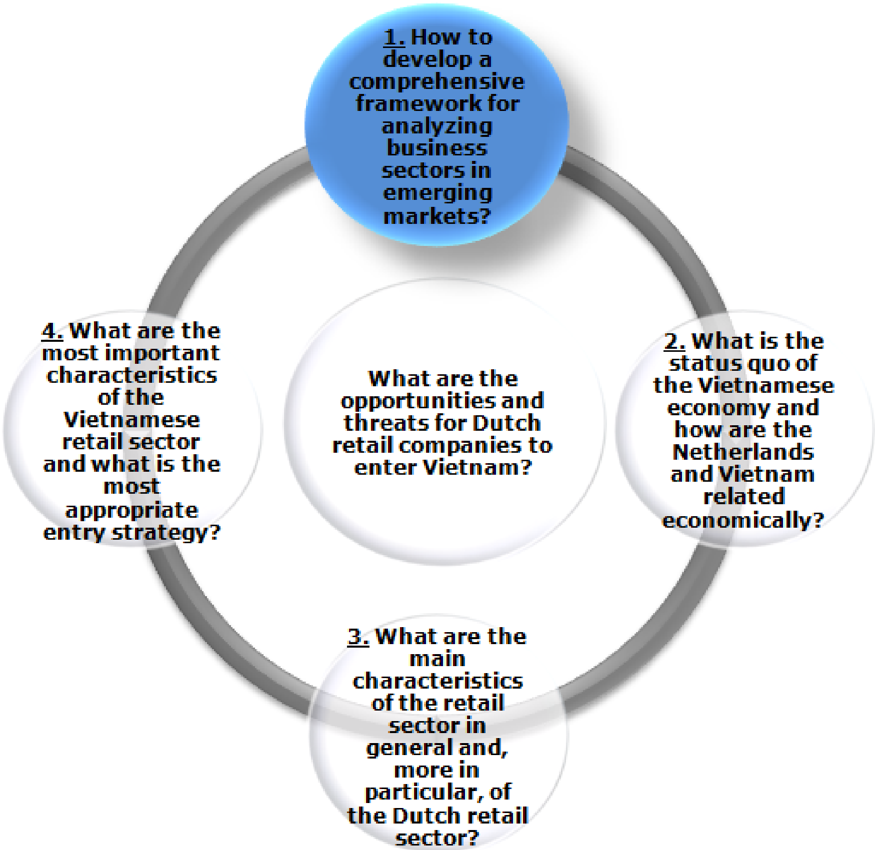
The internal validity of this study is sufficient, as applying these three models and the semi-structured interviews ensures that a rather relevant, internally coherent and comprehensive overview of the sector can be provided. In addition to the semi-structured interviews, scientific articles regarding FDI in relation to entry mode decisions are used in order to provide entry mode recommendations. In short, the internal validity of this research is satisfactory.

With respect to the external validity of this study it should be noted that the framework used can be applied to different sectors in Vietnam, as well as to randomly selected sectors in other countries. Further, the framework could also be applied in different time situations. Previous studies (Smidts, 2006; Velderman, 2007; Van Wasbeek, 2007) showed that jointly applying Porter's diamond and Whitley's business systems theory results in valuable sector analyses. By including the RBV, a more comprehensive framework is developed, which takes both the external and the internal context of the firm into account. These three theories have never been used altogether, which implies that in this study a gap in the literature is filled. Except for Whitley's business systems theory, it is self-evident that the results of the separate analysis of the Vietnamese retail sector cannot be automatically applied to other sectors in Vietnam, neither to sectors across Vietnamese borders. As Vietnam is a rapidly developing country, the results of the analysis could be outdated in a relatively short period of time.

3. DEVELOPING A FRAMEWORK FOR ANALYZING BUSINESS SECTORS IN EMERGING MARKETS

The goal of this section is to develop a framework through which a business sector can be systematically analyzed (see Figure 4). The following theories are included: Whitley's business system theory, Porter's diamond and the RBV. All three models will first be discussed before they are integrated into one single model. Arguments are provided in order to explain why these theories are used.

FIGURE 4: FOCUS OF SECTION 3



3.1 Whitley's Business Systems Theory

3.1.1 Introduction to Whitley's business systems theory

Whitley has developed a theory through which a business system could be classified and described in terms of patterns of economic coordination and control in market economies. Business systems are defined as follows:

> *"Business systems are conceived as distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts, and other employees."*
>
> Whitley (1999: 33)

From this definition it becomes clear that the most important theme regarding the identification of business systems is *coordination*. More in particular, the coordination of economic behavior in the structure of ownership of firms, in inter-firm networks and inside firms (Redding, 2002). Redding (2002) stresses both the evolutionary character of the development of Whitley's business systems and the assumption that market forces shape the outcomes of this development process. Due to the path-dependency of business systems, the evolutionary development process and inter-dependency with societal institutions business systems are long-term in nature. Thus, business systems do not change rapidly or in response to individual companies. However, a business system can change as a result of significant restructuring of economic relationships and require significant institutional reforms (e.g. the reforms in Germany after World War II or the transformations of the former state-socialist societies) (Whitley, 1998).

Based on a set of coordination mechanisms and processes, Whitley (1999) distinguishes six different business systems. Next to the more difficult to grasp concept of 'market economies', individual nation-states path-dependently develop distinctive business systems on a national level (Whitley, 1999). Consequently, the business systems theory can be macro-economically applied to individual countries, which positively impacts its appropriateness to conduct market sector analyses. After all, entering a foreign market inevitably results in dealing with the country's unique patterns of economic coordination. The identification of a country's business system can provide companies that are considering entering with valuable country-specific information.

3.1.2 Business-system characteristics

The coordination of economic behavior can be identified through eight business-system characteristics. The eight dimensions are grouped under the ownership of firms (*ownership coordination*), inter-firm networks (*non-ownership coordination*), and the management inside firms (*employment relations*). By ascribing these dimensions to a country its business system can be assessed. Whitley (1999) distinguishes six ideal business-systems types (see Figure 5), on which a brief discussion will follow in the next sub-section. First, the characteristics are explained into more detail.

FIGURE 5: BUSINESS SYSTEM TYPES AND CHARACTERISTICS[4]

Business-system characteristics ⇩	Business-system type					
	Fragmented	Coordinated industrial district	Compartmentalized	State organized	Collaborative	Highly coordinated
Ownership coordination						
Owner control	Direct	Direct	Market	Direct	Alliance	Alliance
Ownership integration of production chains	Low	Low	High	High	High	Some
Ownership integration of sectors	Low	Low	High	Some to high	Limited	Limited
Non-ownership coordination						
Alliance coordination of production chains	Low	Limited	Low	Low	Limited	High
Collaboration between competitors	Low	Some	Low	Low	High	High
Alliance coordination of sectors	Low	Low	Low	Low	Low	Some
Employment relations						
Employer-employee interdependence	Low	Some	Low	Low	Some	High
Delegation to employees	Low	Some	Low	Low	High	Considerable

SOURCE: WHITLEY (2009: 34)

The three characteristics, labeled as *ownership coordination*, deal with variations in the degree of ownership relations and the role of ownership in coordinating activities. The primary means of owner control concerns the relations between owners and controllers of private property right and controllers of economic resources and activities. As can be seen in Figure 6, three owner-control types can be distinguished: *direct* control of firms by owners, *alliance* control (a considerable part of strategic decision-making is delegated to managers), and *market* control. To assess a country's owner-control type six different aspects should be taken into account (see Figure 6) (Whitley, 1999).

[4] The varying degree of the characteristics is described as: *low, limited, some, considerable, and high*.

The second and third dimensions to assess the coordination of ownership control refer to (1) the extent of ownership integration of production chains and (2) across sectors. Ownership integration of production chains refers to vertical integration, whereas ownership integration across sectors refers to unrelated, horizontal diversification. Whitley (1999) underlines the interrelatedness of the three *ownership coordination* characteristics. For instance, market forms of ownership are usually characterized by a relatively high degree of risk-spreading through horizontal diversification across sectors. In contrast, in direct forms of ownership exposure to risk and uncertainty is not likely to be managed through horizontal diversification due to a lack of owners' knowledge and expertise of unknown fields.

FIGURE 6: CHARACTERISTICS OF THE THREE OWNER-CONTROL TYPES

Characteristics			
	Direct	Alliance	Market
Involvement in management	High	Some	Very low
Concentration of ownership	High	Considerable	Low
Owners' knowledge of business	High	Considerable	Low
Risk-sharing and commitment	High	Considerable	Low
Scope of owner interest	High	Considerable	Low
Exclusivity of ownership	Considerable	Limited	High

SOURCE: WHITLEY (1999: 35)

The next set of business-system characteristics is categorized as *non-ownership coordination*. Non-ownership linkages of inter-firm relationships, such as alliances, are another means to integrate activities. The three different types of inter-firm relationships Whitley (1999) includes into his model are (1) *alliance coordination across production chains*, (2) *collaboration between competitors*, and (3) *alliance coordination of sectors*. To assess the degree to which these characteristics apply to a particular business system, in general, the contrast between, on the one hand, zero-sum, adversarial contracting and competition and, on the other hand, cooperative, long-term, and mutually committed relationships between partners and competitors should be examined (Whitley, 1999). The ownership and non-ownership dimensions are logically correlated. For example, direct owner control forms are unlikely to be associated with (long-term) relationships with competitors due to the strong personal identity with the firm and reluctance to share information or control (Whitley, 1999).

Finally, the remaining two business-system characteristics are dealing with *employment relations and work management*. The nature of the relationship between employers and employees in terms of commitment and duration of the relationship is referred to as *employer-employee interdependence*. The extent of mutual dependence is great in countries where long-term commitments between social partners are prevalent. On the contrary, in countries with a highly mobile and flexible labor market employer-employee interdependence is rather marginal. *Delegation to, and trust of, employees* is the final dimension of business systems and concerns patterns of work organization and control. All in all, the eight business-system characteristics exhibit particular interdependencies and result in six different ideal business-system types (Whitley, 1999).

3.1.3 Six different business systems

Figure 5 presents the levels to which the eight characteristics are set to each of the six business systems. The implications are now briefly summarized for each business system. *Fragmented* business systems are associated with small owner-controlled firms that strongly compete with each other. Ownership integration of production chains and across sectors is low and non-ownership inter-firm relations are scarce. Furthermore, an efficient external labor market causes short-term employer-employee relationships and results in a low level of trust and delegation. Whitley (1999) adds that fragmented business systems are often associated with short-term commitments to technologies, skills, or markets.

Although *coordinated-industrial-district* business systems are also dominated by small owner-controlled firms, the degree of non-ownership coordination is slightly higher than in the fragmented business system. Moreover, employer-employee relationships rely more on worker commitment and trust, but still to a limited degree (Whitley, 1999).

In *compartmentalized* business systems activities within production chains and across sectors are integrated by large companies that are owned by shareholders through financial markets. On a non-ownership level the degree of cooperation is particularly low, just as the interdependency and degree of trust between employers and employees (Whitley, 1999).

State-organized business systems are dominated by large, mostly family-owned, firms. Horizontal and vertical integration of activities is high, which is arranged through a unified administrative apparatus. The economic development in state-organized business systems is strongly dependent on government policy. Inter-firm relationships through alliances, i.e. non-ownership coordination, are strictly uncommon, which is in line with the strong ties of vertical dependence both between firms and the state and within enterprises (Whitley, 1999).

Collaborative business systems are particularly associated with collective organization and cooperation between competitors, whereas horizontal diversification across sectors is limited. Large firms are dominating the market and cooperation is conducted through alliances, in which a considerable part of strategic decision-making is delegated to managers. Consistently, managers are delegating important tasks to their employees (Whitley, 1999).

Highly coordinated business systems are, just as collaborative business systems, dominated by alliance forms of owner control. Both within and between sectors the level of integration of activities is high in this business system type, which is mirrored through the existence of extensive intra- and inter-sectoral alliances and networks. Employer-employee interdependence is typically very strong in highly coordinated business systems (Whitley, 1999).

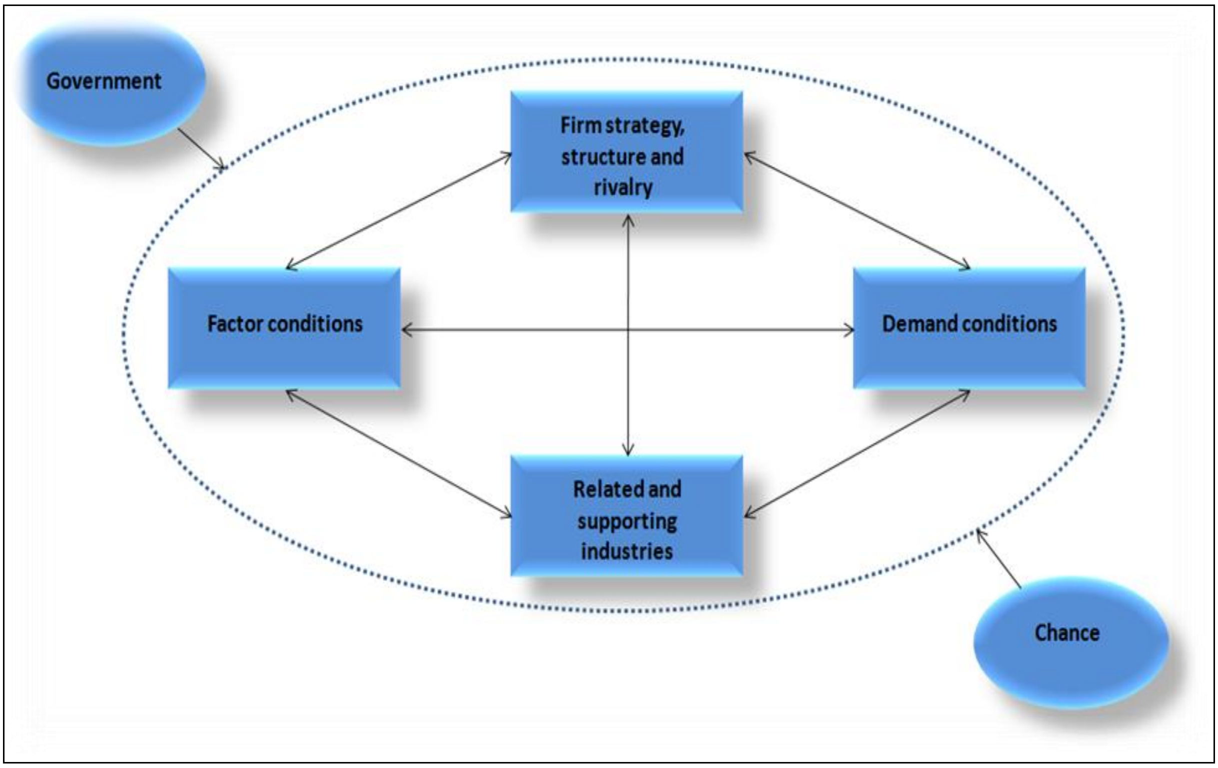
3.2 Porter's Diamond

3.2.1 Introduction to Porter's diamond model of national competitiveness

Porter (1990) developed a model through which a country's national competitive advantage can be assessed. The following question serves as a point of departure in his book: "Why do some social groups, economic institutions, and nations advance and prosper?" (Porter, 1990: xi). This question naturally corresponds with the primary objective of the book, which is to explain why particular countries succeed in particular industries. The nation provides firms a home base, which is viewed as a set of contextual variables that influence the competitive advantage of firms and industries (Porter, 1990). Grant (1991) emphasizes that Porter's theory of competitive advantage encompasses both trade and direct investment. As exports and direct investment flows are highly correlated and driven by the same country-specific effects (e.g. national economic structure, culture and history) Porter (1990) does not distinguish *international competitive advantage*[5] based on direct investment from international competitive advantage based on exports.

[5] "*International competitive advantage* is measured by either the presence of substantial and sustained exports to a wide array of other nations and/or significant outbound foreign investment based on skills and assets created in the home country" (Porter, 1990: 25).

FIGURE 7: PORTER'S NATIONAL DIAMOND



SOURCE: PORTER (1990)

The framework, referred to by Porter (1990) as the 'national diamond', to assess a country's competitive advantage consists of six interacting determinants (see Figure 7). The diamond has been applied by many researchers (e.g. Sagheer, Yadav and Deshmukh, 2007; Vega-Rosado, 2006; Hodgetts, 1993) in order to assess why a country's particular industry achieves international success while other industries do not. The objective of this paper is not to identify a country's successful industries. Instead, Porter's diamond is used as it facilitates a comprehensive examination of a particular industry. The application of the diamond results in a comprehensive overview of all relevant aspects that influence the nature and status-quo of a sector. The resulting knowledge about the nature and sources of competitive advantage within a particular sector enables companies to adapt their strategies in order to become more competitive (Porter, 1990). Next to that, the elements that are included do not conflict with plain managerial language and hence facilitate the provision of concrete and straightforward recommendations to companies that are active in a particular sector (Smidts, 2006).

3.2.2 The determinants of the diamond

As can be seen in Figure 7, the diamond consists of four interacting determinants of national competitive advantage. The four elements that jointly give shape to the diamond are influenced by two additional variables, i.e. the *government* and *chance*. In the remainder of this sub-section an explanation of the six influences on competitive advantage is provided.

Factor conditions form the core of the traditional theory of international comparative advantage. Porter's contribution is a more detailed analysis of the characteristics of factors of production, the processes by which they are created and, importantly, the influence on firm's competitiveness (Grant, 1991). Porter (1990) distinguishes between basic factors (e.g. natural resources, unskilled labor, climate, location, and demographics) and advanced factors of production (e.g. (communications) infrastructure, skilled labor and research facilities). In contrast to the basic factors of production, advanced, specialized factors of production can generate sustained competitive advantage, because these are a product of significant and long lasting investment by individuals, companies, and governments. Therefore, advanced factors are difficult to duplicate and cannot be easily acquired by others.

Porter (1990) places emphasis on the *demand conditions*, as home demand determines the degree of pressure on companies to develop advanced factors of production and thereby improves their competitiveness. Highly-demanding home buyers create pressures for innovation and quality (Grant, 1991). Furthermore, the home demand conditions are an important proxy to estimate future turnover rates that can be achieved in a particular country (Smidts, 2006).

The '*related and supporting industries'* element refers to the mutually beneficial exchange of information between companies that are either vertically or horizontally connected to each other. For example, developing close relationships with highly competitive suppliers could facilitate a continuous exchange of ideas and innovations (Porter, 1990). Next to cooperating with supporting industries in the vertical business chain, exchanging information with more horizontally related industries could also offer opportunities to increase an industry's competitive advantage. That is, complementing and overlapping activities can be synergized and consequently result in competitive advantages for both industries (Porter, 1990).

Firm strategy, structure and rivalry deal with systematic differences in the characteristics of business sectors of different countries. These characteristics are important determinants of the competitive advantage of industries. The way in which firms are organized and structured is affecting firm strategy. In addition, Porter (1990) points out that managerial practices and individual attitudes might differ among business sectors. According to Grant (1991), the most interesting relationship that is identified by Porter is between domestic rivalry and sustained competitive advantage. Intense competition between domestic companies enforces them to innovate, improve quality and cut costs. Porter (1990) argues that the nature of competition among domestic companies tends to be more emotive and personal than competition between domestic and foreign companies.

The four elements are interdependently determining competitive advantage, rather than individually. The interdependent variables that form the diamond are simultaneously affected by two additional variables, i.e. the *government* and *chance*. According to Porter (1990), *the role of the government* is to encourage companies to raise their aspirations and move to higher levels of competitive performance. Thus, the government should act as a catalyst and challenger. However, the government could also negatively impact the competitive environment by, for instance, setting restrictive rules, administrative burdens, and bureaucracy. In summary, the government can significantly influence the four determinants of competitive advantage and should be carefully taken into account (Porter, 1990).

Finally, Porter (1990) argues that *chance* is also likely to affect the competitiveness of an industry. That is, the competitive advantage could be influenced by events that incidentally occur and cannot be controlled by companies. Examples of events that could cause discontinuities in a country's competitive advantage are wars, break-through inventions, major shifts in financial markets, and natural disasters. These events can both positively and negatively affect the other elements of the diamond (Porter, 1990).

3.3 The Resource-based View of the Firm

3.3.1 Introduction to the RBV

As one of the most widely accepted theories in the strategic management field the RBV argues that resources and capabilities are a source of sustained competitive advantage (Newbert, 2007; Ambrosini and Bowman, 2009). The general focus of the RBV is on the origins, acquisition, maintenance and erosion of resources and capabilities (Karsten and Gales, 2009). For resources to actually determine a firm's sustainable competitive advantage they should be valuable, rare, inimitable and non-substitutable (VRIN). Valuable resources could exploit opportunities and/or neutralize threats in a firm's environment; rare resources are hardly available among competitors; it should be impossible to imitate these resources;

and there cannot be substitutes of an equal strategic importance (Barney, 1991). However, rareness is only relevant if a resource is valuable, which is only possible if it cannot be imitated easily by competitors or substituted for by another resource (Hoopes, Madsen and Walker, 2003). Although physical resources could determine a firm's competitive advantage, intangible organizational resources and capabilities that are accumulated as a result of the firm's unique evolution and with social complexity, are frequently found to create sustained competitive advantage. Especially in emerging economies VRIN-resources and capabilities will prove to lead companies to more success than competitors that are lacking these. In other words, firm resources and capabilities are a primary determinant of firm value in rapidly changing environments (Makhija, 2003; Zhan, Chen, Erramilli & Nguyen, 2009).

3.3.2 Distinguishing between resources and (dynamic) capabilities

A natural complement to the external, market-based approach to competitive advantage is the RBV (Lockett et al. 2009). Whitley's business system theory and Porter's diamond are focusing on the external environment of the firm, whereas according to the RBV, firm-specific effects are at least as important as external characteristics (Lockett et al., 2009). These firm-specific effects are commonly referred to as resources and capabilities and it is important to draw a distinction between them (Makadok, 2001). Makadok (2001) has drawn one of the clearest distinctions:

> *"A resource is an observable (but not necessarily tangible) asset that can be valued and traded – such as a brand, a patent, a parcel of land, or a license. A capability, on the other hand, is not observable (and hence necessarily intangible), cannot be valued, and changes hands only as part of its entire unit."*
>
> Hoopes et al. (2003: 890)

In their influential paper on dynamic capabilities Teece, Pisano and Shuen (1997) describe resources (e.g. trade secrets and engineering experience) as assets that are firm-specific, difficult to imitate and the transferability among firms is limited due to transaction costs, transfer costs and tacit knowledge that could be included. Tangible resources include financial assets and physical assets, whereas intangible resources include intellectual property assets, organizational assets and reputational assets (Galbreath and Galvin, 2004). Capabilities, on the other hand, enable companies to conduct productive activities by simultaneously deploying resources and factors of production that lack a firm-specific character (Teece et al., 1997). A capability (e.g. marketing capabilities) could both be valuable on its own and, more often, enhances the value of a resource (e.g. brand value) (Hoopes et al., 2003). Galbreath and Galvin (2004) acknowledge that capabilities have been largely favored as the most important determinant of firm performance in the RBV-literature. In this present study both resources and capabilities are classified on the RBV, which is in line with many others (e.g. Hoopes et al., 2003; Makhija, 2003; Sirmon, Hitt and Ireland, 2007; Newbert, 2007).

Studies on dynamic capabilities are complementary to the RBV (Lockett et al., 2009). Teece et al. (1997: 516) define dynamic capabilities as: “The firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”. As a dynamic capability is a process that affects upon resources to develop the most adequate resource-base in the future, a dynamic capability is not a capability in the RBV sense. Although the number of studies on dynamic capabilities has been increasing during the last years, there is still a lack of empirical work on dynamic capabilities (Ambrosini and Bowman, 2009). Since dynamic capabilities are strictly path-dependent (Teece et al., 1997), highly future-oriented and lacking empirical evidence (Ambrosini and Browman, 2009) the concept of dynamic capabilities will not be included in the model.

3.3.3 The role of the manager

In the RBV managers play a crucial role, for managerial capabilities are strongly related to business performance (Karsten and Gales, 2009). In other words, managers’ capabilities can represent a value-creating resource for their firms (Makhija, 2003). In order to match the evolving internal set of resources and capabilities to the changing environment managers should be acting proactively and adaptively. This matching process is strongly influenced by the manager’s subjectivity and perception and relates to three central elements of the RBV: (1) resource functionality (managers should determine the most profitable usage for resources at their disposal and decide *how* the resource is used), (2) resource recombinations (involves capabilities; combining resources that are complementary, related, or co-specialized could add value if the manager perceives there to be an opportunity) and (3) resource creation (dependent on firm’s activities and hence path-dependent, i.e. accumulated rather than acquired in strategic factor markets) (Lockett et al., 2009). In emerging markets investing companies often require resources and capabilities that are highly context-specific.

Usually, these resources and capabilities are not available yet in the organization before entering a foreign market, which leads companies to acquire the required resources and capabilities through acquisitions or JVs. Deciding which context-specific resources are required is an important management responsibility, as well as the consequent decision regarding the method of entering the emerging market (Meyer, Estrin, Bhaumik and Peng, 2009).

3.3.4 The RBV and entry mode strategies

The decision how to enter a foreign market substantially influences long-term firm performance, since reversing the decision *ex-post* would be rather costly (Hill et al., 1990). Moreover, appropriate entry mode decisions lead companies to benefit from location-specific advantages and opportunities in the market (Luo, 2001). On top of that, the importance of entry mode choices is reflected through the fact that it is the third most researched topic in the field of international business and management (Werner, 2002).

Using the RBV allows for the identification of critical resources and capabilities that firms should possess in order to succeed in a country's particular business sector (Makhija, 2003). In addition, using the RBV enables companies to select the most appropriate entry mode strategy in foreign markets. In fact, many scholars have studied entry mode choices from a RBV-approach (Meyer, Wright and Pruthi, 2009). Meyer et al. (2009b) stress that the RBV is particularly suitable for explaining international entry strategies due to its dynamic foundations, i.e. the evolving character of firms' resource bases. Especially in relation to a host country's external context the RBV could offer valuable insights regarding entry mode choices (Mahoney and Pandian, 1992).

In accordance with, among others, Meyer et al. (2009a), the modes of foreign country entry is classified into three types: greenfield, acquisition and JV. JVs and acquisitions require the partial or total integration of a local firm's resources, whereas a greenfield investment does not require this[6]. JVs and acquisitions go hand in hand with pooling resources and capabilities between the foreign entrant and the local firm. In contrast, greenfield projects are started up from scratch and do not provide access to a local firm's resources and capabilities. From the RBV-approach the entry mode choice is mainly determined by the context-specific resources and capabilities, which are required to achieve a competitive advantage. Especially in emerging economies foreign entrants often require resources and capabilities that are

[6] Note that greenfield investments and acquisitions are wholly owned by the foreign investor, whereas joint venturing is characterized by shared ownership.

highly context-specific (Meyer et al., 2009a). In line with that, Meyer et al. (2009a) found a negative, significant relationship between a foreign entrant's need to rely on local resources to enhance competitiveness and entry by greenfield (rather than acquisition or JV).

Most frequently a company's competitive advantage is grounded in its intangible resources and capabilities (Makhija, 2003; Zhan et al., 2009). Meyer et al. (2009b) add that key resources are often embedded in individual professionals. To exploit the individually embedded knowledge, managers are transferred to the host countries. Next to exploiting resources and capabilities, companies choose to enter foreign markets in order to augment their resource base by external access to complementary resources. This is required when the host market requires context-specific resources and capabilities, which will result in a collaborative entry mode, i.e. either an acquisition or a JV (Meyer et al., 2009b). Choosing between a JV and an acquisition could be influenced by many variables. A JV allows the foreign company to target the essential resources and capabilities without having to acquire and subsequently dispose of the unnecessary remainder. On the other hand, firms with prior host-country experience are more likely to acquire a suitable local company instead of setting up a JV. Apart from that, in emerging markets companies often have to deal with restrictions on private and/or foreign ownership. Naturally, these legal restrictions should be taken into account before actually entering a host country (Lockett et al., 2009). In the framework presented in this paper the primary focus is on the choice of collaborative entry modes versus independent greenfield investments.

3.3.5 The added value of the RBV for analyzing business sectors in emerging economies

Each firm has its own unique resource bundle and hence its own unique opportunity set. According to the RBV, firm performance is ascribed to intrinsic differences between firms. Therefore, it is more difficult to generalize research findings that are based on unique resource-bases (Lockett et al., 2009). Although the RBV is primarily based on firm heterogeneity, Makhija (2003) has empirically shown that for companies to be able to successfully compete in new, emerging, competitive economies it is possible to identify critical resources and capabilities that each firm should possess. In contrast to dynamic capabilities, it is even possible to identify resources and capabilities that are specific to a given country or industry. Mainly for these reasons it is decided to include the RBV into the sector analysis framework. Without the ability to identify critical resources and capabilities that are relevant to all firms within a specific sector, i.e. context-specific, it would not make sense to include the RBV into the framework. Moreover, Makhija (2003) challenges future researchers to find out which specific resources and capabilities firms have to possess in order to succeed in specific countries or industries. This study does not respond to that request entirely, since the results can neither be applied directly to different sectors within the same country nor to similar sectors in other countries. However, the discrepancy between Makhija's (2003) request and this study's realization should be interpreted as a source of added value instead of a factor that limits the level of generalizability; that is, companies would profit more from sector-level information that is applicable to one single country than from sector-level information that is overly generalized (i.e. sector-level information that could be applied internationally and/or country-level information that is applicable to all industries within a given nation).

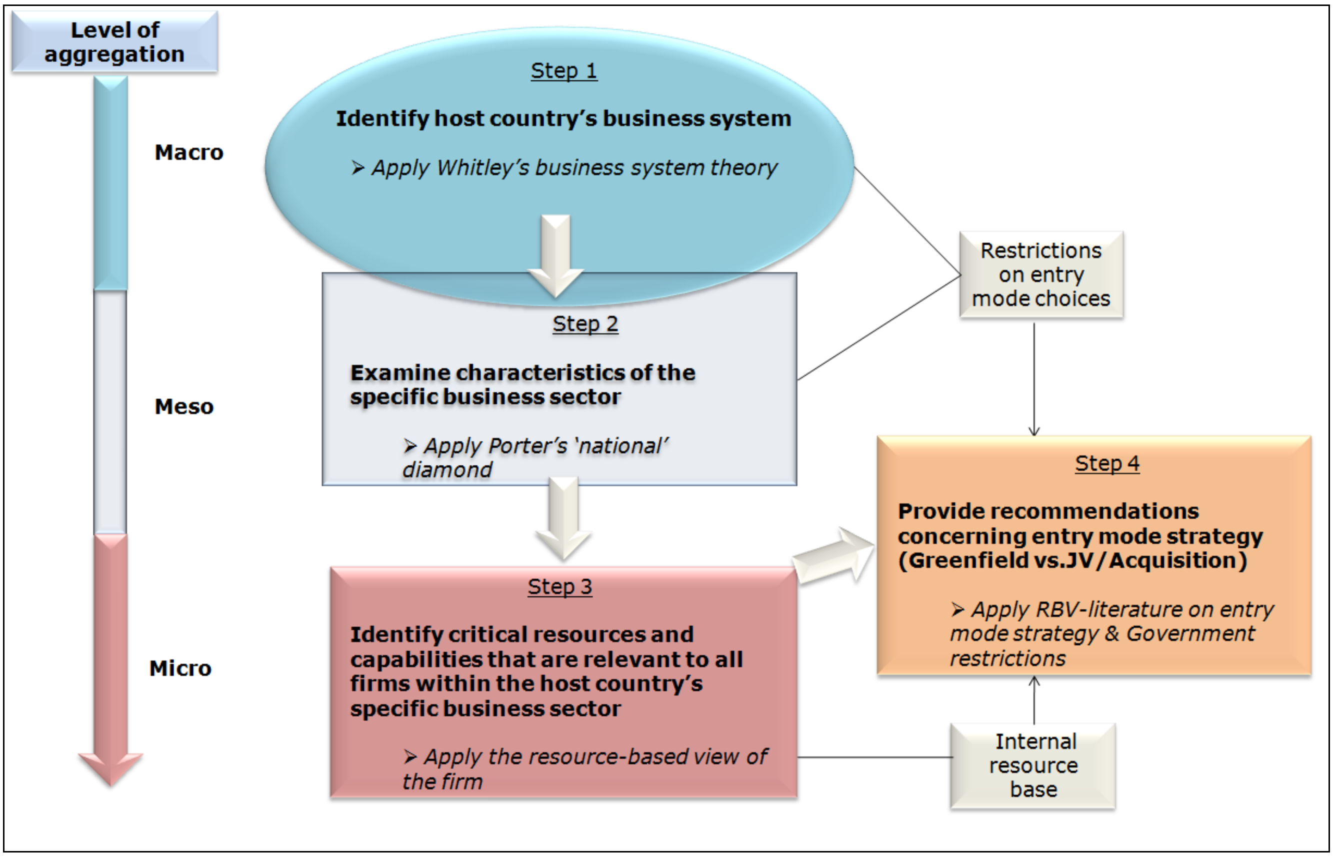
As a complement to the external market-based approach the RBV serves as a means through which a more comprehensive sector analysis can be conducted. By including the RBV this model is not only emphasizing a country's business system and a business sector's determinants of competitive advantage in a particular country. In addition to taking account of external influences on firm performance, this study is concretizing the context-specific firm resources and capabilities that are required to achieve success in a given sector, within a given country. Furthermore, using the RBV allows for recommendations concerning collaborative and independent entry mode strategies.

3.4 Integrating the Three Theories into a Framework

The three different theories discussed above will now be integrated into a framework, which makes it possible to analyze specific business sectors step-by-step. The results of the analysis of a specific sector within an emerging economy will subsequently allow for recommendations regarding entry mode choices.

Although many scholars have approached the RBV as an independent model, this study stresses the complementary character of the theory to market-based approaches (see Figure 8). For firms that are planning to enter an emerging country it is important to get acquainted with the characteristics of the external context in which the company will operate after entry. This market-based information can be acquired through the application of Whitley's business system theory and Porter's diamond of national competitive advantage. At the country level, one of Whitley's six business systems can be assigned to a specific host country. This will provide companies with relevant information about how business is conducted in the country in terms of ownership structure, inter-firm networks and the economic behavior in firms.

FIGURE 8: FRAMEWORK FOR ANALYZING BUSINESS SECTORS IN EMERGING MARKETS



Porter's diamond is used in order to collect comprehensive sector level information, based on the six determinants of the diamond. After having assigned one of the business systems, the next step is to apply Porter's diamond. As could be seen in Figure 8 some aspects of the diamond are overlapping Whitley's theory. More specifically, the related and supporting industries element of the diamond is corresponding with the non ownership element of Whitley's theory. Porter's and Whitley's theories hence address inter-firm relationships on a macro and meso level respectively. The sector level information from Porter's diamond is more specific, but is expected to coincide with the host country's identified business system. The other elements of the diamond that coincide with the business system theory are firm structure and the role of the government. Firm structure corresponds to the coordination of ownership of a business system; the role of the government is, among other things, reflecting the way how a business environment is institutionalized. Therefore, the step 1 and step 2 in the framework are partly overlapping each other.

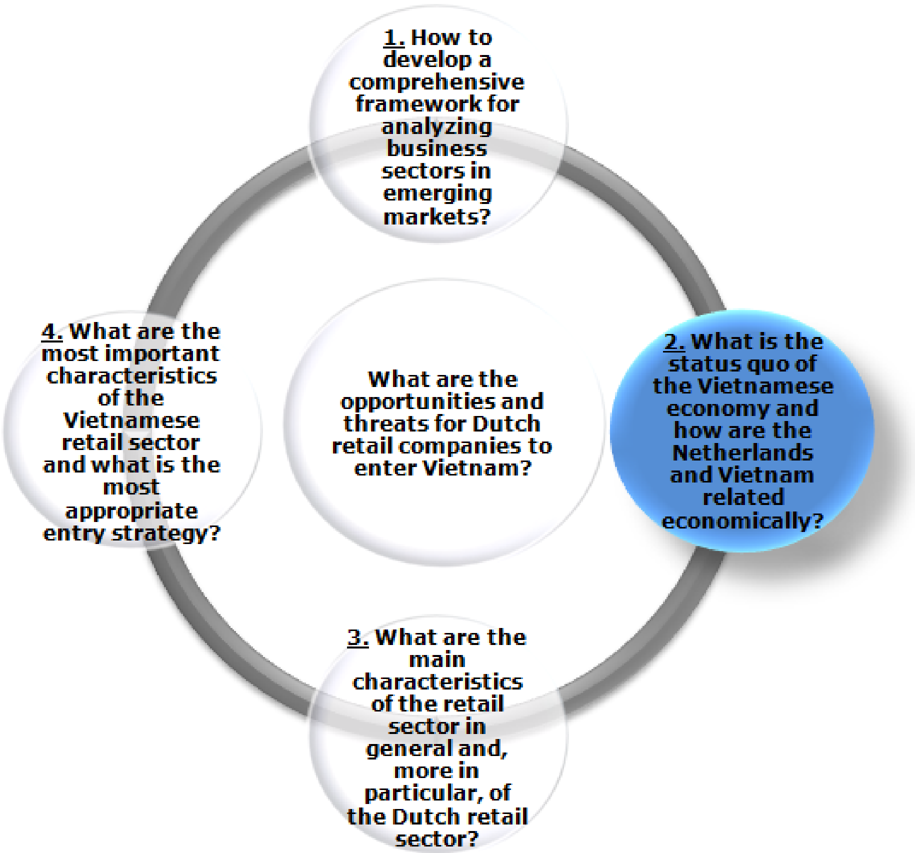
After having analyzed the external macro and sector characteristics through Porter's diamond and Whitley's business systems theory, the third step should focus on the critical resources and capabilities that are required to succeed in a particular business sector within a particular emerging market. As the framework aims to provide relevant information to a group of companies rather than matching an individual firm's resource base to the external environment, the identification of critical resources and capabilities that are relevant for all companies within the industry is the major goal of step 3. Step 3 is a logical consequence of the previous steps, since the characteristics of the externally examined market form the basis of the identification of critical resources and capabilities that are required to succeed. Step 3 is positioned at the micro level of aggregation, since eventually individual firms are informed about the concrete (context-specific) resources and capabilities that are required in a specific national business sector.

The context-specificity of the required resources and capabilities serves as a basis to provide recommendations concerning entry mode choices in the host market. However, the eventual entry mode choice that each individual company has to make is also dependent on their internal set of resources and capabilities. Note that this framework serves mainly as a means through which a comprehensive sector analysis can be made in order to advise a group of companies instead of one individual company. Therefore, individual firms still have to consider their own internal resources and capabilities in order to match these to the external environment in the host market. For that reason, step 4 is positioned at both the meso and micro level. Still, the most important resources and capabilities that are required are usually highly context-specific in emerging economies (Makhija, 2003). Thus, the highly context-specific resources and capabilities are a legitimate determinant of entry mode choice. Besides that, the possible restrictions on foreign ownership levels and the accompanying restrictions on entry mode choices should be considered. In emerging economies national or sector level restrictive policies on foreign ownership often have to be dealt with by foreign investors. As can be seen in Figure 8 the influence of restrictions on entry mode choice also has to be considered.

4. THE VIETNAMESE ECONOMY

This section reviews the status quo of the Vietnamese economy and the economic expectations for the coming years. To understand the current conditions of the economy, the most important historical backgrounds concerning political and economic reforms will be provided at first. After that, macro-level figures on the current status of the economy are noted down, followed by expected future developments and the already existing economic relationship between Vietnam and the Netherlands. Hence, the second sub-question is attended to in this section (see Figure 9).

FIGURE 9: FOCUS OF SECTION 4



4.1. Brief Historical Background

After multiple centuries of ruling under feudal dynasties in Vietnam, the French started to invade in 1858 and colonized the country. Ho Chi Minh, who later became president, founded the Vietnam Communist Party in 1930 and established the Democratic Republic of Vietnam in 1945. Despite a nine-year war (1945-1954) the French could not regain their prior power, as the war resulted in a victory for the Vietnamese. Subsequently, in 1954 the Geneva Agreement was signed, which resulted in the bifurcation of Vietnam into the northern Democratic Republic of Vietnam, led by Ho Chi Minh, and the Republic of Vietnam in the south, which was controlled by a pro-French administration and later by a pro-American administration. From 1959 until 1975 Ho Chi Minh strived to reunify the country, which also resulted in the generally known fruitless invasion of American troops. Finally, in 1973 U.S.-troops were withdrawn from Vietnam; in 1975 the reunification of Vietnam was a fact and renamed into the Socialist Republic of Vietnam (SRV) in 1976 with Hanoi as the capital, whilst Saigon was renamed HCMC. After that, in 1977 Vietnam became a member of the United Nations (UN) (VN Embassy, 2009).

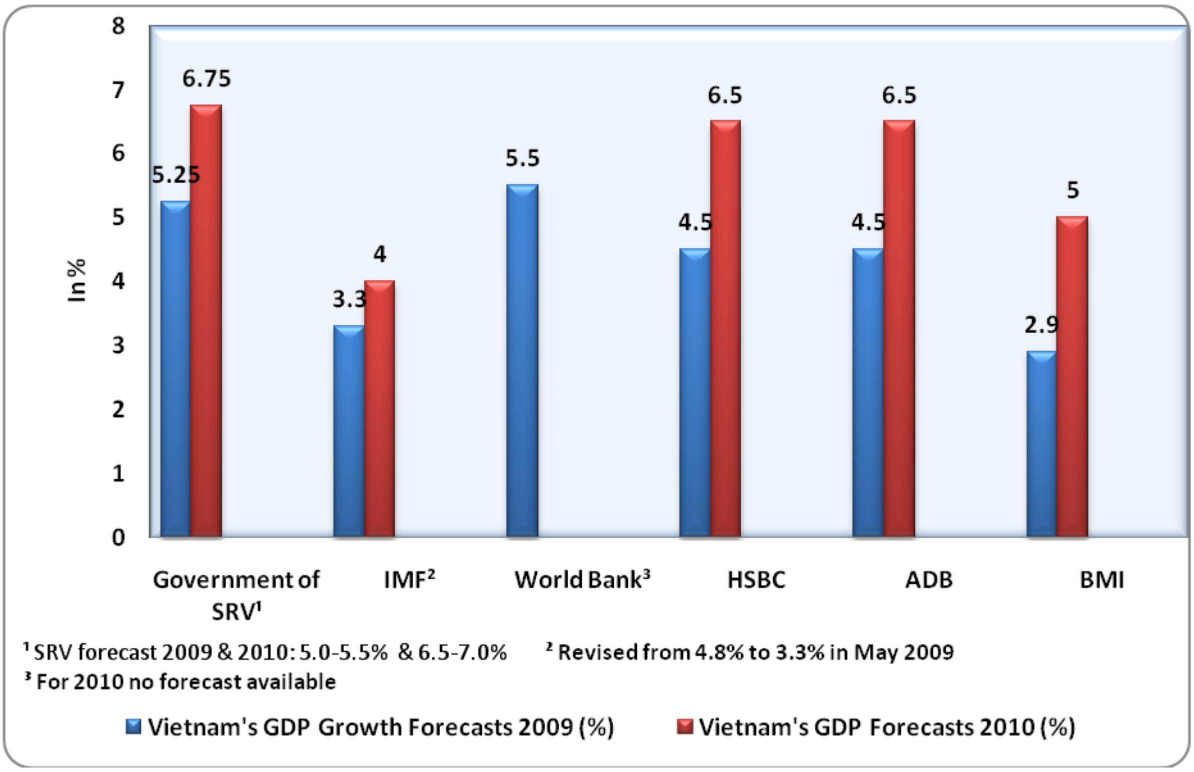
Following the reunification, the economy was managed by the government via strict methods of central planning. Although subsequent central plans allowed more scope for private initiatives, it was evident that the Vietnamese economy was underperforming against its potential. Therefore, at the Sixth National Party Congress in 1986 it was decided to move from a centrally planned economy to an open and socialist-oriented economy. This process of economic reform is also known as Doi Moi, which literally means ‘renovation’. Both the relaxation of central control, the challenge of maintaining rapid economic growth, and the integration into the global economy have been key elements of Vietnam’s economic policy since 1986 (PwC, 2008b). Moreover, the Vietnamese government has been encouraging both domestic and foreign private investment. From the start of Doi Moi Vietnam has succeeded in attracting FDI and by 2006 FDI accounted for already 17% of total domestic investment for development in the Vietnamese economy (Tran, 2008). The openness of the economy is also identifiable through Vietnam’s membership of several prestigious international organizations, including the Association of South-East Asian Countries (ASEAN) in 1995, ASEAN Free Trade Area (AFTA) in 1996, Asia-Pacific Economic Cooperation (APEC) in 1998, and most recently the World Trade Organization (WTO) in 2007 (Tran, 2008).

4.2 Vietnam – Macro Economic Insights

The Vietnamese economy has grown considerably since the initiation of Doi Moi. Since 2001 the Vietnamese economy has been one of the most rapidly growing economies with annual growth rates of 6.8-8.5%. Besides, Vietnam experienced record FDI-inflows and a rapid expansion of the export-focused manufacturing sector during the past eight years (Emerging Markets Monitor, 2008). Moreover, the United Nations Conference on Trade and

Development (UNCTAD) ranked Vietnam as sixth most attractive destination for FDI for the period of 2008-2010. In order of preference, the five most preferred countries for FDI are China, India, United States, the Russian Federation and Brazil (UNCTAD, 2008). The growth of the Gross Domestic Product (GDP) was 8.5% in 2007 and 6.2% in 2008 (Business Monitor International, 2009). For South East Asian countries market growth is a primary determinant of attracting FDI (UNCTAD, 2008). Therefore, it is important to describe both the current and future states of the market in terms of GDP growth rates. The Government of SRV (2009) estimates the GDP growth rate for 2009 at 5.0-5.5%. Figure 10 shows the GDP growth forecasts by respectively the Government of SRV, the International Monetary Fund (IMF), the World Bank, HSBC, the Asian Development Bank (ADB) and BMI.

FIGURE 10: GDP GROWTH FORECASTS (%) 2009 AND 2010



SOURCES: SRV (2009); BMI (2009); HSBC (2009); IMF (2009)

Vietnam suffers from the global economic downturn, i.e. in the first quarter of 2009 Vietnam recorded a 3.1% year-on-year (y-o-y) GDP growth compared to 7.5% in the first quarter of 2008. Although growth was positive, 3.1% is the worst figure since 2000. However, in comparison to other ASEAN countries Vietnam is still one of the fastest growing economies (HSBC, 2009). The exports-to-GDP ratio of 67.8% in 2007 shows the extent to which Vietnam is dependent on its exports. As exports are expected to fall due to the global economic downturn, the importance of domestic demand will increase (Emerging Markets Monitor, 2008). In the first quarter of 2009 total export increased by 2.4%. This is mainly due to exports of rice and gold, since if rice and gold are excluded total exports would have fallen by 15%. Moreover, total imports fell by 45% y-o-y and hence for the first quarter of 2009 Vietnam is estimated to record a trade surplus of USD 1.6 billion (Government SRV, 2009). However, it is important to bear in mind that Vietnam is still in a relatively early stage of its development. Therefore, Vietnam will continue to import enormous quantities of capital and intermediate goods, which results in a structural trade deficit (HSBC, 2009).

Accelerating inflation caused the overheating of the Vietnamese economy at the beginning of 2008. During 2008 the Consumer Price Index (CPI) rose by 23% y-o-y due to rapidly increasing prices for food, housing and construction. Since September 2008 inflation has increased more slowly due to a decrease in global prices and demand for goods. In the first half of 2009 CPI increased by 10.3% y-o-y (CBRE, 2009a).

4.3 Government Stimulus Package and Economic Forecasts

4.3.1 Government stimulus package description

In November 2008 the Vietnamese government adopted a fiscal stimulus package in order to prevent the economy from a further slowdown (LookatVietnam, 2009). By means of a USD 8 billion stimulus package the government aims to minimize the impact of the global economic downturn in order to maintain economic growth and ensure social stability (Government SRV, 2009). Key element of the government's fiscal package is the 4% interest rate subsidy program for which USD 1 billion is allocated. In May 2009 USD 15 billion worth of loans has already been extended under the program (HSBC, 2009). Currently, the ceiling interest rate in Vietnam is 10.5%, so with the 4% interest rate subsidy program enterprises are borrowing at 6.5% at maximum (LookatVietnam, 2009). The interest subsidy program is part of the government's policy of stimulating investments. Besides providing interest subsidies, the government focuses on development investments and key infrastructure projects including social housing, health care, and education. In addition, credit guarantees are provided to companies that import machinery in order to increase production levels. Furthermore, several tax reduction programs are implemented as part of the economic stimulus package. Corporate income tax has been reduced from 28% to 25% and, among other tax relief schemes, tax reductions, tax exemptions or delays for tax payments are given to companies in labor-intensive industries (Government SRV, 2009).

Although some concrete results are already visible from the stimulus package, e.g. the 4% interest rate subsidy, it is still unclear how the government obtained the USD 8 billion. Moreover, apart from the USD 1 billion interest rate subsidy, it is unknown how the money is distributed and assigned to the government's various concerted measures to maintain a strong economic growth.

4.3.2 GDP growth forecasts

As can be seen in Figure 10, the GDP forecasts for both 2009 and 2010 are different among several organizations. Regarding 2009 BMI expects a GDP growth of only 2.9%, whereas the World Bank is most positive with a forecasted GDP growth of 5.5% in 2009. The expectations regarding the economic developments are related to the perceived effectiveness of the government stimulus package. Although BMI expects the government to expand the stimulus package with further monetary and fiscal measures during the remainder of the year, the effectiveness of the package is doubted. However, as the world economy begins to recover, BMI expects a GDP growth of 5.0% in 2010 (Asia Monitor, 2009). In contrast to BMI's vigilant expectations for 2009, the World Bank emphasizes that the economy is already showing signs of recovery as a result of significant growth in the construction sector and higher commodity prices (Bloomberg, 2009). In addition, HSBC and ADB both expect GDP growth rates of 6.5% in 2010. HSBC (2009) lists several reasons for its optimistic forecasts: the Vietnamese economy already benefits from the government's fiscal and monetary policy, regional trade recovery, and improving consumer and business confidence. Although the IMF forecasts are less positive, compared with the other ASEAN-countries Vietnam's GDP forecasts are most promising due to a relatively lower share of advanced manufacturing and a higher contribution to growth of domestic demand (IMF, 2009). Moreover, the expected growth rates for 2010 are exceeding 2009's expectations unanimously (see Figure 10).

Halfway 2009 SRV's government has set a GDP growth target of 7-8% per year during 2011-2015. Currently, the government is working on a socio-economic plan in order to reach that goal. A more open, stable and transparent business environment will be created in order to speed up investments and production activities. For instance, in order to identify risk exposures in an early stage the quality of macro-economic and monetary statistics is aimed to be improved. Besides, the government aims to create the best possible conditions for private companies, including foreign-owned enterprises (VNBusinessNews, 2009a). A report by PwC (2008a) expects Vietnam to have the highest GDP growth among twenty other emerging economies worldwide in the next decades. In general, PwC (2008a) recommends companies to look beyond Brazil, the Russian Federation, India and China (BRIC) with respect to investment considerations, both in the short and in the long term. According to PwC (2008a), Vietnam is expected to project an annual GDP growth[7] of 6.8% during 2007-2050, which exceeds the expectations of India's and China's expected GDP growth rates (respectively 5.8% and 4.7%). The impressive GDP growth makes Vietnam a rather attractive market to enter for foreign retailers (A.T. Kearney, 2008). In accordance with the GDP growth forecasts, it is expected that consumer spending will increase at a CAGR of 14.8% during 2007-2012. In 2012 total consumer spending is projected to reach USD 89.7 billion (RNCOS, 2008). Also in line with the GDP growth forecasts are the results of UNCTAD's survey (2008) and the prospected upward trend of FDI inflows and -outflows among developing countries. In 2008 Vietnam attracted 1,171 new FDI-projects with a total registered capital of USD 60.2 billion. In the first five months of 2009 the nationwide newly foreign invested registered capital only amounted to USD 6.68 billion, which means a 76% y-o-y decline. In January 2009 the total registered amount of foreign invested capital amounted to USD 154.7 billion (Vietnam Investment Review, 2009).

4.4 Economic Relationship between Vietnam and the Netherlands

4.4.1 A historical perspective

The economic relationship between the Netherlands and Vietnam is grounded in the 17th century, as the commercial Dutch East India Company took a leading position with respect to foreign trade between the countries (Kleinen and Van der Zwan, 2007). It is generally announced that the current economic relationship is particularly based on the in 1986 initiated Doi Moi process. From 1976-1985 the cooperation was focused on development aids granted by the Dutch government to support the rural sector in Vietnam. After 1985, however, from a Dutch perspective a phase of distrust and distance started due to Vietnam's military activities in Cambodia. In 1988 the Dutch Embassy in Hanoi closed, which was after the initiation of Doi Moi and hence at the moment that Western companies started to develop growing interests in Vietnam. Finally, the economic opportunities

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[7] GDP in domestic currency or at purchasing power parity (Pwc, 2008a)

overshadowed the political constraints and in December 1993 the Netherlands reopened an Embassy in Hanoi. Next to that, in 1997 the Netherlands opened the CG in HCMC and in 1998 a Vietnamese Embassy was established in The Hague. In the 21st century the Dutch-Vietnamese relationship developed positively, both economically and politically (Hellema, 2007). In 2000 an agreement on development cooperation was signed and due to WTO accession Vietnam is forced to create a better investment-business climate for foreign investors (Tran, 2008).

4.4.2 Current trade and investment

The total value of imported goods from the Netherlands to Vietnam in 2008 amounted to EUR 353 million, which is 0.11% of Dutch total exports. In addition, the total value of exported goods from Vietnam to the Netherlands amounted to EUR 713 million, which is 0.24% of Dutch total imports (Central Bureau of Statistics, 2009). Obviously, from a Dutch perspective this amount seems rather marginal. However, from a Vietnamese point of view the trade relationship between the Netherlands and Vietnam is, after Germany, still the most voluminous of all members of the European Union (EU). The two-way trade turnover between the two countries amounted in the first four months of 2009 USD 540 million, which is 12% of the total trade turnover between Vietnam and the EU-countries and 1.5% of the total trade turnover between Vietnam and the rest of the world (General Statistics Office of Vietnam (GSO), 2009).

By comparing a country's actual value of FDI stock in a particular host country with the value of FDI stock that might be expected based on both countries' percentage of FDI stock in the world, UNCTAD measures the intensity of the FDI relationship between two countries. With respect to the Netherlands and Vietnam, this ratio for 2007 was calculated as 1.17[8], meaning that the relationship is stronger than was to be expected beforehand. For the same year, the ratio between the Netherlands and Indonesia was only 0.27 (Pham, 2009). The Netherlands-Vietnam FDI intensity ratio is consonant with the 8th ranking of the Netherlands on the top-20 investors list in Vietnam during 1998-2007. Due to the substantial investments by companies from other countries in 2008 particularly, in July 2009 the Netherlands ranked 14th with a total value of USD 2.8 billion registered capital, which is 1.7% of the total registered foreign invested capital. From 2008 to July 2009 the Dutch registered capital in

[8] If FDI intensity ratio > 1: strong relationship; < 1: weak relationship; =1: expected based on both countries' global FDI stocks.

Vietnam only increased by USD 206 million. However, after France (USD 3 billion registered capital) the Netherlands is still the second biggest investor from the EU, before the UK and Switzerland, with USD 2.1 billion (1.3%) and USD 1.4 billion (0.9%) registered capital in Vietnam respectively. Taiwan is taking the lead with a registered capital of USD 21.2 billion (12.9%) (Vietnam Investment Review, 2009). A large number of Dutch multinational companies (MNCs) are already present in Vietnam, including Philips, Unilever, Heineken, Akzo Nobel, Ballast Nedam, FrieslandCampina, Damen Shipyards, DHV, Exact, Fortis, IHC, Royal Haskoning, Shell and TNT.

In summary, both the trade relationship and the FDI intensity relationship between the Netherlands and Vietnam are relatively strongly developed. Although the growth of Dutch registered capital in Vietnam has been declining since September 2007, the Netherlands still ranks 14th on the list of top-investors in Vietnam and has maintained its leading position among other EU-countries.

4.4.3 The role of the Consulate General

As was mentioned before, the Dutch government was more or less forced by the undeniable economic opportunities which Vietnam has been offering since the start of Doi Moi to reestablish the Embassy in Hanoi in 1993. In 1997 the CG in HCMC was established. Besides consular activities and promoting the Netherlands in terms of its culture, the main reason of the CG's existence is to enhance the economic relationship between the Netherlands and Vietnam. To achieve that, the economic sections at the Embassy and at the CG act as one single entity, consisting of the Consul-General and two assisting commercial officers based in Ho Chi Minh City, and the Ambassador, the Economic and Commercial First Secretary, whom is accompanied by three economic officers based in Hanoi (Consulate General of the Netherlands, 2009).

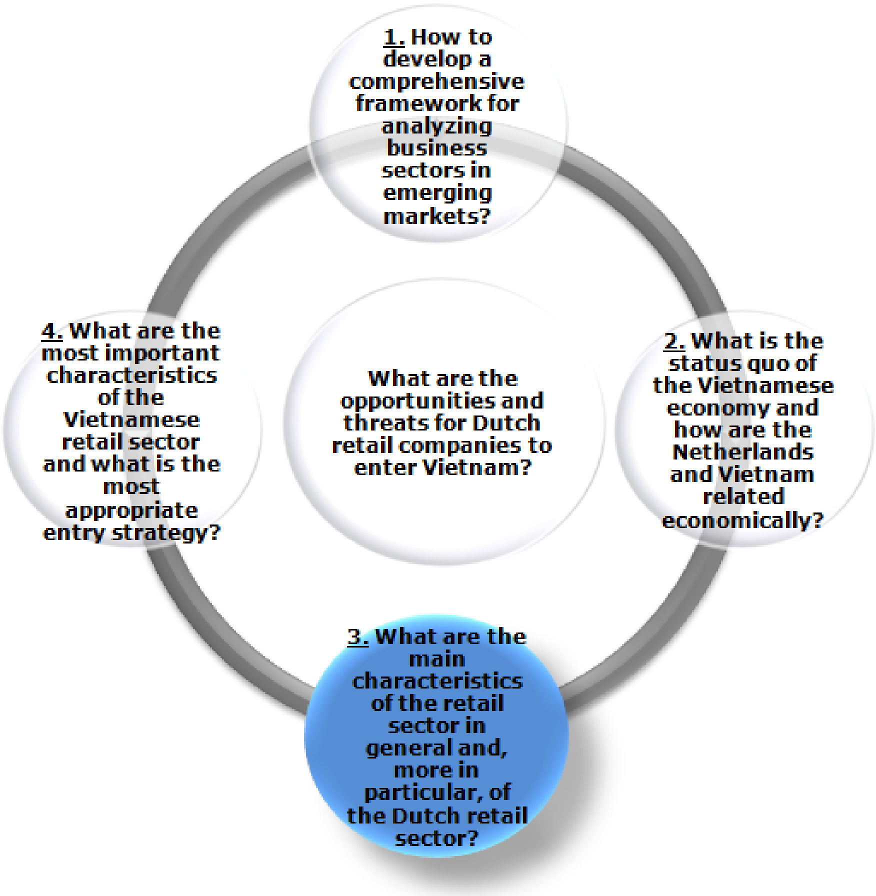
The main role of the economic and commercial sections is to support Dutch companies that are already present in Vietnam and Dutch companies that are considering doing business in Vietnam. This is principally done by providing information concerning specific promising sectors and market potential. Moreover, since April 2009 the CG also has been offering tailor made market scans for companies that are seriously oriented towards Vietnam (Consulate General of the Netherlands, 2009). The outcome of such an individual market scan is a number of identified potential counterparts and, if applicable, specific market information (EVD, 2009). The CG cooperates closely with the Dutch agency for international business and cooperation (EVD). The most promising sectors in Vietnam have been identified (e.g. retailing, water management, cold chain logistics, port development and agriculture) and brief reports on these could be found on the website of the EVD.

Although the CG aims to support companies of any size, its main clients are small and medium-sized enterprises (SMEs). The CG's well developed political relationship with the Vietnamese government has turned out to be rather valuable and useful for Dutch MNCs as well though. The support provided by the Consul General and the economic officers is totally free of charge, which is in line with the CG's mission: enhance the economic relationship between the Netherlands and Vietnam.

5. RETAIL SECTOR

In this part the main characteristics of the retail sector in general will be described. Before actually analyzing the Vietnamese retail sector, it is suitable to get acquainted with the Dutch retail market (see Figure 11).

FIGURE 11: FOCUS OF SECTION 5



5.1 The retail market in general

5.1.1 What is "retailing"?

Four decades ago there was a universally accepted definition of retailing among academicians (Saunders and Lodgson, 1969: 46): "Retailing consists of the activities involved in selling directly to the ultimate consumer". However, nowadays it seems impossible to find a universally accepted definition of retailing. According to Peterson and Balasubramanian (2002), understanding, explaining and predicting retailing phenomena requires a coherent and consistent definition of retailing. Based on a "broad-ranging review" they complain that the definition of retailing (1) often tends to be taken for granted, (2) is either too ambiguous or too all-encompassing and hence meaningless, (3) or is assumed to be a generic form of store-based (fixed location) selling. Despite the authors' persistent emphasis on the need for a comprehensive and consistent definition, Peterson and Balasubramanian (2002: 11) unfortunately do not propose a new definition of retailing themselves, "as such a proposal would be overly ambitious and might be viewed as presumptuous". Instead, Peterson and Balasubramanian (2002) list a number of dictionary and textbook definitions. From these definitions it is fairly clear that retailing consists of "the business activities involved in the sale of products and services directly to ultimate consumers"[9].

Apart from the academic terminology, in retail reports written by both non-commercial organizations and commercial marketing research companies defining retailing is most often taken for granted. Due to the varying implicitly used definitions of retailing, directly comparing retail trade figures is impossible. According to TNS (2009), definitions are usually supplied by clients and not the research companies. Research companies always amalgamate retailers into different categories, such as modern vs. traditional trade, grocery vs. non-grocery retailing, store based vs. non-store based retailing and food vs. non-food retailing (e.g. Euromonitor International, 2008; RNCOS, 2008; BMI, 2009; USDA Foreign Agriculture Service, 2008; TNS, 2009). As retailing covers an exceptionally broad range of companies, these focused distinctions are drawn in order to provide a clear grasp of particular parts of the sector as a whole. The same is done throughout this research, as there is no one best method to disentangle the retail industry.

5.1.2 The internationalization of retailing: Factors of influence

Due to the ongoing process of globalization the retail sector has grown impressively during the last decades, which has resulted in the presence of retail MNCs (e.g. Wal-Mart, Ahold, Tesco, Carrefour, etc.) in developing markets (Kalliapan, Alavi, Abdullah and Zakaullah, 2009). Consistently, the number of academic publications concerning the retail industry has increased significantly. These studies focus on *why* companies internationalize their activities, in which countries (*where*) and the methods of entry applied (*how*) (Dawson, 2003). Brown and Dant (2009: 113) distinguish three domains that define retail research: (1) the substantive domain (problems and issues facing retailers), (2) the conceptual domain (i.e.,

[9] In an email conversation Peterson states that "definitions of retailing are often close, but there is still no consensus definition as many individuals prefer to use 'their own'."

the theories and conceptual frameworks used to understand retail problems and issues), and (3) the methodological domain (i.e. research design and analytical tools, and their underlying theories, used to investigate substantive and conceptual issues in retailing). The present research coincides with both the "*why, where and how*-questions" (Dawson, 2003) and the three domains that according to Brown and Dant (2009) define retail research.

Ever since the 1970s, retailers have been expanding their operations internationally (Seth and Randall, 2003; Dawson, 2003). Dawson (2003) points out that the internationalization process started with selling products abroad, sourcing from foreign countries for resale, and the internationalization of managerial ideas and managers. Especially the operation of shops in foreign countries by medium- en large-sized firms is likely to increase substantially over the next decades. Although this is still a relatively new phenomenon associated with economic globalization trends, the impact of increasing internationalization of shop operation is a long-term process that affects the retail sector remarkably (Dawson, 2003).

Influenced by different push and pull factors retailers have internationalized their activities. The main push factors for retailers to expand into emerging markets are high competition and low profitability, i.e. market saturation, low growth in the domestic market, and restricting regulation on store development (Kaliappan et al., 2009). Especially retailers from European countries have been influenced by these factors and are more prone to globalization than American retailers. Consequently, the main share of global retailers is based in Europe. Retailers from Germany and France have faced restrictive planning controls. French hypermarkets, for example, cannot easily open new stores in their domestic market due to government regulations (Deloitte, 2008; Davies, 2000). Moreover, the limited market size and maturity in Western Europe pushed on the need for transnational expansion (Seth and Randall, 2001). On the other hand, the most important factors that pull retailers from developed countries to expand into emerging markets are related to business growth opportunities, rapid urbanization, high population growth rates, rising incomes, Westernization of lifestyles, increasing demand for fast food and the relaxation of investment rules (Kaliappan et al., 2009). Obviously, fast growing consumer markets are particularly attractive to foreign retailers, since these could be exploited in order to leverage existing assets such as global purchasing relationships, a global supply chain, a unique product, a unique format or a well known brand. In addition, foreign retailers can relatively easily gain leading positions in unsophisticated markets (Deloitte, 2008).

Although many retailers have expanded their businesses internationally, the industry is still less global than many comparable consumer-oriented sectors (e.g. telecommunications, hospitality, food service, etc.). This is particularly due to the unique complexity of the retail business, in which maintaining a close and personal relationship with consumers is essential. In a foreign country this is even more challenging than in a retailer's domestic market. Moreover, global retailing entails more difficult tasks, as for instance managing foreign human resources from afar, managing complex and differing supply chains, meeting the requirements of different regulatory regimes, and continuously adapting to the changing needs of consumers. Despite the serious challenges, the retail market will become truly global, as the domestic markets of Western retailers are stagnating and becoming saturated (Deloitte, 2008). According to Dawson (2003), truly global retailers will emerge over the next decades as European and American retailers rapidly expand into East Asia, South America and move slowly into India and Africa. Interestingly, Asian retailers are also expanding their businesses within their broad culture realm, due to which the level of competition is intensified even more. Larke (2005) emphasizes the rapid pace at which the East Asian economies are developing and, accordingly, the opportunities for foreign retailers. However, it is impossible to consider the region as a single whole (Davies, 2000). The extent to which the separate economies are developed is rather diverse. Obviously, the main focus of attention, both academically and in terms of practical retail development, has been on China. Larke (2005) stresses the need to fill the gap in literature that exists concerning the Indochina countries and their retail markets.

5.1.3 E-tailing

Since the twenty-first century business conducted over the Internet has been growing rapidly. Technological developments coupled with the growth of e-businesses provide great opportunities for wealth creation, due to a focus on transactions, the importance of information goods and networks, and a high reach and richness of information (Amit and Zott, 2001). The body of literature on Internet retailing, or e-tailing, could be categorized into three sub-themes. These themes are based on the applied perspective from which e-tailing is examined: (1) retailer perspective, (2) consumer perspective, and (3) technological perspective (Doherty and Ellis-Chadwick, 2006).

Although freely available figures on e-tailing sales are scarce, the percentage of total retail sales that consists of online sales is still small, even in developed markets. However, no other innovation has received as much attention from retailers, manufactures, consumers, and the general public as e-tailing (Grewal, Iyer and Levy, 2004). Seth and Randall (2001) state that pc-ownership and access to Internet has increased quickly in developed countries, but the Internet is mainly used to gather information as a part of the purchase process. Moreover, the traditional bricks-and-mortar retailers use the Internet as a complement to other channels or media (Peterson and Balasubramanian, 2002). Thus, Internet has become part of the multichannel strategy of retailers, although it started out as an exclusive domain of new entrepreneurs (Grewal et al., 2004). Currently, retailers that use a synergy strategy, i.e. strong linkages between the online and offline channels, perform better than retailers that use simple websites with limited information (Weltevreden and Boschma, 2008).

Grewal et al. (2004) list a number of factors that help or hinder the growth of e-tailing. Standardized and uniquely branded products, such as books and DVDs, have a higher e-tailing potential, since quality uncertainty in these products is fairly absent. Also, efficient and anonymous access to information, including price information, is inherent to e-tailing and perceived by consumers as more convenient. Further, consumers can access e-tailers from anywhere Internet is available, at any time. However, apart from the potential advantages there are several forces limiting the success of e-tailing. Among these are a lack of possible sensory evaluation and/or trial for new products, lack of interpersonal trust and instant gratification, high shipping costs, a lack of a stable customer base, and many online entrepreneurs lack specific retailing experience (Grewal et al,. 2004). Furthermore, returning online purchased products can be challenging. All in all, it should be acknowledged that online shopping remains only a small fraction of total retail sales, despite the benefits of e-tailing (Forman, Ghose and Goldfarb, 2009). To overcome the main challenges in e-tailing, consumers need to be assured that their products will be delivered as expected, as reliability is found to be the strongest predictor for both e-satisfaction and e-trust (Kim, Jin and Swinney, 2009).

5.1.4 The impact of the global economic downturn on retailing

The global economic crisis has seriously affected retail trade, especially in the developed world. Due to the global economic slowdown, reflected through disappointing GDP growth figures, job uncertainty, and drop in income retailers have been hit hard. That is, consumers have been spending less across all retail segments (A.T. Kearney, 2009a). Retailers have reacted by dramatically cutting prices, which has resulted in profit losses and hurt brand images. Even Wal-Mart’s sales in the first quarter of 2009 were flat compared to previous years. And although it is expected that in the developed world consumption levels will structurally decline compared to saving levels, retailers can still choose to either execute an offensive or a defensive strategy during economic recessions (A.T. Kearney, 2009b).

During times of economic recession innovation levels are usually increasing, which in the case of retailers leads to the development and introduction of new products, new market entries and organizational reforms (Davies, 2000; A.T. Kearney, 2009b). Moreover, even though global retail has been hit hard by the economic crisis, emerging economies are still attractive to enter. Leading global retailers are required to carefully balance their activities within developed and developing markets in order to maintain their leading positions (A.T. Kearney, 2009a).

5.2 The Dutch Retail Sector

The Dutch retail sector is characterized by a relatively large number of small-scale retail shops per capita concentrated in urban areas. Fully enclosed shopping malls are primarily located in city centres too, while large-scale hypermarkets and shopping malls are lacking at the edges of major cities. This is a result of government restrictive planning policy that prevented for uncontrolled retail growth and protected traditional shopping centres (Weltevreden, Atzema and Frenken, 2005). After decades of strict centralized retail planning, the Dutch national government withdrew from the retail market in 2004, which has resulted in a more decentralized planning model and the allowance of large retail spaces to be developed in peripheral areas (Van der Krabben, 2009). However, the establishment of large peripheral retail outlets is still restricted, since these are only allowed if they do not negatively impact the current retail structure in city centres and shopping centres. Just as confined shop opening hours these regulations have directly weakened the level of competition in the Dutch retail sector and thereby indirectly weakened productivity growth as well (OECD, 2006).

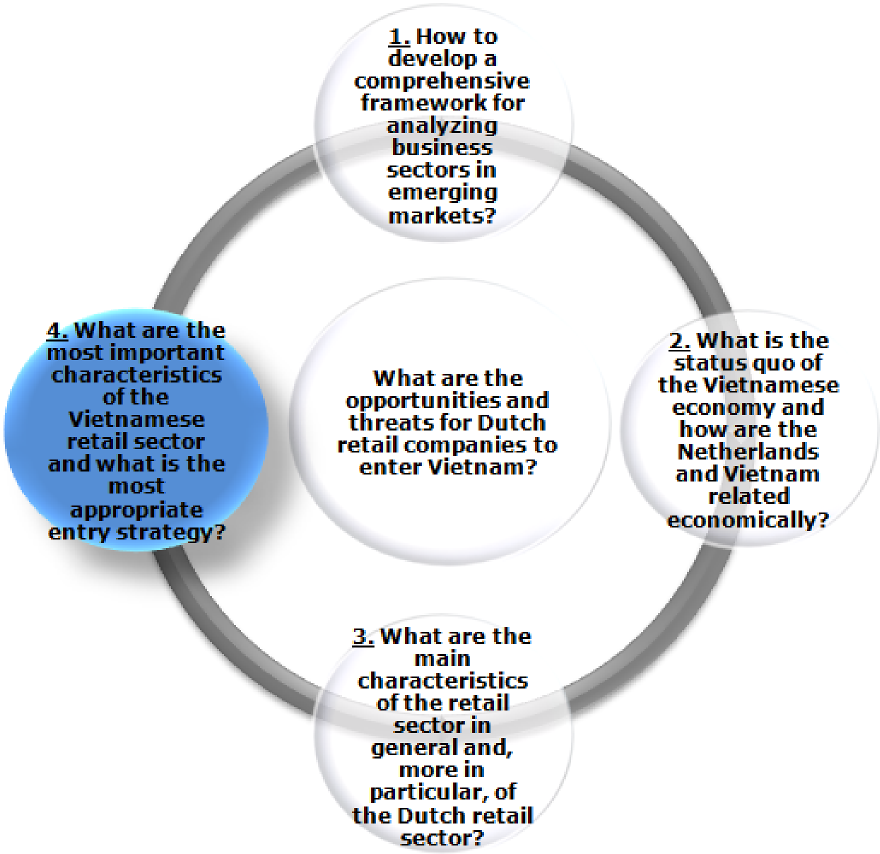
According to the Netherlands Bureau for Economic Policy Analysis the Dutch economy will contract by 4.8% y-o-y in 2009. In 2010 GDP and consumer consumption will decline by 0.5% and 1% respectively. Even though total retail turnover showed a positive growth of 3.1% y-o-y in 2008, total retail turnover declined by 4.5% y-o-y in the first quarter of 2009. This decline was totally due to failing results in the non-food sector (-6.5% y-o-y), while food retail turnover increased by 0.7% y-o-y in the first quarter of 2009. Supermarkets account for this slight increase, since specialized food shops, such as bakeries and butchers, faced a turnover decline of 5.8% y-o-y. Contrary to consumer spending, saving rates will further increase and hence total retail turnover will further decline in the second half of 2009 (CBRE, 2009b).

Currently, the internationalization of Dutch retailers in general is rather limited. Deloitte (2009a) listed the top 250 retailers worldwide and only four retail companies from the Netherlands appeared on this list: Ahold, SHV Holdings N.V./Makro, Maxeda, and Blokker Holding N.V. Besides the top retailers, it should be acknowledged by smaller firms that the small Dutch market limits company growth and, hence, expanding internationally could offer interesting growth opportunities. As was specified before, there are several push and pull factors that result in the expansion of retailers from Western Europe into emerging markets (Kalliappan et al., 2009).

6. APPLICATION OF THE FRAMEWORK TO THE RETAIL SECTOR IN VIETNAM

In this part the focus is put on the Vietnamese retail sector in order to enable the CG in HCMC to sufficiently inform Dutch retailers that are considering doing business in Vietnam. The framework that was developed in section 3 (see Figure 8) is applied for analyzing this specific business sector. Porter's diamond, Whitley's business system theory, and the RBV are applied successively, which eventually leads to recommendations concerning entry mode choices.

FIGURE 12: FOCUS OF SECTION 6



6.1 Step 1 – The Identification of Vietnam's Business System

In this sub-section it is aimed to determine which of Whitley's business systems could be assigned to Vietnam (see Figure 5). The following business system characteristics will be examined successively: *ownership coordination*, *non-ownership coordination*, and *employment relations*.

6.1.1 Ownership coordination

First, the type of *owner control* must be examined. Whitley (1999) distinguishes between direct, market, and alliance owner-control types. The extent to which owners and controllers of financial assets are involved in their companies' management decision-making processes is relatively high in Vietnam. That is, most companies are small and family-owned, which is a common trend in emerging markets (Andrade and Elstrodt, 2001; Hai, 2008). Although the focus of most research on firms in Vietnam has been put on SMEs, the influence of large companies on the economic development of Vietnam should be paid attention to as well (United Nations Development Programme (UNDP), 2007). The 200 largest companies in Vietnam are big compared to other firms in Vietnam, but in global terms are more likely to be referred to as SMEs. Nevertheless, the impact of the 200 largest companies on the economy of Vietnam is significant. Most of these firms are either state-owned or foreign-owned. Besides the top 200 companies in general, UNDP (2007) also listed the top 200 domestic companies, which are mostly state-owned enterprises (SOEs).

It thus appears that in spite of Vietnam's economic equitization reforms the influence of the state is still significant, for in particular small SOEs are subject to the privatization reforms instead of larger SOEs. In addition, managers at SOEs have been slowing down the privatization process in order to keep their privileges, without any strict control on their behavior and the consequent economic performance of the firms they manage. Still, it is almost always the same management that is in charge of the equitized company. Moreover, a substantial number of the already privatized companies is more or less controlled by the state through either majority or minority equity shares (Sjöholm, 2006). Management and controlling mechanisms are usually weak though, which enables SOEs to appropriate the public property. Managers are often government officials under close state administration. Consequently, the SOEs sector is less competitive and inefficient compared to private enterprises (Ngu, 2002). However, SOEs still dominate the economy and enjoy various forms of privileges, particularly for incentive and subsidy schemes. Next to that, most private Vietnamese companies are SMEs and management structures bear resemblance to family hierarchies. In general, these companies are owned by family members who act as controlling shareholders (Hai, 2008). All in all, it is clear that the involvement of company owners in management is high both in SOEs and Vietnamese private companies. Although the owners of FOEs are less involved in management decision-making processes, it is fair to state that in general the involvement in management is high. Consequently, the concentration of ownership and owners' knowledge of business is high too (Whitley, 1999). In family-owned companies the level of risk-sharing and commitment to the company is obviously rather high, just as in privately-owned domestic companies. Exposure to risk in the case of SOEs is high as well, since government revenues are significantly dependent on SOEs' performance. Moreover, the Vietnamese government has committed itself to the SOEs in the long run, even if profits are disappointing (Cheshier and Penrose, 2007). The scope of owner interest in Vietnam is broad, which is in contrast to the narrow interests of owners in Anglo-Saxon countries, i.e. shareholders are mainly interested in financial return on assets. Owners in Vietnam are deeply involved in their companies' decision-making processes, in contrast to being interested in financial results solely (Whitley, 1999). The exclusivity of ownership boundaries refers to the divisibility of ownership rights (Whitley, 1999). In Vietnam the government identifies itself strongly with its ownership rights. However, due to the large number of family-owned businesses, in which ownership rights are shared with family members and family-like relationships, the exclusivity in Vietnam should be considered as 'considerable'. In summary, the Vietnamese business system is clearly characterized with *direct* control of firms by owners (see Figure 13).

FIGURE 13: OWNER-CONTROL CHARACTERISTICS IN VIETNAM[10]

Characteristics			
	Direct	Alliance	Market
Involvement in management	High	Some	Very low
Concentration of ownership	High	Considerable	Low
Owners' knowledge of business	High	Considerable	Low
Risk-sharing and commitment	High	Considerable	Low
Scope of owner interest	High	Considerable	Low
Exclusivity of ownership	Considerable	Limited	High

The second and third business-system characteristics refer to the *ownership integration of production chains*, i.e. vertical integration, and *ownership integration of sectors*, i.e. horizontal integration (Whitley, 1999). Again, it is important to draw a distinction

[10] The marked characteristics are assigned to Vietnam.

between SOEs, FOEs, and privately-owned companies which are most often small and family-owned.

Many SOEs are members of General Corporations (GCs), business groups in which umbrella organizations supervise the activities of member companies. The main objective of GCs is to prevent the loss of state capital. According to Cheshier and Penrose (2007), a particular problem with GC-structure is the lack of clear ownership rights in member companies. GCs, however, have prevented loss-making companies from selling or closing by merging them with larger and profitable members to stop losses and save jobs. State enterprise reforms are changing the relationships between GCs, and between GCs and their member companies. Before the economic reforms GCs have mostly diversified their business activities in order to supply inputs to member companies (Creshier and Penrose, 2007). Thus, the level of vertical integration in SOEs is high, as is also underlined by Mr. (anonymous):

For SOEs it is common that these are very much integrated vertically. For example, the state-owned dairy firm Vinamilk owns the complete production chain, from the farmer to the consumer.

(Anonymous, 17 September 2009)

Nowadays most GCs have diversified their business activities across sectors as well and operate under a parent-child model. The GC controls its child companies' strategies through holding majority shares, while the child must operate under the Enterprise Law and the parent can remain an SOE. Vietnam's WTO accession has resulted in fiercer competition in the country, since domestic industries are less protected now. Both large SOEs and large privately-owned companies responded by diversifying their core business areas horizontally, mostly into real estate, tourism and finance (Cheshier and Penrose, 2007). Thus, regarding SOEs both vertical and horizontal integration are high in Vietnam. Large privately-owned domestic companies mainly diversify horizontally, whilst the vertical integration of their production chains is limited:

Private companies tend to diversify their business activities to spread risks and remain profitable. However, in the production it is becoming more and more efficient to make use of the services of companies that are specialized in one particular aspect of the chain.

(Anonymous, 18 September 2009)

SMEs in Vietnam have significantly contributed to the economic growth. In 2007 SMEs accounted for 97% of the country's enterprises and 39% of GDP (Cuong, Sanh and

Anh, 2007). SMEs are to a very limited extent integrated both vertically and horizontally, which is one of the reasons why SMEs in Vietnam are still relatively undeveloped in a multitude of aspects (e.g. innovativeness; competitiveness) (Cuong, Sanh and Anh, 2007). Regarding FOEs the level of ownership integration in the vertical production chains and the integration of sectors is limited as well. Foreign investors have created limited linkages with local companies, although this varies by industry (Jenkins, 2006). Foreign firms operating in manufacturing firms import and distribute or import, assemble and export their products (Cheshier and Penrose, 2007).

In sum, the ownership integration of production chains is high in the case of SOEs, in contrast to the low vertical integration of large privately-owned domestic firms, FOEs and SMEs. In terms of Whitley (1999), the level of *ownership integration of production chains* in Vietnam best fits the label '*some*'. Next, the *ownership integration of sectors* in Vietnam best fits the label '*some*' too, since horizontal integration occurs among SOEs and large privately-owned domestic firms. Regarding FOEs and SMEs, which significantly impact the economy, diversification is rather limited.

6.1.2 Non-ownership coordination

To assess the degree to which Vietnam's business system is integrated through alliances, obligations, and other non-ownership linkages (1) the extent of *alliance coordination of production chains*, (2) *collaboration between competitors*, and (3) *alliance coordination of sectors* must be examined.

The most important aspect of these three characteristic is the contrast between, on the one hand, zero-sum, adversarial contracting and competition, and, on the other, cooperative, long-term, and mutually committed relationships between firms. Although SOEs are highly integrated in terms of ownership of production chains and across sectors, non-ownership collaboration hardly happens. In addition, Cuong, Sang and Anh (2007) pinpoint the lack of collaboration among SMEs and between SMEs and large companies, which applies to both firms in the production chain and across sectors. Furthermore, as Vietnam is characterized with direct owner control of managerial decisions it is highly unlikely that the level of collaboration between competitors is high (Whitley, 1999). An extensive identification of firm owners with their firms and a reluctance to share information is applicable to Vietnam's business system. Next to the widespread presence of SMEs, it has become clear from all interviews that short-term oriented business relations, just as the short-term orientation of people, are inherent in the Vietnamese culture:

The Vietnamese mentality is quite short-term oriented, which is even further enhanced by the rapidly changing economic environment. This is also reflected in the limited amount of business alliances within production chains and across sectors. Collaborating with competitors hardly occurs, since companies want to keep all possible future profits for themselves instead of sharing with competitors based on a long-term strategy.

(Anonymous, 22 September 2009)

In accordance with Cuong, Sang and Anh (2007), the importance for private domestic companies, mostly SMEs, to cooperate more intensively in the future to cope with the fierce competition in Vietnam was stressed by one of the interviewees:

The orientation on the short term is a burden for the future economic development of Vietnam. Private domestic companies suffer from their disability to access sufficient capital, knowledge and expertise. To survive the competitive pressure from SOEs and foreign companies they have to consider collaborating with supporting industries and competitors, but this hasn't occurred frequently up till now.

(Anonymous, 17 September 2009)

Thus, in summary the level of non-ownership coordination in Vietnam is '*low*' regarding both the *alliance coordination of production chains* and the *collaboration between competitors*, as well as the degree of *alliance coordination of sectors*.

6.1.3 Employment relations

The final two business system characteristics refer to *employer-employee interdependence* and *delegation to, and trust of, employees*. In this case it suffices to draw a distinction between SOEs, on the one hand, and privately-owned domestic and foreign companies, on the other hand.

Employees are strongly committed to the SOEs that employ them and vice versa, which has resulted in long-term relationships between SOEs and their employees. The salary structure also reflects this, since employees are paid based on the number of years at the company instead of their market value (Cheshier and Penrose, 2007). However, in privately-owned firms this situation is fairly different. The short-term orientation of Vietnamese people causes people to change employers quickly, as employees focus particularly on the financial returns of their jobs. Hence, the level of *employer-employee interdependence* (high in SOEs and low in privately-owned firms) should be labeled '*some'*.

Most Vietnamese people have a short-term vision, so if there is an opportunity to earn more money at another company people will jump. Job-hopping is just as in the Western world a very common trend in Vietnam, especially among highly skilled laborers. Nowadays, sticking at one company for three years should be considered as loyal already, except for employers at SOEs.

(Anonymous, 16 September 2009)

In accordance with the direct owner-control type in Vietnam, *the delegation to, and trust of, employees* in Vietnam is logically '*low*'. See below the explanations of several interviewees:

Delegating important tasks occurs regularly, but only to a limited extent. That is, employees to whom important tasks are delegated are controlled continuously. Some owners are especially suspicious towards employees in top management positions such as CEOs and managing directors, due to the risk of knowledge, technology, and sometimes even money fraud and abuse.

(Anonymous, 16 September 2009)

The level of trust granted to employees is considerably low. This is partly due to the fact that in general information is not yet perceived as a valuable asset, which could easily lead to exchanging valuable information without the employer's permission.

(Anonymous, 29 September 2009)

6.1.4 Vietnam's business system

In the second column of Figure 14 the eight different business system characteristics of Vietnam are listed and underlined. Six of the eight characteristics are congruous with the *state organized business system*, whilst five characteristics are matching the *fragmented business system*. The impact of the Vietnamese government on the economic development and firm behavior is still immense, both through the majority or minority shares in companies and through the regulatory constraints it imposes. As it appears from Figure 14, the fragmented business system is in many aspects equal to the state organized business system. The difference between both systems is the degree of vertical and horizontal ownership integration. SMEs play an important role in Vietnam and the short-term orientation inherent in Vietnamese culture corresponds to the fragmented business-system type, since employment and business relations are short term and small owner-controlled firms compete fiercely rather than collaborate with each other. Vietnam could hence be regarded as a combination of a state organized and a fragmented business system.

FIGURE 14: VIETNAM'S BUSINESS SYSTEM

Business-system Characteristics ⇩	★ ⇩	Business-system type: Fragmented	Coordinated industrial district	Compartmentalized	State organized	Collaborative	Highly coordinated
Ownership coordination							
Owner control	Direct	Direct	Direct	Market	Direct	Alliance	Alliance
Ownership integration of production chains	Some	Low	Low	High	High	High	Some
Ownership integration of sectors	Some	Low	Low	High	Some to high	Limited	Limited
Non-ownership coordination							
Alliance coordination of production chains	Low	Low	Limited	Low	Low	Limited	High
Collaboration between competitors	Low	Low	Some	Low	Low	High	High
Alliance coordination of sectors	Low	Low	Low	Low	Low	Low	Some
Employment relations							
Employer-employee interdependence	Some	Low	Some	Low	Low	Some	High
Delegation to employees	Low	Low	Some	Low	Low	High	Considerable

6.2 Step 2 – The Application of Porter's Diamond to the Retail Sector in Vietnam

6.2.1 Factor conditions

Geographically, Vietnam possesses a strategic location in Asia, as the country is located at the center of East Asia. Potentially, this location enables Vietnam to serve as a hub for international transportation by sea and inland shipping. The physical *infrastructure* of Vietnam must be taken into consideration before actually entering the country. For retailers, the quality and quantity of distribution and logistics networks are essential aspects of doing business. A 200,000 km comprising road network, a 2,600 km comprising rail network, an inward waterway of over 61,000 km, 11 major seaports, and 3 international airports (HCMC, Hanoi and Da Nang) are the main elements of Vietnam's infrastructure system (PwC, 2008b). It should be noted, however, that the quality of the infrastructure system is still limited. The quality of the distribution infrastructure and the facilities for perishable products are relatively poor. This negatively influences the ability to import products. Out-of-date technology and a fragmented distribution network are limitations for retailers in Vietnam (USDA Foreign Agriculture Service, 2008). Moreover, unequal infrastructure development between big cities and rural areas, and poor logistics and distribution networks limit the ability for both foreign and local retailers to expand their business activities nationwide. Thus, to maintain the growth of the retail market in Vietnam the infrastructure should be developed soon (RNCOS, 2008; BMI, 2009; Euromonitor International, 2008; Cuong, Sang and Anh, 2007). Mr. (anonymous) underlines the importance of a well developed logistics and distribution network for retailers:

The physical infrastructure in Vietnam is a problem for the reachableness of retail stores and the distribution of products. Compared to rural areas, the logistics and distribution networks in Ho Chi Minh City are well developed. From a Western perspective there is still much room for improvement though, especially regarding the large amount of traffic jams.

(Anonymous, 24 September 2009)

The negative impact of the underdeveloped infrastructure has also been recognized by the government. Besides the government investments in the development of Vietnam's infrastructure, foreign companies are encouraged to construct and develop infrastructure facilities and important large-scale projects. Investments in infrastructure are entitled to incentives such as tax holidays or reductions and exemption from land fees. Therefore, road and port facilities are expected to be improved in the next few years (PwC, 2008b).

The next factor condition that should be considered is *labor*. Porter (1990) distinguishes between unskilled and skilled labor and argues that it is only the skilled laborers that can establish a competitive advantage vis-à-vis other countries. Vietnam is the 13th most populous country in the world with a population of more than 85 million and 50% of this population is under 25 years of age. This implies that there is a competitive, dynamic workforce, which is mostly used in the manufacturing industry, garment and textile industries, and shipbuilding (PwC, 2008b). In other words, unskilled labor is abundantly available in

Vietnam. However, one of the most alarming problems for retailers in Vietnam is the lack of skilled staff (RNCOS, 2008; Euromonitor International, 2008; PwC, 2008b). It is hence easy to find people to work in stores, but employees as merchandisers, quality inspectors, and market analysts are more difficult to find. Not many people have been trained for these functions in retailing firms, nor is the level of experience doing these jobs satisfactory. Moreover, the availability of suitable local managers for retail companies is low, as it is still a relatively new industry in Vietnam. Therefore, finding candidates for high positions often turns out to be problematic (Euromonitor International, 2008). Mr. (*anonymous*), among others, places emphasis on this problem:

As modern retailing is still new in Vietnam there is a serious lack of experienced retail workers, especially regarding management positions. Therefore, costly additional training and educational activities must be offered.

(Anonymous, 24 September 2009)

Vietnamese people are eager to learn and hard working, but at the same time many employees face problems with adapting to the new retailing environment and lack English language skills (RNCOS, 2008). Next to that, the quality of education in Vietnam is not yet comparable to the quality of education in already developed countries. That is, students are mainly learned to study by heart instead of focusing on the development of soft skills, such as presenting, debating and group work. Offering additional training programs is almost inevitable in Vietnam, particularly concerning the inexperienced retail market. As was explained by Ms. (anonymous):

Students are just learned to listen and read, which results in a lack of communicative capabilities and confidence. For this reason, employers either do not want them or have to offer them extensive training and support.

(Anonymous, 16 September 2009)

As the limited availability of skilled retail staff is emphasized by all interviewees, both at Vietnamese and foreign retail companies, it is fair to state that this is a major barrier to expanding retail companies' activities into Vietnam. However, the lack of skilled staff should be reacted to efficiently by providing additional education and training programs:

Vietnamese people are not experienced with modern retailing and hypermarkets are very new to them. Although many graduates are available, we are investing heavily in their education and skills by offering them training extensive programs. At all levels throughout the organization these training programs are provided, from management positions to the cashiers.

(Anonymous, 28 September 2009)

As the industry is still in its infancy, it is hard to recruit experienced and capable employees; both managers and shop personnel. For the latter, the quality of customer service, visual merchandising, and product knowledge is often below international standards. Therefore, we continuously provide our local staff with (overseas) training programs.

(Anonymous, 29 September 2009)

The retail industry in Vietnam is very young, which makes it hard to find experienced sales employees and managers. By providing weekly training programs to our sales employees and recruiting experienced overseas Vietnamese managers we try to solve this problem.

(Anonymous, 2 October 2009)

The third factor condition is the availability of *retail space*. Since 2007 it has become difficult for retailers to expand their outlets, because of the limited availability of retail space and the increasing rental costs (Euromonitor International, 2008). Although modern trade is rapidly gaining importance in Vietnam, traditional trade is still dominating the retail market. Therefore, retail space is lacking for both domestic and foreign retailers. Demand for retail locations exceeds supply and the cost of retail space has increased during the past years (RNCOS, 2008; PwC, 2009a). The average prime rents for retailers in HCMC amounts to USD 85 per square meter per month, which is already exceeding the average rents in Bangkok. However, currently there is about 350,000 square meter of gross floor area under construction in HCMC alone. In Hanoi the average prime rents per square meter per month amounts to USD 60, which is significantly below the cost of retail space in HCMC, where the rents for the best retail locations have climbed up to USD 250 per square meter per month (CBRE, 2009a). Hence, the lack of retail locations puts a serious threat to the expansion of retail companies in Vietnam, particularly in HCMC and to a lesser extent in Hanoi (RNCOS, 2008). Moreover, a common trend among domestic retailers is to acquire more retail space than they require in terms of their current business activities and growth strategy. By doing so, domestic retailers try to reduce the available retail space for potential foreign entrants (Euromonitor International, 2008). The lack of quality retail space has been frequently mentioned during the interviews as being one of the most important challenges to do business in Vietnam:

A challenging aspect of doing retail business in Vietnam is the lack of quality retail infrastructure. That is, the lack of retail space is hampering the growth of our business and if locations are available, rental prices are exorbitantly high.

(Anonymous, 29 September 2009)

The state-owned supermarket chain SaigonCo.op is market leader in Vietnam. In contrast to the location challenge that is faced by privately-owned domestic and foreign competitors, this SOE is protected by the government through several privileges regarding the acquisition of land and retail space. Ms. (anonymous) underlines this is as follows:

The lack of retail space is problematic, but as we are a state company it is easier to cooperate with other SOEs in order to acquire suitable locations. Especially in the big cities this is a major competitive advantage, as we can expand our business more quickly than competitors.

(Anonymous, 29 September 2009)

The final factor condition to be discussed is *capital*, more specifically, the accessibility of capital. According to Cheshier and Penrose (2007) it is hard to determine whether a lack of capital slowed the development of Vietnam's economy. The banking system in Vietnam is developing quickly, that is, several international banks have entered Vietnam in the past few years. In addition, the number of private domestic banks is also growing (Cheshier and Penrose, 2007). Regarding SMEs, one of the most pressing constraints is the limited or unequal access to credit and capital as the government is crowding out access to credit (Cuong, Sang and Anh, 2007). Although a growing number of investment funds are willing to provide credit to retail companies in exchange for managerial influence and control, mister (anonymous) mentions the limited accessibility to capital as one of the biggest challenges for domestic SMEs:

Extra capital is often required for SMEs, but most banks are mainly focused on providing loans to real estate firms and exporting companies. Retailing is a relatively new industry, which makes it for banks more risky to provide credit.

(Anonymous, 1 October 2009)

Most of the foreign retailers which are already present in Vietnam, however, are not affected by this, since the expansion of retailers is most often financed by the parent companies abroad.

6.2.2 Demand conditions

In 2008 Vietnam topped the A.T. Kearney Global Retail Development Index[11] (GRDI) list, meaning that Vietnam was the most attractive country for retail companies to enter. In 2009, however, Vietnam has dropped to the sixth position due to the decreased GDP growth in the first quarter of 2009. As was discussed before, GDP growth is expected to recover during the next years, which shapes a promising outlook for the retail industry in the long term. The underlying hypothesis of the GRDI is that as per capita income increases and markets develop, consumer demand for global brands will rise to the benefit of organized retail (A.T. Kearney, 2009a).

Vietnam's GDP per capita has increased from USD 552 in 2004 to USD 1,024 in 2008, while GDP per capita in 2009 is estimated at USD 1,075 (TNS, 2009). In addition to the considerable GDP growth figures, the size and composition of Vietnam's population are contributing to the opportunities that the retail industry has to offer. The population size is one of the main drivers for retail growth, since demand for retail products increases proportionally (RNCOS, 2008). Vietnam currently has more than 85 million inhabitants and more than 50% of the population is under 25 years of age (PwC, 2008b). According to RNCOS (2008), the population size is expected to reach 92 million in 2012. 23 million people live in urban areas, with HCMC and, to a lesser degree, Hanoi as centres for organized retail (PwC, 2009a). Therefore, most retailers launch their businesses in HCMC or Hanoi, where demand for consumer goods is considerably stronger than in other areas. Other potentially attractive destinations for retailers are Nha Trang, Hai Phong, Da Nang, Can Tho and Vung Tau (Euromonitor International, 2008). Up till now, Vietnam has still the smallest urban population in Asia and shall experience an urbanization explosion like China. Today there are

[11] The GRDI ranks the top 30 emerging economies in terms of retail development potential.

still wide income disparities between urban and rural areas, which lead to varying consumption patterns and thereby varying opportunities for modern retailing (BMI, 2009). However, an urban upper class is emerging already, since over a third of urban households earn more than USD 500 per month, while less than 10% cannot afford branded products. Vietnam's young population is driving modern retailing, since the loyalty to traditional trade is limited, while demand for branded products is high among the modern youth. Furthermore, it should be taken into account that Vietnam has the third largest female working population in Asia, which implies that female consumers will become more important (TNS, 2009).

Vietnam's retail market revenues increased 31% y-o-y in 2008 and reached USD 58 billion (PwC, 2009a). Between 2008 and 2012 average retail sales are expected to increase by 13.6% y-o-y. Food accounts for about two-third of total retail sales and is hence the most important component of the retail industry at the moment. However, wet markets and small independent grocers are still dominating food retailing in Vietnam. For example, more than 2,500 wet markets are located in HCMC alone. However, in HCMC and Hanoi consumers are increasingly moving from traditional grocers and wet markets to modern forms of retailing, such as hypermarkets, supermarkets and convenience stores (RNCOS, 2008). Mr. (anonymous) provides the following reasons for the changing consumer behavior:

BigC has selected Vietnam and Brazil as most important markets to expand its business operations. Vietnam has a relatively large population and consumer spending is increasing quickly. Moreover, consumers have become more aware of food quality and hygiene, which results in higher spending in modern trade stores, such as our hypermarkets.

(Anonymous, 28 September 2009)

Increasing concern for food quality, food safety, and hygiene are important trends in consumer behavior in Vietnam. Other important elements are consumers' preference for fresh products and hence a tendency to shop on a daily basis for food use. Further, not many people are in the possession of a microwave and a refrigerator (RNCOS, 2008). In summary, it is mainly fast moving consumer goods (FMCG) that are increasingly demanded by consumers in urban Vietnam (PwC, 2009a). That is, FMCG retail sales increased by 19% y-o-y in the first quarter of 2009, which is the fastest FMCG growth in Asia. Moreover, FMCG consumer spending on modern trade has more than doubled in five years time. Although modern trade plays a secondary role in selling fresh food, it is the fastest growing retail channel in Vietnam and will change all elements of society (TNS, 2009).

Non-food retailing represents almost one-third of the total retail sales in Vietnam. Due to increasing income levels it is expected that this segment will increase more rapidly than food retailing. The most important non-food products are clothes, footwear, white goods, consumer electronics, and cosmetics and toiletries (RNCOS, 2008). The garment retail market is growing considerably due to consumers' increasing brand awareness and their demand for quality clothing. Several high-end clothing fashion brands are already present in Vietnam, such as Gucci, Louis Vuitton and Calvin Klein. However, these high-end brands are obviously unaffordable for most people. Mid-end fashion brands as Mango and Giordano are gaining popularity due to affordable prices and high quality (A.T. Kearney, 2009a). The demand for high quality products has been stimulating the growth of the modern retail industry dramatically and thereby reduced the competition from fake products. The success of department stores and boutique shops has been a direct result of the increasing demand for products of high standard, as for example could be found in clothing and cosmetics (Euromonitor International, 2008).

6.2.3 Related and supporting industries

As was discussed before, the relatively poor quality of the Vietnamese infrastructure network in Vietnam is hampering the efficiency and growth of the retail industry. As the industry is growing rapidly and consumer habits are changing, the logistics systems have to be improved in order to bring products to consumers in different regions of the country. According to Euromonitor International (2008), logistics systems are already subject to improvement. Inherent in the logistics and distribution network of Vietnam is the quality of transportation and distribution companies. None of the interviewees has mentioned this as a problem for doing business in Vietnam. Specialized logistics and distribution companies can be contracted to transport products to and throughout the country. The relationships between retailers and logistics companies are mostly based on one-year contracts, after which the contracts are often extended successively.

In addition, the importance of developing long-term relationships with manufacturers has been emphasized during the interviews frequently. In grocery retailing almost all products offered are made in Vietnam, while a small share of the product assortment is imported from overseas. FMCG producing companies are deeply rooted into grocery retailing in Vietnam, as a large number of SOEs, local privately-owned companies and MNCs, such as Unilever and Procter & Gamble, are supplying their products to local and foreign retailers. Supermarkets, hypermarkets and convenience stores, i.e. modern trade, and also traditional street shops and wet markets are supplied through a vast network of large and small distributors. Although modern trade is growing rapidly in Vietnam, supplying companies clearly generate a majority share of their revenues through the distribution of their products through the traditional trade channels. Long-term oriented relationships between retailers and suppliers allow for mutual growth and simultaneously contribute to the development of Vietnam. Mr. (anonymous) and Mr. (anonymous), among others, refer to this as a key for successful retailing in Vietnam:

We are cooperating closely with retailers, both in the modern trade and in the traditional trade channels. Our extensive, nationwide distribution network has formed the basis for our current and future growth. Our contribution to and focus on the development of Vietnam has been profound and goes hand in hand with a successful business in terms of growth and profit-making.

(Anonymous, 5 October 2009)

With the international retail industry it is key for retailers, as well as other players, to develop long-term relationships with other companies, like suppliers and manufacturers. It is important in Vietnam, but also in other countries, to grow together with your business partners.

(Anonymous, 27 September 2009)

Vietnam is globally known for its low manufacturing labor costs. Accordingly, the domestic textile industry accounts for 25% the country's total production, and the textile industry is growing at a 15% rate annually. Although most products are originally produced for exporting, the garment retail market in Vietnam is growing due to consumers' brand awareness and demand for quality (A.T. Kearney, 2009a). Hence, foreign fashion retailers can benefit from the developed textile industry with its low labor costs.

6.2.4 Firms strategy, structure and rivalry

As an urban upper class is emerging in Vietnam, retailers set their strategies accordingly (TNS, 2009). That is, most retailers start their business in either HCMC or Hanoi, since demand for consumer goods is stronger than in other cities, let alone rural areas (Euromonitor International, 2008). As a growing share of the population in urban areas is experiencing a continuously increasing purchasing power, most modern retailing is targeted at mid-end consumers. Most interviewees, active in all sorts of retailing, have noted that the most profitable target group is the broad middle segment. For instance, Mr. (anonymous) stated:

Retailers are eyeing the growth of the middle class and looking at the potential growth opportunities in the B-customer segment.

(Anonymous, 6 October 2009)

The development of the retail industry in Vietnam is currently at its peaking stage[12], which implies that consumers are ready for organized formats rather than the traditional street shops and wet market formats (A.T. Kearney, 2009a). Retailers already present in Vietnam are attempting to expand their businesses and market shares, since competition is becoming fiercer (Euromonitor International, 2008; A.T. Kearney, 2009a; RNCOS, 2008). The current relatively low level of competition has led to the opening of many modern retail outlets of both local and foreign firms. This trend has particularly taken place in HCMC and Hanoi, since these are the most developed cities in Vietnam. As the level of competition is increasing rapidly here, many retailers are launching their stores in smaller cities as well (EuromonitorInternational, 2008). Mr (anonymous) referred to the current level of competition as follows:

The level of competition in the retail sector in Vietnam is rapidly becoming fiercer, but at the moment it is still manageable. Companies that entered Vietnam earlier enjoy first-mover advantages, especially in terms of the availability of retail space in department stores and shopping malls.

(Anonymous, 29 September 2009)

The domestic retailers in Vietnam are almost all privately-owned SMEs, with the supermarket chain Saigon CO.OP as the most appealing exception. Saigon CO.OP is Vietnam’s biggest grocery retailer and is expanding rapidly with support of the government. The dominance of SMEs in the retail industry is in accordance with the fragmented business system in Vietnam. However, companies are expanding, particularly through the development of specialized chained stores, which also results in fiercer competition in the future. Specialist stores are found convenient, since consultation could be provided by employees and after-sales service is good. It is mainly non-grocery retailing (e.g. clothes, health products,

[12] A.T. Kearney (2009a) distinguishes four stages of a country’s retail market: *opening, peaking, maturing, and closing.*

cosmetics, etc.) in which specialist stores are emerging and boost the level of competition. In grocery retailing, however, the specialization trend is not expected to occur, since hypermarkets, supermarkets, and convenience stores will satisfy consumers' needs for groceries (Euromonitor International, 2008). Accordingly, future growth is expected in the mass grocery retailing industry, as hypermarkets, supermarkets, and convenience stores have all proved popular in Vietnam. Foreign grocery retailers are already present in Vietnam (e.g. BigC from France; Lotte Mart from South Korea; METRO from Germany) and some of the world's biggest retailers (i.e. Tesco, Carrefour, and Wallmart) seriously consider entering Vietnam (BMI, 2009; Euromonitor International, 2008). If these industry giants actually will enter Vietnam, the opportunities for other grocery retailers will rapidly decrease. As modern grocery retailing is increasing, the traditional retail stores will eventually disappear (BMI, 2009).

Domestic grocery retailers have started cooperation agreements with each other in order to cope with fiercer competition. The Vietnam Distribution Association Network Development Joint Stock Corporation (VDA) was established in May 2007 and forms a joint effort of four leading retail corporations, including Saigon CO.OP, Hanoi Trading Corporation, Saigon Trading Corporation, and Phu Tai Corporation, to develop an integrated network of local retailers and distributors. VDA would focus on building and developing a chain of trading centers and hypermarkets (USDA Foreign Agriculture Service, 2009). In addition, in October 2007 the Vietnam Retailers Association (VRA) was established. The VRA is a non-profit organization that aims to "gather, cooperate, support and protect the members' legal rights in order to build and develop the retail sector"[13]. Among its 150 members are both the largest and several small Vietnamese retailers. It is particularly in the members' concerns to be informed about the latest legal developments on the retail sector, as the retail market is gradually being opened to foreign retailers by the government. The latter is dramatically affecting the attractiveness of the retail industry and, accordingly, is resulting in fiercer competition. Both the VDA and the VRA are networks of domestic retailers that attempt to strengthen their position vis-à-vis foreign entrants. However, due to a lack of clear information in both cases the effectiveness of the organizations is open to debate.

[13] Information concerning the VRA was gathered through several email conversations with the chairman of VRA. Unfortunately, the VRA does not yet provide any formal information through a website.

6.2.5 Role of the government

Vietnam is a single-party state operating under the leadership of the Communist Party. The highest law-making body is called the National Assembly, which is also responsible for the election of the President of Vietnam. Furthermore, the Government is responsible for the day-to-day operations and consists of 20 ministries, headed by the Prime Minister. Vietnam is divided into 59 provinces and 5 cities (including HCMC, Hanoi, Da Nang, Haiphong and Can Tho) directly under central authority (PwC, 2008b).

As appeared from the application of Whitley's business system theory, the government's influence on the business environment in general is significant. Besides the government's involvement in the business environment through SOEs, it is responsible for the development of economic policies and law-making, which substantially affect the ways in which business activities are conducted. Due to Vietnam's open-door policy since the initiation of Doi Moi the investment climate has become more attractive for foreign companies. The legal system behind the investment climate, international trade, business activity, and ownership discrimination has changed dramatically, which has resulted in an improved investor perception of the Vietnamese economy (Tran, 2008). On 7 November 2006 Vietnam officially joined the WTO and in January 2007 the commitments were put into effect. For example, import duties on imports used as the inputs for both domestic production and for producing exports have been remarkably reduced (PwC, 2008b). Although the investment climate has become more attractive during the past decades, especially since Vietnam's accession to the WTO, there is still much room for improvement regarding the FDI-regime and the overall business climate (Tran, 2008). Illustrative in this respect is the result of a survey conducted by the World Economic Forum, in which Vietnam ended 114th out of 118 countries in terms of market access (Baker & McKenzie, 2009a). In addition, according to the World Bank (2008) Vietnam ranked 92nd out of 181 countries in terms of regulations that enhance business activity and those that constrain it. Vietnam ranked particularly low regarding the 'protection of investors' and 'starting a business' (World Bank, 2008).

In general, one of the main barriers for investing in Vietnam is the bureaucracy companies have to deal with. Due to the complex and thorough involvement of many government institutions, investors need to be patient and have to accept the inefficient decision-making processes. Doing business in Vietnam requires a comprehensive understanding of regulations and required permits, since the government still wants to impose its control over business activities. Besides the bureaucracy that is inherent in doing business in Vietnam, it should be taken into account that there is a lack of clear government policies and regulations. That is, rapidly changing policies and procedures are difficult to overcome and hinder an efficient execution of business activities (PwC, 2009b). The negative impact of bureaucracy has been frequently mentioned during the interviews and is perceived as a major barrier to enter Vietnam. However, none of the interviewees was willing to be quoted by name, since sensitive statements towards the government are taboo and prohibited. Therefore, the following statement, which represents a common view, is quoted anonymously:

The level of bureaucracy, paperwork, and permits required to do business is extremely high. This is a serious constraint to doing business in Vietnam. In addition, the law system is unreliable and unpredictable, as laws are continuously subject to change and laws are defined unclearly.

(Anonymous)

An even more sensitive subject that was attempted to be discussed during the interviews is the influence of corruption on doing retail business in Vietnam. Since it is irrefutable that the level of corruption in Vietnam is high[14], interviewees were questioned about the role of corruption in the retail sector. However, discussing the role of corruption in depth regularly turned out to be too sensitive, especially regarding one's own company. Most often, it was emphasized that one's company was not engaged in corrupt activities. In contrast, PwC (2009b) found that corruption was a critical factor that acts as a barrier to FDI in Vietnam. Due to the unclear applicability of laws, there is more potential for judicial corruption. Moreover, in Vietnam there is no independent anti-corruption agency, as the Government Inspectorate has been the main anti-corruption institution in Vietnam. According to PwC (2009b), the disputed efficiency and lack of independence of this institution are the main reasons of its questionable performance. As one of the interviewees stated:

The level of corruption in Vietnam is high, but as a foreign retailer you have to deal with this. However, if you pay you can get everything, especially when you pay through an agency.

(Anonymous)

[14] Transparancy International (2008) ranked Vietnam 121st out of 180 countries on the global Corruption Perception Index. Vietnam scored 2.9 on a 0-10 scale with 0 meaning 'highly corrupt'.

From an ethical viewpoint corruption should not be compromised for, even though it might work in the short term. In academic literature on corruption it is generally argued that FDI levels are determined by trade-offs between market attractiveness and corruption, whereby corruption negatively affects a country's market attractiveness (Brouthers, Gao and McNicol, 2008). As the chance of running into situations with corruption is high in Vietnam, investors have to accept that it is a part of doing business. Although it might be tempting to engage in corruption in order to accelerate administrative processes, in the long term it is better to be patient in paperwork with authorities to get things done (PwC, 2009b). Moreover, over time the level of corruption will decrease as a result of an increasing level of FDI. That is, government officials and business people may modify their practices after the foreign companies in order to raise the country's reputation, increase legitimacy, and thereby attract more investment (Kwok and Tadesse, 2006).

After Vietnam's WTO accession, restrictions on foreign ownership in the retail sector were said to be removed. Prior to Vietnam's accession, foreign-owned retail was not allowed without approval of the Prime Minister and market access was granted on a discretionary, case-by-case basis. Up till 2007 foreign retailers were allowed to have a maximum share of 49% in a JV. Since 2008 a majority share with a maximum of 51% was allowed and since January 2009 distribution services have been opened up to 100% foreign ownership[15] (Baker & McKenzie, 2009a). Accordingly, in many research reports the removal of the ownership limitations has been acclaimed the most promising aspect of the retail market in Vietnam. Due to the removal of the entry barriers it is expected that many foreign retailers will penetrate the retail market (e.g. A.T. Kearney 2009a; Euromonitor International, 2008; USDA Foreign Agriculture Service, 2008; RNCOS, 2008). Although the retail sector has been officially opened for foreign retailers, regulatory constraints imposed by the government are still hindering the expansion of foreign retailers in Vietnam. That is, foreign retailers are allowed to open one single 100% foreign-owned retail shop. If a firm wants to expand its business each further shop is subject to an 'Economic Needs Test' (ENT), which examines the number of existing service establishments in the geographic area, the stability of the market, and the geographic scope. These criteria are described rather vaguely and neither the government can explain what is has agreed to. The ENT regulations are even applicable to companies with only 1% foreign investment (Baker & McKenzie, 2009a). For example, Lotte Vietnam Co., a

[15] 100% foreign ownership not allowed for the following products: Tabacco, books, newspapers and magazines, video recordings, precious metals and stones, pharmaceutical products and drugs, explosives, processed oil and crude oil, rice, cane and beet sugar (Baker & McKenzie, 2009a).

partnership between the South Korean department store operator Lotte Shopping and Vietnam's Min Vanh Company, was denied approval for a second Lotte Mart shopping centre in HCMC, as the proposed location is only 680 meters away from an already existing Saigon CO.OP supermarket (VNBusinessNews, 2009b). It could hence be concluded that local companies are still being protected by the government. Although 100% foreign-owned retail companies are allowed since January 2009, the uncertainty whether approval will be granted by the government to expand a (partially) foreign-owned retail company through further shops is posing a serious barrier to investing in Vietnam.

6.2.6 Chance

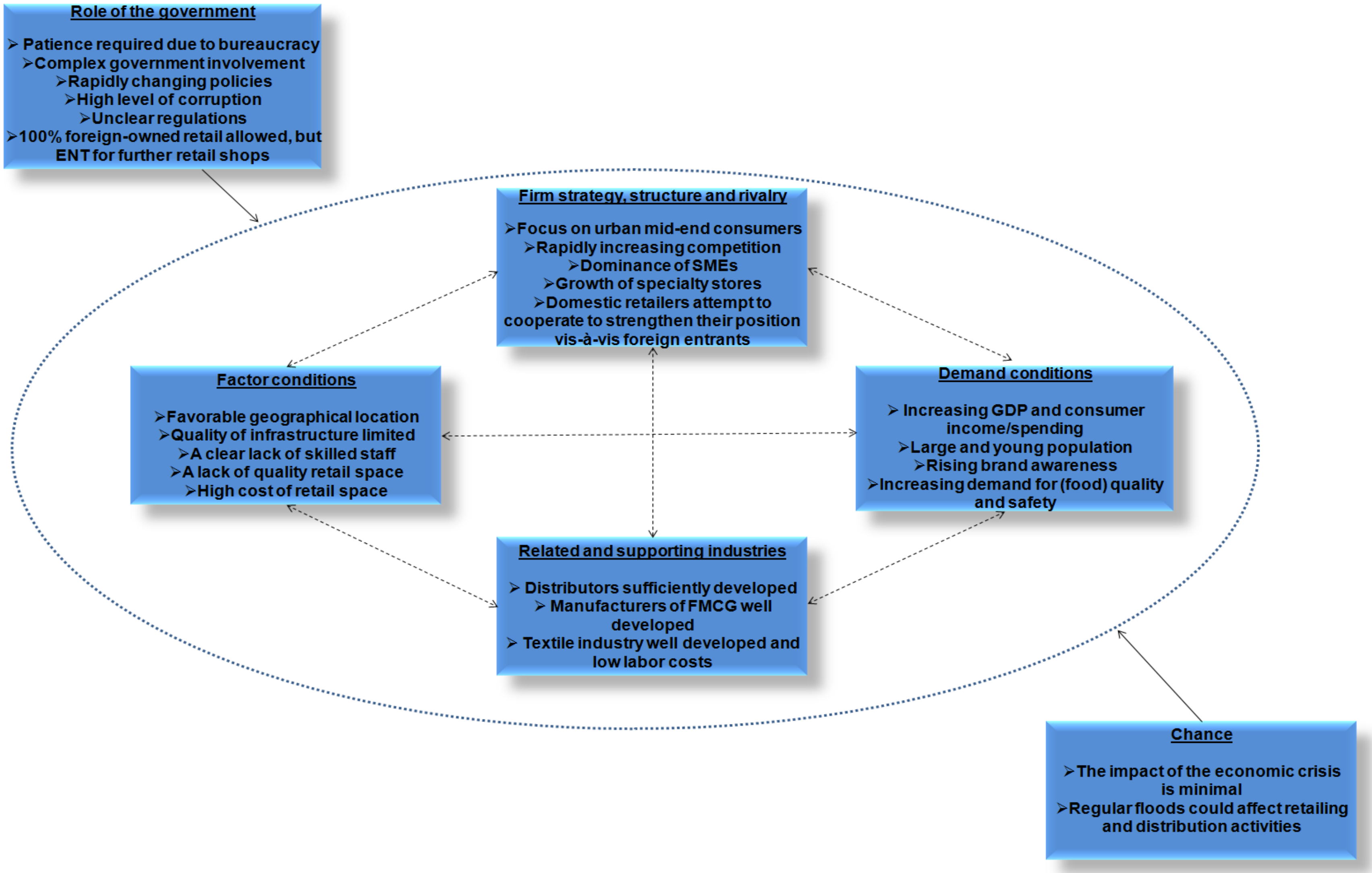
The ongoing global economic crisis has impacted the development of the Vietnamese economy. However, GDP growth is expected to increase in the coming years (Figure 10). A.T. Kearney (2009a) stresses the attractiveness for retailers to expand their business activities into emerging economies; in particular during times of economic recessions. Accordingly, Vietnam serves as an attractive market for retailers, in which growth of consumer income and spending is among Asia's highest. Even during the recession modern trade has been growing in terms of value spent per outlet type and FMCG growth in Vietnam is the highest in Asia (TNS, 2009). Hence, up till now the retail market in Vietnam has not been hit hard by the economic crisis. Moreover, as the economy will grow at a fast pace in the coming years, just as consumer spending, the retail sector in Vietnam will prosper.

Another factor that cannot be controlled by companies, but could yet influence doing business in Vietnam is climate change and natural disasters. In Vietnam people have to deal with heavy floods regularly during the wet season and problems regarding this problem have not been tackled by the government either. Even in HCMC and Hanoi flood problems are not controlled yet, not to speak of Vietnam's less developed, rural areas. Floods could affect both actual retailing activities and distribution and logistics activities.

6.2.7 Summarizing the application of Porter's diamond

Figure 15 shows the results of the application of Porter's diamond to the retail sector in Vietnam. The most important drivers of the growth of Vietnam's retail sector are the favorable demand conditions. Increasing GDP and disposable income levels combined with a relatively large and young population result in strong growth opportunities for modern retailing in this sector. Obviously, firms are attempting to adjust their strategies to these

FIGURE 15: PORTER'S DIAMOND APPLIED TO THE RETAIL SECTOR IN VIETNAM



demand conditions by focusing on mid-end consumers and offering high-quality products in modern shops.

In spite of the favorable demand conditions, the application of Porter's diamond has also led to the detection of a number of entry barriers. Especially the lack of local, skilled staff and the lack of quality retail space are major barriers to successfully enter the retail market in Vietnam. Due to the lack of retail space and suitable locations, particularly in HCMC and Hanoi, rental costs are high. Another important barrier for foreign retailers is the government's deep involvement in the business environment. More specifically, bureaucracy and corruption are hampering efficient business processes. Furthermore, as policies often change quickly and regulations are defined unclearly, companies have to be patient with the authorities. Most importantly, since January 2009 100% foreign-owned retail companies are allowed in Vietnam. However, every further shop after the first one is subject to the unclear ENT, which is imposed by the government and impedes the expansion of foreign retailers in Vietnam.

6.3 Step 3 – The Identification of Critical Resources and Capabilities for Dutch Retailers

As the market conditions in Vietnam are in constant flux, the primary determinants of firm value, according to Makhija (2003), are the firm's resources and capabilities. In the previous sections the external environment of retail companies in Vietnam was analyzed through the application of Whitley's business system theory and Porter's diamond of national competitive advantage. Based on this analysis critical capabilities are detected that all retailers should possess to be successful in the long run.

6.3.1 Recruiting, developing, and retaining skilled employees

The lack of skilled staff has turned out to be a major barrier for both domestic and foreign retail companies in Vietnam. Due to the fact that modern retailing is still in its infancy, people have not yet been exposed to modern retailing much and hence are lacking experience with modern retailing in general. This lack of exposure and experience forms a major challenge for foreign retailers that are planning to enter Vietnam. The lack of experience, in combination with a relatively poor level of education and a shortage of training institutes regarding the retail business, force companies to develop specific skills in recruiting, developing, and retaining their employees.

Foreign retailers are facing fierce competition globally and there is a need to recruit, develop, and retain talent effectively (Deloitte, 2009b). Usually, a limited number of expatriate managers are replaced to overseas management positions in emerging countries. Sending people to overseas locations is rather costly, which is why companies practically always choose to recruit local employees. According to Deloitte (2009b), many of today's retailers rely on a business model that includes multiple stores, multiple channels, and multiple geographies. This model requires an intelligent workforce. Although Deloitte's study (2009b) is neither focused on emerging economies nor on Vietnam in particular, the need for skillful people is consistent with the situation in Vietnam. The workforce has always played an essential role in retail and it is found that retail companies that spend 3.5% - 4% of their budgets on workforce development end up in the top 5% - 10% of the best performing companies within the sector (Grossman, 2005). Hence, it is clear that the workforce plays a major role in establishing a successful retail company.

According to Bartlett and Goshal (2002), organizations should incorporate human resource (HR) policies into strategic management in order to recruit, develop, and retain talented employees. Moreover, Grachev, Rogovsky and Bobina (2006) stress the relation between effective human resource systems and firm competitiveness in emerging markets. An effective talent management strategy encompasses developing talent, increasing people's efficiency and effectiveness, and providing training programs concerning what, when, where, and how work should be done (Deloitte, 2009b). It should be understood that the Vietnamese business environment, including the retail sector, lacks the tradition for advanced human resource management systems. These should hence be brought in by the foreign, experienced modern retailers. However, exporting a talent strategy that is successful in the modern world needs to be adjusted to be successful in Vietnam too. Furthermore, even companies with extensive international experience cannot rely on past experience in meeting staffing needs (Ready, Hill and Conger, 2008).

Young workers are flooding the marketplace in Vietnam. However, as the level of education is limited, many graduates have inferior English language and communication skills, and logically lack experience with working for modern retail companies. Ready, Hill and Conger (2008) developed a framework for attracting and retaining talent in emerging markets. The framework consists of four elements: opportunity, purpose, brand, and culture. *Opportunity* means challenging work, continual training and development, and competitive pay. As also appeared from the interviews, it is important to offer employees the possibility to develop themselves and climb the ladder within a company. *Purpose* refers to corporate social responsibility. Dutch companies that have been in Vietnam for a long time already (e.g. Unilever; FrieslandCampina), are well aware of their impact on the development of Vietnam as a country. Their corporate citizenship and commitment to the country is highly appreciated by their employees and the government. The importance of social commitment is also stressed by Grachev, Grogovsky and Bobina (2006). Next, the increasing *brand* awareness among consumers is being extrapolated to employees, as they are particularly attracted by brand names that are associated with inspirational leadership. Finally, a company's *culture* must be authentic, talent-centric, a balance between teamwork and individual achievements should be found, and responsibilities to individuals should be granted based on demonstrated talent and ability, i.e. meritocracy. Overall, the promises made to employees should be kept in order to retain them (Ready, Hill and Conger, 2008).

An often mentioned complaint during the interviews was the rapid pace at which talented employees change jobs. In order to avoid this, companies should commit and satisfy their employees based on the above mentioned framework. People should be paid sufficiently, but aspects such as career development and training are just as important. In the case of Vietnam, with its young modern retail sector, it is important to provide training to employees at all levels of the company. People working in shops should be trained in terms of basic selling and marketing skills, which is relatively easy as low-skilled laborers are abundantly available. However, more problems are experienced by all interviewed retailers regarding recruiting, developing, and retaining high-skilled employees for middle and top management positions. Therefore, at all interviewed foreign companies top management positions were taken by expatriates. Basic skills such as leadership, communication, teamwork, time management, and cross-cultural skills are often lacking, especially in a country where SOEs and small firms dominate the economy (Grachev, Rogovsky and Bobina, 2006). Hence, middle and top managers at retail companies have to be trained and developed continuously by the foreign entrant itself. Valuable human assets can be created through well developed human resource capabilities, which can lead to a sustained competitive advantage (Barney, 1991).

Selecting, developing, and retaining skilled employees is a task of the human resource department of each organization. Specific Vietnamese issues should be incorporated in the HR policies of foreign retail firms (Grachev, Rogovsky and Bobina, 2006). Even though Vietnamese people are rather short-term oriented, high job hopping rates in the retail sector can be transformed into high retention rates by offering the opportunity to grow within the company, based on both teamwork and individual performance and ability. As said, personal development is rather important, as Vietnamese employees are quite ambitious and eager to learn. Furthermore, social corporate responsibility should be genuinely disseminated, as this is highly appreciated by the local and national government bodies in Vietnam, as well as by the employees. In addition, many companies prefer to recruit overseas Vietnamese talented people, who are both familiar with modern Western retailing and local Vietnamese culture and business.

In summary, it is proposed in this report that (Dutch) retail companies can achieve a sustainable competitive advantage in Vietnam by successfully recruiting, developing, and retaining talented and skilled employees. These HR capabilities will lead companies to outperform competitors, since the lack of skilled staff forms an important barrier for foreign companies to enter Vietnam. According to the RBV, competitive advantage is based on firm heterogeneity and the evolution of firm resources and capabilities. Still, it is argued that certain context specific capabilities, i.e. HR capabilities, are required by all foreign retailers in Vietnam in order to become successful. How companies shape and develop these capabilities in practice will be determined by their already existing internal resources and capabilities.

6.4 Step 4 – Recommendations Concerning Entry Mode Choices

The final step of the framework that has to be applied refers to entry mode choices. As was already mentioned before, choosing the mode of entry has significant long-term consequences for companies (Hill et al., 1990; Gielens and Dekimpe, 2001). Company specific entry mode choices are both dependent on the internal resource base and on the external market, which was already analyzed by means of Whitley's business system theory and Porter's diamond of national competitive advantage. In the case of the retail sector in Vietnam, the restrictions on entry mode choices posed by the government are significantly influencing foreign retailers' possibilities to penetrate the market. Next to these restrictions, literature on the RBV is applied in order to provide recommendations concerning entry mode choices.

6.4.1 Government restrictions on entering the retail sector in Vietnam

The influences of the government are omnipresent in Vietnam, especially with respect to the penetration of foreign retailers into the retail market. The young domestic industry is still heavily protected by the government by subjecting foreign retailers to an ENT if a firm wants to expand its business, which is the most important remaining market access limitation. Even firms with only 1% foreign investment are subject to an ENT, which is conducted by governmental authorities (Baker & McKenzie, 2009a). The ENT is a major market access limitation, especially due to the inherent uncertainty that it elicits regarding expansion. It appeared from many interviews, including the interview with the marketing manager at state company Saigon CO.OP, that the government is protecting domestic retailers by means of the ENT and also by providing access to suitable locations to domestic companies. However, since January 2009 foreign retailers are officially allowed to enter Vietnam with 100% foreign-owned capital, whereas in 2008 this was only 51% in a JV. Regarding warehousing the restriction to 51% will be lawful until 2014, after which even in this retail branch 100% foreign-owned market entry will be allowed (Baker & McKenzie, 2009a). Hence, regarding warehousing it is important to note that until 2014 foreign entrants are forced to cooperate with a JV-partner.

The dominant role of the government of Vietnam should be taken into consideration before actually entering the market. Meyer et al. (2009a) distinguish between 'strong' and 'weak' institutional arrangements. Weak institutions fail to ensure effective markets or even undermine markets, which happens in many highly corrupt emerging economies, including Vietnam. In countries in which institutions fail to ensure effective markets it is important to develop close relationships with government institutions. In Vietnam, the number of permits, licenses, and formalities required to do business is very high, which in combination with the high level of corruption leads many companies to develop close relationships with government officials. Meyer et al. (2009a), among many others, conclude that finding a local partner is most effective regarding the development of close ties with authorities, as the local partner already has developed these relationships. The importance of developing these relationships is also underlined by Mr. (anonymous):

Being an international retailer, it is important to have good links with the local government and being able to communicate openly the challenges international retailers are facing and how international retailers can support the local government in creating a stronger local economy.

(Anonymous, 27 September 2009)

Thus, based on the omnipresence and deep involvement of the government in doing business in Vietnam, foreign retailers are recommended to enter Vietnam via a JV or acquisition. Luo (2001) emphasizes, accordingly, the importance of using a local partner, as their knowledge, experience, and business networks can be utilized to develop a better relationship with governmental authorities. In addition, Yiu and Makino (2002) conclude that the more restrictive the regulatory domain of a host country, the more likely foreign companies will choose to enter via a JV rather than via a wholly owned subsidiary. In order to gain market legitimacy and lessen some of the regulatory constraints a local partner could be used. Furthermore, a local partner's knowledge and skills for dealing with the local authorities can be benefited from, just as the local partner's reputation. On top of that, several empirical studies have shown that entering a host country in cooperation with a local partner is positively correlated to the restrictiveness of the host government (Yiu and Makino, 2002). Mr. (anonymous) and Mr. (anonymous) state the following regarding the use of a local partner:

The advantage of a local partner is that you do not have to deal with the government anymore, as this is done by the local partner. In our case the same JV-partner is often used for more than one hypermarket.

(Anonymous, 28 September 2009)

Foreign retail companies want to joint venture with us, because we have excellent relationships with the government. With 'company x' we arranged the location and did the paperwork, while they take care of the daily operations and management.

(Anonymous, 2 October 2009)

The level of corruption is closely related to the restrictive government and foreign companies' entry strategies. That is, the instability and uncertainty of the environment is enhanced by a high level of corruption. By collaborating with a local partner these constraints could be overcome, as firms do not know in advance how their activities will be limited by corrupt government officials (Uhlenbruck, Rodriguez, Doh and Eden, 2006). Hence, when government intervention or environmental uncertainty is high, companies prefer to use a collaborative entry strategy, such as a JV (Luo, 2001).

Thus, based on the role of the government, the importance of relationships, and the uncertainty due to the high level of corruption, companies are recommended to enter the retail sector in Vietnam through a collaborative entry strategy rather than a greenfield investment.

6.4.2 RBV and entering the retail sector in Vietnam

Besides the government restrictions, the RBV is used in order to provide recommendations concerning company strategies to enter the retail sector in Vietnam. Applying the RBV for entry mode recommendations is legitimate, since it is likely that companies require context-specific resources and capabilities to achieve a sustainable competitive advantage in emerging markets (Meyer et al., 2009a).

Based on the interviews and desk research, this study argues that HR capabilities are critical for foreign entrants to be successful in the retail sector in Vietnam. The need to recruit, develop, and retain skilled staff is grounded in the current lack of available, skilled employees. In general, the RBV argues that foreign entrants that are lacking context-specific resources and capabilities could compensate for this by collaborating with a local partner (Lockett et al., 2009). Using a collaborative entry mode strategy, i.e. JV or acquisition, allows foreign entrants to make use of the human resources of the local partner. By doing so, foreign companies can ensure access to talented and already experienced employees, which are rather scarce in Vietnam and, hence, leading to competitive advantage. According to the GDRI, the retail sector in Vietnam is currently at its peaking stage, but is rapidly moving towards the maturing stage. In other words, competition is getting fiercer, also in terms of skilled retail staff (A.T. Kearney, 2009a). Therefore, it is important for retailers to quickly acknowledge the opportunities that Vietnam has to offer, and simultaneously not neglect the potential constraints to being successful. By making use of a local partner, either through a JV or an acquisition, foreign companies can make sure to acquire the necessary skilled local employees, which fastens the foreign company’s entry process.

Entering Vietnam by collaborating or acquiring a local partner does not imply, obviously, that all HR capabilities of the local partner can be used. In contrast, emerging market firms often want to learn from the foreign partner and profit from its expertise and knowledge (Hitt, Levitas, Arragle and Borza, 2000). This is also mentioned by Mr. (anonymous):

Vietnamese retail companies, both SOEs and private companies, often want to joint venture with foreign companies in order to gain knowledge of retailing. The Vietnamese retail sector is in its childhood and we want to learn from the foreigners.

(Anonymous, 18 September 2009)

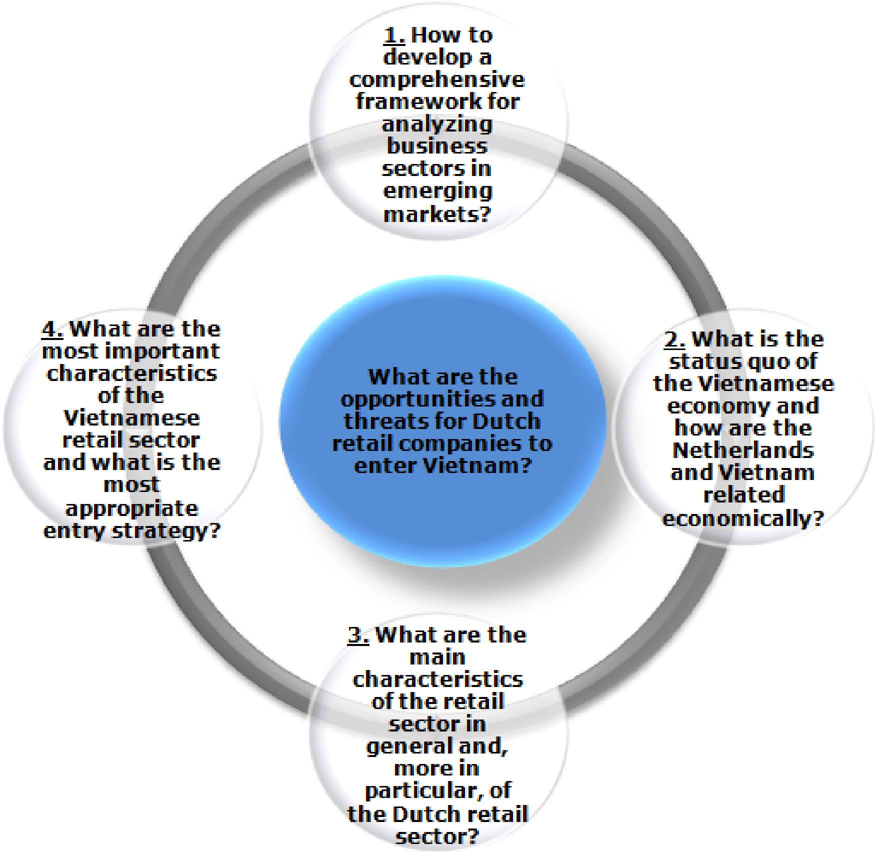
Thus, although implementing a collaborative entry strategy in the retail sector could allow for quick access to skilled employees and thereby to a quick advantage vis-à-vis competitors, sustaining this advantage still requires an accurate development of the HR capabilities. Depending on a foreign company's already existing capabilities, the HR policies and capabilities must be conformed to the Vietnamese retail sector. It cannot be expected from a local partner that it will take the lead in developing these capabilities, although it is important to benefit from a partner's local market knowledge (Hitt et al., 2000).

In summary, this research recommends companies to enter the retail sector in Vietnam by using a collaborative entry strategy. Both based on the government restrictions and the required capabilities it is concluded that joint venturing or acquiring a local partner will enhance a foreign entrant's sustained competitive advantage.

7. CONCLUSION AND DISCUSSION

In this section the main research question will be answered as a logical result of the previous parts, in which the four surrounding sub-questions were paid attention to (see Figure 16). Besides an overall conclusion, limitations of this research and recommendations for future research will be provided.

FIGURE 16: FOCUS OF SECTION 7



7.1 Answering the main research question

The first research objective of this study was to develop a framework for analyzing business sectors in emerging markets. The second research objective was to apply the framework to the retail sector in Vietnam. These objectives led to the following main research question: *What are the opportunities and threats for Dutch retail companies to enter Vietnam?*

Firstly, as the CG in HCMC requested a model to analyze business sectors consistently, a framework was developed based on the following theories: Whitley's business systems theory, Porter's diamond of national competitive advantage, and the RBV. The proposed framework allows for a comprehensive step-by-step analysis on a macro, meso, and micro level. Moreover, restrictions on investing in an emerging country's particular business sector and the possibly detected required resources and/or capabilities, allow for recommendations concerning foreign companies' entry strategies. These recommendations particularly focus on entering an emerging market through either a collaborative or an independent strategy. Hence, it is shown that the RBV and the two market-based approaches can be used jointly, since it is possible to identify critical resources and capabilities that are required by all foreign entrants in emerging countries to be successful in the long run (Makhija, 2003). As the framework's applicability is not limited to Vietnam only, it can be applied by other Dutch Embassies and CG's, which are based in emerging markets. It is conceivable that future International Business & Management graduate students at the University of Groningen could apply the framework on behalf of the CG in HCMC, or other diplomatic posts across the world, to analyze business sectors in emerging markets. This would be both in accordance with the internationalization strategy of the University of Groningen and the need of the Dutch Ministry of Foreign Affairs to be consistent in its supply of information to companies.

Secondly, the application of the framework to the retail sector in Vietnam resulted in a comprehensive analysis of the opportunities and threats for Dutch retail companies to enter Vietnam. Based on extensive desk research and twenty semi-structured interviews with managers at (retail) firms that are already present in Vietnam, the framework was applied step-by-step. Naturally, the results are primarily aimed at Dutch retailers, but due to the nature of this study, i.e. a market analysis, all results are just as useful for all other non-Vietnamese retail firms.

Before actually applying the framework, the status quo of the Vietnamese economy and the economic relationship between the Vietnam and the Netherlands was examined elaborately. Although Vietnam's GDP growth figures proved disappointing in the first quarter of 2009, during the remainder of 2009 and in 2010 the economy is (expected to) growing considerably. Interestingly, the Netherlands is the second largest investor in Vietnam from the EU and from a Vietnamese perspective the trade relationship is also quite intense. That is, the two-way trade turnover with the Netherlands accounts for 12% of Vietnam's total trade with the EU. The already well developed economic relationship between the countries is even further enhanced by the CG's diplomatic activities and the information supply to Dutch companies that are interested to invest in Vietnam.

After getting acquainted with the economy of Vietnam, the retail sector in general and, more in particular, the Dutch retail sector were examined. The retail industry is internationalizing, especially since emerging countries such as Vietnam are offering many opportunities to expand businesses and increase profits. However, Dutch retailers are still mainly focusing on their domestic market, instead of trying to profit from the opportunities abroad. Therefore, this research could be a stimulus for Dutch companies to invest in Vietnam.

From the first step of the framework it is derived that the Vietnamese business system is a combination of a state organized and a fragmented business system, which implies that SOEs, i.e. the government, and small companies are dominating the business environment in Vietnam. Furthermore, the short-term orientation of Vietnamese people is mirrored through the fragmented business system type, since employment and business relations are mostly short-term oriented regarding the many small owner-controlled firms.

The second step, i.e. the application of Porter's diamond, resulted in a profound analysis of the retail sector in Vietnam. The most important opportunities for Dutch retailers are the favorable demand conditions: increasing GDP, increasing disposable income, increasing spending on modern retail, urbanization, a large and young population, increasing brand awareness, and increasing demand for quality products. Hence, focusing on mid-end consumers and offering quality products in modern shops would be an appropriate strategy. The lack of local, skilled staff, the lack of quality retail space in HCMC and Hanoi, and high rental costs are important threats to succeed in Vietnam. In addition, the government is hampering efficient business processes through corruption and bureaucracy. Policies and regulations are subject to constant change, which causes uncertainty and inefficiencies. Most importantly, even though 100% foreign-owned retail companies are allowed since January 2009, the government is still protecting domestic companies by subjecting foreign companies' every further shop after the first one to an ENT. ENTs could hamper the expansion of foreign businesses significantly.

Using the RBV, i.e. the third step, resulted in the identification of critical capabilities for all foreign retailers in Vietnam. Due to the lack of skilled staff, especially for management positions, companies can achieve a competitive advantage through the development of their HR capabilities: recruiting, developing, and retaining skilled staff. The HR policies that are successful in other markets should be adjusted to the Vietnamese market, based on an individual company's unique resource and capability base. Non-monetary compensations (e.g. meritocracy, focus on individual development, corporate citizenship) are just as important as monetary compensations to attract and retain employees. These capabilities form the basis for sustainable competitive advantage, as the lack of skilled staff is a major threat for retailers to enter Vietnam.

The final step of the framework involves recommendations concerning entry strategy. Due to entry mode restrictions posed by the government, the high level of corruption, and the inherent importance of relationships, a collaborative entry strategy (JV or acquisition) is recommended rather than an independent entry strategy (greenfield investment). In addition, a collaborative entry strategy is also in line with the RBV, since the need to recruit, develop, and retain skilled staff is based on the alarming lack of available, skilled employees. Joint venturing or acquiring a local partner allows foreign firms to benefit from the talented and experienced employees of a domestic firm. This facilitates a quicker entry, which is important due to the increasing level of competition (also in terms of skilled staff). A collaborative entry mode should be seen as a first, but important, step to achieving a sustainable competitive advantage. Actually achieving a sustainable competitive advantage requires a thorough development of the above mentioned HR capabilities.

7.2 Limitations and recommendations for future research

This research suffers from several limitations, of course. Some of these limitations were already mentioned before, such as the cross-sectional nature of the study in spite of the fast changing business environment. Thus, it is possible that the results of this report will be outdated relatively quickly. In addition, as the research was conducted in HCMC, the results might be influenced by a geographical bias. However, this was already acknowledged in advance and it has been attempted to address the opportunities and threats for retailers to enter Vietnam as an entire country. Still, it should be noted that currently most retailers start their business in HCMC. Next to that, the generalizability of the results on the retail sector in Vietnam is limited, although the developed framework could be applied to random business sectors in other emerging countries as well. Furthermore, none of the results are tested quantitatively. The number of interviewees is relatively small, but the sample is believed to be representative. Moreover, the added value of interviewing is grounded in it being complementary to the secondary information used. That is, real world quotes provide the reader with a more practical, management oriented view of retailing in Vietnam. Another limitation is the subjectivity inherent in assigning the business system characteristics of Whitley's model to a particular country. Assessing a country's characteristics requires a validly coded specification which could be tested objectively. As such a specification is lacking, assigning the characteristics was done as objectively as possible, i.e. based on previous research, interviews, and logic reasoning. Besides, the recommendations concerning entry mode strategy are only based on government restrictions and the critical capabilities that are relevant for all foreign entrants. Entry mode decisions are rather complex, however, and could be influenced by a multitude of firm-specific factors too. However, in emerging countries government restrictions and critical resources and capabilities are argued to be paramount for foreign companies' entry strategies. In addition, the recommendations concerning entry strategy are limited to *collaborative* or *independent*, which is inherent in entry mode decisions based on the RBV. More specific choices between entry via a JV or an acquisition are dependent on firm-specific factors. Finally, companies might find the information supplied by means of this report too general. It, however, should be noted that the CG aims to inform a broad range of interested retail companies. Highly interested retailers can contact the CG to request a tailored market scan[16].

Future researchers are encouraged to apply the proposed framework, which proved to result in a valuable analysis of the retail sector in Vietnam. Future interns and/or the economic officers at the CG in HCMC could use the framework to analyze other promising sectors in Vietnam or update this report on the retail sector. Moreover, the framework could be applied at other diplomatic posts across the world too in order to consistently supply Dutch companies that are considering investing in an emerging market with detailed information. Further, future researchers are invited to adjust or extent the framework based on following case studies. Although the framework has turned out to allow for a comprehensive analysis, the preceding information about the economy of Vietnam, the economic relationship between Vietnam and the Netherlands, and the information about the retail sector in general and, more in particular, about the Dutch retail sector could also have been incorporated into the framework. Macroeconomic information about a host country and general information about the sector of relevance are valuable for companies that are considering entering a specific emerging market. Therefore, future researchers are advised to adjust the proposed framework accordingly.

[16] Please visit the CG's website for more information http://www.mfa.nl/hcm-en/consulate_general or email hcm@minbuza.nl

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APPENDIX A: A BRIEF CHECKLIST PER SUB-QUESTION

The elaboration of each sub-question should at least contain all elements that are listed per sub-question in this table. Answering the main research question is completely based on the four sub-questions.

Sub-question 1	Sub-question 2	Sub-question 3	Sub-question 4
Explain relevant theories and integration into a framework	Vietnam's economy in a historical perspective	*Retailing* defined	Step-by-step application of the framework
Examination on macro, meso, and micro level	Current GDP growth figures and forecasts	Internationalization process and development of retailing worldwide	Representative set of data required, both primary and secondary
Market-based and firm-based theories	Trade and FDI relationship Vietnam – the Netherlands	Current trends in retailing	Balance between scientific and practical information
Allow for recommendations concerning entry strategy	Diplomatic relationships Vietnam – the Netherlands	Impact of the economic crisis on the sector as a whole	Opportunities and threats for Dutch retailers mainly derived from this application
Information aimed at a group of companies rather than an individual company		Structure Dutch retail sector	Identification critical resources and capabilities at the firm level
Emphasize the role of the government		Dutch retailers and internationalization	Recommendations entry strategy

APPENDIX B: A SUBJECTIVE COMMENTARTY ON INTERVIEWING

Interviewing the managers was one of the most interesting and instructive aspects of conducting this research. As it was relatively new to me, I started reading articles on semi-structured interviews and I tried to think of some well-known interviewers. Based on that, I analyzed what would make a ‘good interviewer’. Soon I came to the conclusion that the most important thing is to be patient, show your interest, and be a good listener. The art of interviewing is to make the interviewee feel comfortable and thereby gain his/her trust, which makes him/her more willing to share information. Interrupting the interviewee could be perceived as impolite, depending on how and when the interruption is initiated. Sometimes interrupting is necessary though, since it turns out that people particularly enjoy talking about themselves and thereby tend to digress from the actual topic of relevance, namely the retail sector in Vietnam. As time is often limited, it should be made clear that some refocusing was required by changing the subject in a polite manner. For example: “I think that’s very interesting indeed, but would you mind if I ask you something about the role of the government now?”

Basically, most of the interviews started informally, by introducing ourselves, swopping business cards, talking about one another’s background and family, and proclaiming how much we enjoyed Vietnam. Before actually starting the interview, the purpose of this study was explained to the interviewee. Then the actual interview could commence. In most cases, the interview went fluently due to the participants’ willingness to share information and their understanding of my being focused on certain aspects of retailing in Vietnam. For instance, as the government is playing a substantial role in Vietnam, I always asked for an interviewee’s opinion of the government’s role, just as for the impact of corruption on doing retail business. For strategic reasons, these sensitive subjects were always asked for at the end of an interview, since it turned out that the mood of an interviewee could be negatively affected by talking about the government and corruption. In one case I even felt a bit threatened by an interviewee, who made the impression that he/she didn’t appreciate my, in his/her opinion, prejudiced question about corruption in Vietnam. As an answer to his/her repeated question ‘Who told you that!?’ I offered my sincere apologies, as it was not in my interest at all to offend someone who was willing to participate in my research. I explained that my purpose is to objectively examine the retail sector in Vietnam, that Vietnam is ranked 121st out of 180 countries on the Corruption Perception Index by Transparency International, which was the reason for my question, and that I was happy to continue the interview with his/her approval. Fortunately, the interviewee accepted that as an answer, and strange enough, the rest of the interview was very interesting and a lot fun, without any further complications.