

# SUMMARY REPORT

## **“DYNAMIC CAPABILITIES OF VIETNAM BUSINESSES: THE CURRENT SITUATION, POSITION IN THE VALUE CHAIN AND IMPLICATIONS FOR MULTI-STAKEHOLDER PARTNERSHIPS”**

*MSF 2022 SERIES*



*Hanoi, 10/2022*

# SUMMARY REPORT

## **“DYNAMIC CAPABILITIES OF VIETNAM BUSINESSES: THE CURRENT SITUATION, POSITION IN THE VALUE CHAIN AND IMPLICATIONS FOR MULTI-STAKEHOLDER PARTNERSHIPS”**

*MSF 2022 SERIES*

*Hanoi, 10/2022*

**This summary report highlights key findings and recommendations of the research report, conducted by the Enterprise Development Foundation under Vietnam Chamber of Commerce and Industry (VCCI), within Samsung Multi-Stakeholder Forum 2022 Series, titled “Moving up the Global Value Chains in Vietnam: Multi-stakeholder Partnership on Capacity Development and Due Diligence”, held on October 2022, in Hanoi, Vietnam.**

## **ENTERPRISE DEVELOPMENT FOUNDATION VIETNAM CHAMBER OF COMMERCE AND INDUSTRY - VCCI**

*Research team leaders:*

**Luong Minh Huan (PhD.)**, Director, Enterprise Development Foundation, VCCI

*Research team members:*

**Le Quang Viet**, Enterprise Development Foundation, VCCI

**Pham Phuong Nhi**, Enterprise Development Foundation, VCCI

**Bui Phuong Lan**, Head of Partnership and Engagement, Samsung Vietnam

*We also appreciate our contributor:*

**Tran Thi Lan Anh**, Secretary General, VCCI

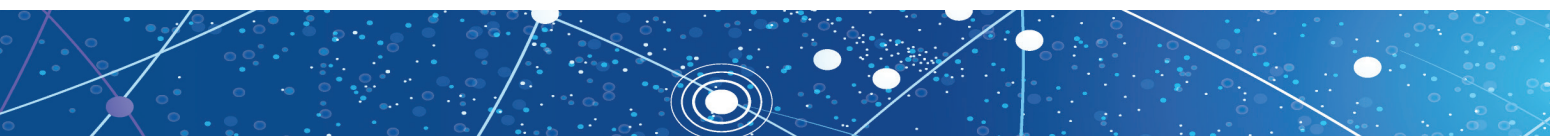
**Le Duy Binh (PhD.)**, Managing Director, Economica Vietnam

**Ha Van Hoi (Assoc. Prof., PhD.)**, VNU University of Economics and Business

**Nguyen Ngoc Son (Assoc. Prof. PhD.)**, National Economics University

**Pham Ngoc Thach**, Deputy Director of the VCCI's Legal Department

*This summary report is for reference purposes only. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Vietnam Chamber of Commerce and Industry (VCCI), Samsung Vietnam or the organizations/ individuals mentioned in the report.*



## I. Introduction

The global value chain (GVC) has formed and dominated most of commercial activities recently along with science and technology development and integration trends. GVC brings both opportunities as well as challenges for all countries, contributing to boosting each country's trade advantages. With the business world changing rapidly, the theory of dynamic capabilities is mentioned as the basis for creating competitive advantages and bringing business efficiency. The Covid 19 pandemic and recent major events in the global economy and politics are creating new impetus to accelerate the trend of restructuring GVCs. It also sets an urgent requirement for Vietnamese businesses to improve their long-term and sustainable competitiveness to seize opportunities and upstream positions in GVC. In that context, the theory of dynamic capacity - reflecting the ability of businesses to integrate, build, and reconfigure internal and external competences to address rapidly changing environments - is becoming the most important factor. Therefore, the overall assessment of dynamic capabilities as well as determining the current position of Vietnam businesses in GVC is extremely necessary in the new development period.

Based on an overview and survey of about 500 businesses operated in the manufacturing, processing industries and have import-export activities, this study identified the position of Vietnam businesses in the global value chain, build a framework for assessing dynamic capabilities for businesses. It also reviewing policies and proposing solutions to promote Vietnamese businesses to improve their dynamic capabilities and its position in the global value chain.

## II. Dynamic Capabilities assessment framework

Through the overview study, the research team has developed dynamic capabilities framework including 7 components as follow: (1) Market sensing capability; (2) Dynamic seizing capability; (3) Dynamic Adaptability; (4) Learning Orientation and application; (5) Networking capability; (6) Innovation capability; and (7) Supply Chain Risk Management.

## III. The current situation of dynamic capabilities of Vietnamese businesses

When assessing a business through its dynamic capabilities, it can evaluated the ability of businesses to integrate, build, and reconfigure internal and external competences to not only address rapidly changing environments but also take advantage of market opportunities to enhance business efficiency and competitive capacity. Through a survey of about 500 businesses operated in the manufacturing, processing industries and have import-export activities, this study showed optimistic results with most of the criteria belonging to 7 groups in the dynamic capabilities framework. The survey results on the 5 point - Likert scale show that the majority of businesses self-assess themselves at the average level (3) or good level (4), in which the good level is higher. In addition, there are very few businesses that rate themselves at low (2) or very low (1) levels. The criteria of Learning Orientation and application are rated by businesses at the highest level compared to the remaining capabilities, with the mean score on the 5 point - Likert at 3.70 points. On the other hand, the criteria of the innovation capability are rated by businesses at a lower level relative to the remaining capabilities, with the mean score on the 5 point - Likert at 3,46 points. In addition, the survey results also show that dynamic capabilities of businesses tends to be directly proportional to the size of the enterprise when all 7 components of dynamic capabilities framework of large businesses are higher than those of small and medium businesses. Considering the



type of enterprise, the FDI business sector have higher dynamic capabilities than the private sector, when FDI businesses have higher score in 6 over 7 components of dynamic capabilities than those in private sector businesses, except innovation capability.

#### **IV. Positioning Vietnam businesses in the global value chain**

For more than 30 years, Vietnam has increasingly opened its economy, from a closed economy to one of the most integrated economies in the world, emerging as an economy with the leading export and import capacity in the region and the world: the total value of import and export turnover of goods in 2021 reached a record of 668.5 billion USD, up to 22.6% over the previous year, putting Vietnam in the group of 20 leading economies in terms of international trade; recorded the 6th consecutive year of success in maintaining the trade surplus of the economy.

In addition, Vietnam is also considered as an important manufacturing center in Southeast Asia. According to the OECD, in the period from 2010 to 2018, the total value added in export goods and services of Vietnam has tripled, in which, the Funding Value Adjustment of product consumption from Vietnam's GVC (FVA) increased by 3.6 times and the value of products supplied to GVC (DVX value) of Vietnam increased by 2.7 times in the period 2010-2018.

Vietnam's GVC participation rate increased from 52.1% to 62.1% from 2010 to 2018 reflecting an develop in GVC participation, supported by an increase in the FVA rate from 42.8% to 51.1%, offsetting the decline in the DVX ratio, from 12.3% to 11%. With the results of 2018, Vietnam has on of the highest GVC participation rate in the ASEAN region, just behind Singapore and Brunei, and even higher than China, Korea, Japan, the US, and Brazil. However, the share of FVA in total exports is much higher than that of DVX, showing that Vietnam is increasingly participating in GVC as backward participation rather than forward participation. GVC's forward participation rate is only approximately 0.6 times that of China; 0.5 times Korea; 0.4 times of the US and Japan; in contrast, the rate of backward participation in GVC of Vietnam is 5.4 times higher than that of the US; 3 times higher than that of China and Japan; 1.6 times higher than that of Korea.

Among the stages of production chain, the survey results show that businesses focus mainly on the stages of distribution (35.3%), production of raw materials and accessories (34.5%), research and development (33.2%) and assembling (30%), of which raw material production, assembly and distribution are the midstream stages, bringing the lowest added value in the value chain. There are few businesses can take on stages such as marketing and branding (accounting for 17.4% and 16.8% respectively). This is one of the main reasons why Vietnam businesses do not have much of global brands, and their positions are still low in value chains in regional and global markets.

About half of the businesses participating in the survey set goals when joining in GVC, in which they mainly expect to create their trademark in the market (66.7%), become high-level suppliers in the value chain (60.1%) or derive more value from the value chain (55.1%). However, most of the goals set by businesses are only at the level of ideas and desires, but have not been put into practice. Up to 64.7% of businesses have not prepared anything when participating in GVC and 15.3% have only launched an overall long-term oriented strategy for more than 5 years, only less than 5% of businesses have embarked on implementing specific actions. The survey results show that in the current state of lack of initiative and preparation of Vietnam business, it is very difficult



to take advantage of opportunities in GVCs to create leaps and bounds for businesses.

The survey results also show that business plans focus mostly on improving product quality (99%), enhancing market expansion (97.1%), improving understanding of the value chain (95.2%), while less focus on the activities of preparing high-quality human resources (85.6%), improving science and technology capability (84.6%), and mobilizing financial resources (78.8 %).

In general, businesses self-assess their ability to meet the requirements of partners in GVC at the average threshold with a rate of 57-60%. In which, businesses show their higher ability when meeting regulations on human rights, labor and employment; regulations on social responsibility; regulations on safety, environmental sanitation and volume of orders, while having more difficulty in delivery time requirements ; and standards & technical requirements.

In the process of participating in GVC, businesses have been receiving support in many forms. In general, for businesses that received support, the most support comes from business associations and partners in the chain, followed by support from State agencies and the last one from the international organizations. However, in terms of financing support, the State plays the most important role with 34.6% comes from the State's source, much higher than that of other sources. Business association proved to be important role of businesses networking and expanding markets, with approximately 35-38% among businesses that received support. In terms of technology transfer and application as well as research and development, international organizations have proven their better role, contributing to support for about 22-24% of businesses received support.

## **V. Evaluate the State's policies and programs to improve capacity and support businesses to participate more effectively in the global value chain**

In recent times, the State's policies and programs have covered almost all the different aspects that businesses need to be supported in improving their dynamic capacity and their position in the global value chain. In addition, forms of support are also more diverse in terms of methods, objects and partners. Many businesses have approached the policy and received support from several sources such as the State, business associations and international organizations. However, the State's policies and programs still have some limitations such as: Lack of coordination among parties in policy formulation and issuance; The impact assessment of the policy has not been done well; Many policies have been issued slowly or promulgated but have not yet reached businesses. Nearly half of businesses participating in the survey answered that they had difficulties in accessing policies due to lack of information, more than one-third of businesses said that the beneficiary procedure was complicated, nearly a quarter of businesses said that supportive policies does not match the needs of the business.

## **VI. Recommendations**

*Policy recommendations to the State:* There should be synchronous coordination between the parties in the development and implementation of policies to support businesses to participate in the global value chain. In addition, businesses also expect the State to fully and promptly implement solutions to improve capacity and support businesses to participate more effectively in the global value chain. At the same time, At the same time, the State also needs to be more effective in assessing the impact of policies, and must define and carry out policy assessment as a mandatory

in the policy cycle. Finally, businesses also expect the State to build a platform to help businesses participate more effectively in the global value chain, including supporting businesses to easily access policies, laws or markets information as well as access and accumulate capital sources, improve the quality of human resources and strengthen linkages and participation in global value chains.

*Recommendations for businesses:* Businesses need to be more proactive and have a plan to allocate resources appropriately for capacity building, and to participate more effectively in the global value chain. At the same time, leading businesses in the chain need to promote their role in supporting other businesses in technology and training employees to help them participate more effectively in the value chain.

*Recommendations to business associations and other supporting organizations:* Business associations and supporting organizations need to be more active and creative in activities connecting large enterprises, FDI enterprises with their member businesses, and among members to increase business opportunities and cooperation. Moreover, business associations and other supporting organizations also need to focus on fostering and improving knowledge, skills and operational methods suitable to the characteristics of a socio-professional organization. In addition, they also need to act as a bridge to promote multilateral cooperation to enhance capacity and support Vietnam businesses in the global value chain.



**ENTERPRISE DEVELOPMENT FOUNDATION  
VIETNAM CHAMBER OF COMMERCE AND INDUSTRY - VCCI**

Address : 9 Dao Duy Anh street, Hanoi, Vietnam

Tel : 024.3577.2373 - 024.3577.1076

Website : [www.vienptdn-vcci.vn](http://www.vienptdn-vcci.vn)

Email : [vienptdn@vcci.com.vn](mailto:vienptdn@vcci.com.vn)





## **SUMMARY REPORT**

**“DYNAMIC CAPABILITIES OF VIETNAM BUSINESSES:  
THE CURRENT SITUATION, POSITION IN THE VALUE CHAIN AND  
IMPLICATIONS FOR MULTI-STAKEHOLDER PARTNERSHIPS”**

*MSF 2022 SERIES*

