



Economic and Trade Mission
Embassy of Israel in Vietnam

Business culture in Vietnam

To do business in Vietnam, a foreign company needs to deal with several stakeholders including authorities, local partners, end-users and struggle against quite a few differences in business culture not only between Israeli and Vietnamese, but also between Vietnamese various entities.

a. Differences in business cultures of SOEs and non-SOEs

State Owned Enterprises (SOEs) in Vietnam include SOEs of 100% state capital and SOEs in which the state holds controlling stake. They are governmental organizations aiming at both political and developmental goals. According to the Committee for Enterprise Reform and Development and the MPI, SOEs hold 70% of total real property, devour 60% of the credit in the commercial banking system, 50% of state investment capital and 70% of ODA capital. However, these same enterprises are responsible for only 25% of total sales revenues, 37% of pre-tax profits and 20% of national industrial output value. The rate of credit used by SOEs to generate revenue is relatively high: It takes 2.2 VND in capital to create 1 VND in revenue, compared to 1.2 VND in capital spent by domestic private businesses and 1.3 VND in capital spent by foreign invested enterprises (FIEs). However, not all SOEs are having problems in their business performance. Notably, up to 80% of the total pre-tax profits come from the four strong conglomerates, namely, PetroVietnam (PVN), Viettel, Vietnam Posts and Telecommunications Group (VNPT) and Vietnam Rubber Group (VRG). It also means that the profit-to-equity ratios of the remaining SOEs must be far lower than the average level.

Non-SOEs are firms that are not explicitly classified as SOEs, including cooperative, private, liability limited, joint venture and foreign invested enterprises (FIEs). As a result of the restructuring process, the number of SOEs has decreased while the number of non-SOEs has increased considerably, in both the number of entities and their ratio to the total industrial production. Non-SOEs are gradually proofing its important role in improving living standards as well as creating employment opportunities and deeper integration into global value chains. They have also increased participation in the policy making process, leading to a strengthened role for business associations in policy dialogues and joint initiatives with the Government and other stakeholders to introduce technologies, regulations and quality standards.

Personnel

In general, management in Vietnam is male-dominated. There are variations in age and seniority of managers based on the particular sector. An average manager in SOEs is 48 years in age and 10 years in experience, which reflects the heavy reliance on seniority and loyalty within SOEs. Seniority and loyalty are highly regarded and usually used as the standard for reward, in place of value creation capability. The performance-based reward will be bureaucratically applied when it is time to report to the supervisors, but these reports may not reflect the actual performance. In addition, most SOEs use the standard wage tables rather than the



Economic and Trade Mission Embassy of Israel in Vietnam

performance-based tables. Government officials regularly intervene in the investment and personnel decisions of SOEs.

In non-SOEs, the average age of managers is lower (38 in private sector and 42 in joint venture sector) and those managers have less experience (7 years in private sector and 6 years in joint venture sector). The educational background of the managers at non-SOEs is also more technical-oriented. In other words, managers of technical firms graduate primarily in the technical area i.e. engineering, and a smaller percentage in private sector have formal education in business administration and/or economics.

Management style

In SOEs, the **bureaucratic style** is the most popular. Most SOEs are medium and large sized, characterized by a complex and mostly undefined organization where central planning and the ministry patronage/subsidy system have been the rule. The patriarchal influence of Vietnamese traditional culture on business practices is also important for the SOEs given that the familial style of management is the second most used. Managers of SOEs prefer clear reporting relationships, formal communication and strict control, which might prove to be unsuitable in the current competitive environment. The bureaucratic style is also often found among joint ventures in which the Vietnamese partner is a converted SOE, since these enterprises often retain a good deal from the prior organizational characteristics and managerial styles and practices. A distinguishing feature among joint ventures is the influence of expatriate managers trained in modern management principles and their interest in transferring knowledge to local managers and employees.

Private sector, which consists largely of small-sized enterprises, not surprisingly, developed from family-owned workshops or stores, relied on the **familial management** style. Managers and employees in private firms tend to have close personal relationships based either on familial ties or friendships outside of the workplace. While the familial style emphasizes parental concern for employees, managers show their attention by imposing strict control and coordination procedures, including posting relatives of the owner in key positions. This approach is consistent with Vietnamese culture and can be effectively orchestrated as long as the size of the firm remains small.

Joint ventures demonstrated a different management profile by their preference for **participative style**. Managers are generally younger and keen to learn from foreign business partners on how to manage business in a market economy. They are more willing to encourage horizontal coordination to build an open communication system and allow subordinates to participate in decision-making processes.

Despite the different preferred management styles, in general, “traditional” and “socialist” values continue to play a big part, while two other management style - “intuitive” and “entrepreneurial” - are not as popular. The intuitive style is the least preferred in all sectors due to the tendency of Vietnamese managers to rely on



Economic and Trade Mission Embassy of Israel in Vietnam

rationality, rather than intuition, in managing. The poor showing of the entrepreneurial style, particularly among SOEs and joint ventures is seen as reflecting the lack of a more dynamic and innovative generation of managers in the transition economy of Vietnam.

Approaching decision makers

According to Alan S. Gutterman in his research on *Vietnamese management systems* (2011), in general, employee participation in the decision making process is very low and only a small percentage of the managers, primarily those in the joint venture sector, are in favor of more democracy with respect to how decisions are made in their organizations. However, the difference lies in how to approach the management and what facilitation we can do to influence the decision makers.

In SOEs, due to the cumbersome organizational structure, it takes outsiders several steps to reach the decision makers. There may be some steps/policies that are seemingly useless, but outsiders need to be patient and follow the rules. The proposal from foreign partners usually has to enter the structure via SOE's so-called international cooperation department, from which it is passed to a relevant technical department for analysis and then reported to the management for final decision. Sometimes, delays and misunderstandings arise due to inefficient interdepartmental relationships and communication within the organization. Foreign businesspeople need to be aware of this risk and keep close contacts for necessary and timely follow-up actions.

Another common practice in Vietnamese SOEs is that the top manager may have quite a few deputies, each of which is in charge of one aspect in the business scope and their opinions are usually highly respected by the top manager. Thus, although the deputies are not the decision maker, they yet may be the key person to decide on a deal or cooperation possibility. However, sometimes the decision making process is not such transparent, making it hard to gain insights into the company's internal working procedures or interests. The Economic and Trade Mission has built connections and gained understanding of the structure of the largest SOEs, thus can support in identifying the key persons and make connection for easier follow-up, avoid wasting time and resources in dealing with partners who lack authority for decision making.

In non-SOEs, the structure is usually less complicated. That enables foreign partners to have a chance to convince the decision makers directly. However, due to the higher competitiveness in non-SOE sector, foreign partners are to face the risk of unfair judgment due to serious conflict of interest between different departments/people within the organization.



Economic and Trade Mission Embassy of Israel in Vietnam

b. Working with authorities

Authorities play very important role in managing the country economy with much influence on the possible outcome of cooperation between domestic and foreign partners. Especially in heavily-regulated sectors like Agriculture or Life Science, learning how to work with authorities is a key to business success.

- Firstly, it requires constant updates on the legal framework involved in your business scope. The fast changing/supplementing/deregulating of the laws and regulations make it even more critical.
- Secondly, it is important to have a good relationship with both central and municipal authorities (i.e. Provincial People's Committee) as there is a relatively clear distinction in responsibilities between levels of authorities. In most cases, central authorities regulate the businesses' general licensing or overall operation, while municipal authorities control daily activities. In certain projects, central authorities supervise the implementation while the municipal authorities are the approvers and financiers.

To keep good relationships, it is beneficial to note that unlike Western business relationship which remains professional even after a long time, Vietnamese business relationship will inevitably become a social relationship after a while. The more you share your personal life, including family, hobbies, political views, aspirations, the closer you are in your business relationship. Sometimes, a lot of time is spent discussing matters outside of business, yet in many cases, the other party is also making up his mind based on how much he sees your personal relationship with him.

c. Conduct at a business meeting

Vietnamese are still a conservative and relation-based society, so connection over time and face-to-face meetings are critical in building trust. Thus, for any business to be achieved, you should have patience and make a long-term commitment to the country and visit it. A written introduction or a meeting arranged by a go-between will produce the best results because connection and introductions are important.

Before the meetings

- Meeting requests should be delivered 10 - 20 days in advance (the higher end is for authorities and the lower end is for companies, who are usually more flexible in arranging schedule). However, it is not common for the partners to confirm meeting a long time in advance, usually only 5 - 10 days prior to the appointment. This may make it difficult for foreign businessmen to plan a trip but foreign businessmen need to deal with it. Meetings should be reconfirmed one or two days ahead to remind the partners.
- Vietnamese have their lunch at 11:30. Therefore, meetings will usually not be scheduled between 11:30 and 13:00. Occasionally, when meeting ends around lunch time the foreign guest may be invited to have lunch together and is expected to accept. This usually doesn't happen on the first meeting.



Economic and Trade Mission Embassy of Israel in Vietnam

- The tentative content of the meeting, list of participants and their ranks should be sent to the partner before the meeting. Vice versa, they will also send you the similar information. In meetings with “sensitive” organization, for example Viettel Group – an economic unit under Ministry of Defense, your passport number and laptop serial are enquired in advance for security reason.
- Proposed length of the meeting is on case by case basis but normally 1-2 hours. However, in special cases like the meeting is conducted at a booth in an exhibition, it should last only 15-30 minutes.

During the meetings

- Dress code is formal attire (i.e. shirts and trousers). Normally, ties are not a must.
- Meetings can start with handshaking and exchanging business cards. Business cards should be handed to all participants because it is sometimes difficult to discern who the important players are and who will play what role. Learning to pronounce the names on the cards can be a good small talk to start because business is usually addressed only when people feel comfortable with each other.
- Vietnamese prefer to hear a proposal as a broad overview, and then you respond to specific issues or questions point by point. They are very polite people and will often smile and agree with you when in fact they may not have fully understood what you have said, thus you should double check or triple check if a response is delivered verbally. Vietnamese also sometimes hesitate to admit that they have problems and need solutions. On this circumstance, you should be flexible to politely twist the questions differently to understand the real facts. Moreover, you can cross and compare the information at the meetings and the information obtained from other sources to have the best picture of the situation. Because it is a just matter of local culture, foreign businessmen should not hint or blame the Vietnamese for hiding information or giving wrong information in these cases to avoid unnecessarily uncomfortable situations.

The Economic and Trade Mission staff can accompany you to the meetings and assist in understanding such cultural signs.

- You can also have café meetings if the situation is not formal. Business is not usually discussed at dinners, although it may be at luncheons.
- Language barrier: Nowadays, most Vietnamese businessmen can speak English. In other cases, hiring an interpreter or seeking the support of the Economic and Trade Mission is recommended.
- The practice of hosting a meeting in Vietnam is that the guests will always be served with drink and snack/fruits by the host. Thus Vietnamese, especially high-ranking delegation, usually expect to be treated the same when they attend meetings overseas. Some of them may be shocked when they attend a meeting in Israel without being served.

After the meetings

It is recommended to send a well-written meeting minute. You should expect a response within 7-14 days. The Economic and Trade Mission regularly assists in following up on the meetings.



Economic and Trade Mission Embassy of Israel in Vietnam

d. Corruption in Vietnam

In spite of improvements over the past years, corruption as a standard business practice is still a problem in Vietnam as well as other developing country. In the 2011 Corruption Perceptions Index, Vietnam performed below average with a score of 2.9 on a 0 (highly corrupt) to 10 (highly clean) scale. The country ranked 112th out of 182 assessed countries worldwide and 21st out of 35 countries in the Asia Pacific region. The private sector is being affected by cumbersome legislation, which provides both incentives and opportunities for corruption. According to Transparency International (2010), corruption pervades many of the country's key sectors, in which the business sector scored 2.6 (on a 1 to 5 scale), while the sector with highest score (3.8) was police.

Public procurement is considered one of the sectors most susceptible to corruption. A study conducted by Towards Transparency, together with TI-USA and CIPE (2011), concludes that the number of competitive tenders declined significantly from 72% to 53% between 2008 and 2009. About 44% of companies expect to provide a gift to secure a government contract (IFC/World Bank, 2009) and, according to the USAID Vietnam Provincial Competitiveness Report 2011, 41.4% of companies report paying commissions on government contracts. There are also corruption challenges in tax collection and licenses and permits. Global Integrity (2009) reports that tax laws are not uniformly enforced and small and medium-sized companies are generally more vulnerable to corruption with regard to tax administration. Besides public administration, sectors which are affected by corruption include judiciary, police, health sector, education, Environment, Natural Resources and Extractive Industries, land management.

Foreign businessmen should be aware of such practices and carefully consider their actions.