

Doing Business in Vietnam from the Perspectives of Polish Entrepreneurs – the Role of Local Partners

NGUYEN Cao Son^{1,*}

¹ University of Lodz, Lodz, Poland

Corresponding author: son.ngcao@gmail.com

Abstract. The purpose of this paper is to investigate the challenges of expanding into an emerging market for multinational enterprises (MNEs) and the strategies they adopted to overcome these adversities. While interest in the expansion of MNEs into the Vietnamese market is increasing, there is a lack of research on this process from the Polish businesses' perspectives, which may differ from existing literature. The analysis of information obtained by a semi-structured interview method shows that the psychic/cultural distance is the most critical challenge the Polish enterprises must face when entering the Vietnamese market. The study also shows that the key success factor for the expansion of the Polish enterprises into this market is a local partner, i.e., acquiring an appropriate Vietnamese partner, good cooperation with him/her, and building mutual trust. As a result, among the available forms of internationalization, the Polish enterprises most often choose export and various forms of cooperation with local partners as the main ways to enter this market.

Keywords: Internationalization, International expansion, Local partner, Polish enterprises, Vietnam

1. Introduction

Nowadays, enterprises do not limit themselves to operating solely in domestic markets, but actively seek ways to expand their operations into foreign countries. Internationalization (or international expansion) can be defined as crossing the boundaries of the enterprises' home and setting up operations overseas [1]. It is worth noting that internationalization is not a new term, as it has been the subject of academic research since the 1960s [2]. Traditional explanations of international behaviors of enterprises proposed that internationalization occurs in stages (the Uppsala model) [3, 4]. This approach suggests that MNEs, especially the small- and medium-sized enterprises (SMEs) that frequently experience resource constraints, internationalize gradually, first experimentally exporting in geographically close markets, thereafter entering more distant countries or employing higher entry strategies. Such expansions are typically determined by enterprises' resources, including experiential knowledge and networks [5]. Subsequently, the emergence of the international entrepreneurship perspective placed a greater emphasis on the role played by enterprises' resources and capabilities in driving international activities [6]. The main focus of the international entrepreneurship perspective is to describe and analyze the phenomenon known as "International New Ventures" (INVs) or "Born Globals" (BGs) that has changed the internationalization process whereby enterprises become international from inception.

However, the challenges and barriers related to entering international markets, widely known in the literature as *liabilities of foreignness* [7, 8], remain significant for newcomers, regardless of whether an enterprise is a born-global or follows the Uppsala model. Overcoming the barriers to entering foreign markets is one of the most critical tasks of internationalizing enterprises, and a variety of factors may contribute to the success of internationalization. Hence, it is important for MNEs to be able to identify what are the key success factors in expansion into foreign markets.

The entry of Vietnam into the World Trade Organization (WTO) and membership of other plurilateral agreements have resulted in unprecedented investment in this new emerging economy [9]. While the interest in the expansion of foreign enterprises in the Vietnamese market is increasing, there is a lack of research on this process from the perspectives of Polish businesses participating in these international relationships. As Vietnam is a developing and emerging market with many institutional challenges, the investment decisions of MNEs in this country are complicated. In other words, Vietnam, like other emerging markets, has context-specific issues that may challenge the entry of MNEs into this market, beyond the understanding common in the extant literature. Thus, exploring the expansion of Polish enterprises into the Vietnamese market provides insights that can add to the broader internationalization literature on emerging markets. In this study, I investigate the challenges and barriers that the Polish enterprises must face in expansion into the Vietnamese market and how they overcame these barriers. Using the semi-structured interviews with Polish entrepreneurs, I attempt to answer the two following questions:

- (1) What are the challenges that hindered the expansion of Polish MNEs into the Vietnamese market from their perspectives?
- (2) What strategies did they employ to overcome these entry barriers in the Vietnamese market?

The rest of the paper is organized as follows. The next section reviews the literature on challenges of internationalization and entry strategies. The key features of the Vietnamese economy and the business activities of Polish MNEs in this market are then detailed. The paper proceeds with a description of the research methods applied in this study. Section 5 presents and discusses the key findings from this study, while Section 6 provides the conclusion, as well as a discussion of the study's limitations and the key directions for future research.

2. Literature review

Given that internationalization offers potential for economies of scales and enhanced competitive advantages [10, 11], enterprises are incentivized to internationalize their operations. Nevertheless, operating in foreign markets is risky [5, 12, 13] and may have influence on performance of enterprises [14], as they must face numerous challenges and barriers that create boundary conditions for internationalization. This is especially true in the context of investments in emerging markets, where the institutional environment is weak and the level of challenges faced by MNEs remains high [9].

Researchers identified five major factors that constitute challenges, namely, *psychic/cultural distance*, *political/legal factors*, *economic factors*, *human resources*, and *infrastructure*. The psychic/cultural distance plays a part in internationalization of MNEs, for instance, the cultural distance between the home and host country increases management costs and creates difficulty in management [15, 16]. The political/legal factors are related to laws regulating the international expansion of MNEs, and the political/legal stability. In turn, the economic factors as challenges are the issues such as recession, inflation, unemployment rate, and currency instability that impact the attractiveness of countries [17, 18]. Another challenge is inadequate skilled labor/ shortage of skilled labor in specific markets, which has negative impacts on international activities of MNEs [19]. Finally, the incomplete infrastructure (eg., energy and transportation) also hinders the international expansion of MNEs [20]. To mitigate these challenges, besides market selection, choices around entry strategies are central to the internationalization process of enterprises.

Indeed, operations in a foreign market depend on their choice of entry strategy (entry mode). An entry strategy is defined in the literature as an institutional arrangement chosen by an enterprise to operate in the international market [21]. As the most critical decision, entry strategy influences all future directions of MNEs [21]. A choice of entry strategy includes a choice of level of control. Control is the focus of internationalization literature because it is an antecedent for determining risk and return [22]. High-control modes can increase return and risk, while low-control modes minimize resource commitment and risk, but at the expense of profitability. Consequently, an enterprise can enter a foreign market via the following three categories of entry strategies in terms of the level of control [23]:

- (1) *Export strategies (low-control modes)*, including indirect and direct export strategies, which are characterized by low level of control, low risk, and high flexibility;
- (2) *Contractual strategies (intermediate modes)*, including contract manufacturing, licensing, franchising, joint ventures/strategic alliances, and management contracting, which are characterized by shared control and risk, as well as split ownership. Within this category of entry strategies, partners agree to share resources, technology, and supplement each other's needs for a long period of time. In such cooperation, the local partner provides valuable information on local market conditions (market-specific knowledge), contacts with suppliers and governmental institutions that are fundamental to MNE's operations in unfamiliar markets.
- (3) *Hierarchical strategies (investment modes, high-control modes)*, including foreign direct investment (FDI) in form of wholly-owned subsidiaries or branches, where the enterprise completely owns and controls the operations in overseas markets. Such entry strategies are characterized by high control and high risk, but low flexibility.

Each entry strategy has different implications according to the level of control that the enterprise can exert in the international expansion, and the resources and risk that it must assume to enter foreign markets. Hence, the choice of an appropriate entry strategy is a difficult and complex task for MNEs when expanding overseas [24].

3. The expansion of Polish enterprises into the Vietnamese market – an analysis of secondary sources

Nowadays, Polish enterprises are becoming increasingly active in expanding into foreign markets. In recent years, the number of Polish MNEs operating abroad has increased [25, 26, 27]. The main form of entering foreign markets used by Polish MNEs is exporting [28]. Notably, Polish enterprises more often decide to expand beyond European markets. Along with that, they are more and more attracted by Asian markets [27]. Among those markets, Vietnam has recently emerged as one of the most promising destinations in the world for the development of Polish investments and exports [29].

Indeed, today, Vietnam is a country with rapid economic development, where recently the GDP growth rate has been on average 7% per year. Although Vietnam has been hit by the ongoing COVID-19 pandemic, this country has shown remarkable resilience, as GDP grew by 2,9% in 2020 and is expected to grow 6,6% in 2021 on the back of successful control of the pandemic [30]. PricewaterhouseCoopers predicted that this Asian country could be one of the fastest growing economies in the world over the 2015–2050 period [31]. This is a relatively large sales market, as in 2019 the population of this country exceeded 96,5 million, and is expected to expand to 120 million by 2050 [30]. In 2016, Vietnam led the Southeast Asian region in terms of the Greenfield FDI Performance Index [32]. Today, Vietnam is one of the most attractive destinations for FDI and is host to some of the largest global MNEs [9]. Due to the geographical distance, Vietnam has not been a significant direction of expansion for Polish enterprises so far. Nevertheless, Polish exports to Vietnam are constantly growing: in 2014 it amounted to only EUR 110.8 million, in 2015 - EUR 129.9 million, and in 2016 - as much as EUR 213 million, and from that year Vietnam became the largest trading partner of Poland among the countries of Southeast Asia (ASEAN) in terms of turnover [33]. Hence, Vietnam has become one of the key markets in this region for Polish businesses.

Despite being a promising market and an important destination for Polish enterprises, to my best knowledge, research on the expansion of Polish MNEs into Vietnam is completely absent in the international business literature. Furthermore, like other developing and emerging markets, Vietnam has context-specific issues that may challenge the entry of MNEs, including the Polish enterprises, into this market, beyond the understanding common in the extant literature. As a new emerging market, Vietnam provides a good context to study the expansion activities of Polish MNEs in this country, which may very differ from their international operations in other markets, as well as the expansion of MNEs from other countries into Vietnam. Thus, the study fills this gap in the international business literature.

4. Research methods

The data for this study were collected through 33 semi-structured interviews with entrepreneurs or managers of Polish enterprises operating in the Vietnamese market. The use of the qualitative approach through interviews is a significant departure from previous studies that frequently employ quantitative methods to examine challenges of internationalization and entry strategies, which are not easily captured in quantitative data analysis [34]. Moreover, using the qualitative method would provide deeper insights and extend understanding of the subject.

The interviews were carried out between March 2017 and September 2019. The length of the interviews varied from 20 to 30 minutes. As all of the interviews were conducted in Polish and were then translated into English. Some of the interviewees did not want to be identified; consequently, all information that may lead to their identification is not revealed. The interviews focused on the background information, including two main parts: (1) the challenges and barriers that the Polish enterprises faced when entering the Vietnamese market; and (2) the strategies they adopted to overcome the challenges.

5. Results and discussions

The first part of each interview was devoted to getting information about the challenges and barriers that hindered the expansion of Polish enterprises into the Vietnamese market. All respondents indicated that the main challenges they faced when entering this market are *their lack of knowledge of local conditions, cultural differences, difficult cooperation with administration officials, corruption, and underdeveloped infrastructure*. Other less significant adversities, in their opinion, are *language barriers and work efficiency*.

It can be seen that the major challenges the Polish enterprises face during their expansion into the Vietnamese market are the psychic/cultural distance. The aforementioned challenges are difficulties that

hinder all foreign enterprises operating in this market. However, the respondents emphasized that foreign investors from Asian countries (e.g., Japan, South Korea, or China, etc.) may have fewer obstacles and have advantages over those of their Western counterparts due to geographical and cultural proximities.

The interviewees also indicated that the adversities and barriers could be more easily overcome if they establish a cooperation with a local partner, which is the second part of the interviews. One of the respondents very accurately specified it: *"The biggest problem of Polish investments in Vietnam is the unawareness of investors. They do not know that all major businesses are conducted by some large families. They also do not know that personal contacts are the basis of entering into contracts and that before we talk about business, we must first get to know and trust each other"*. This second part of the interviews focused on the importance of a local business partner in doing business in the Vietnamese market. Here are some selected opinions of respondents on this issue:

- *"Business activities in Vietnam require the participation of a Vietnamese person. It is imperative to find a partner you can trust to deal with local authorities, the community, and employees, as well as clients. Without a trusted Vietnamese partner, there is no chance to do anything"*.
- *"First, it is important to focus on building a stable relationship, because without it you will not gain trust, and without trust, there is little chance of success with such low effectiveness of state institutions, because the mere existence of regulations and their compliance with them do not guarantee anything. Second, it is also important to put effort into learning about the Vietnamese mentality in order to avoid surprises in formulating your own and understanding the other party's expectations"*.
- *"Patience and knowledge of Asian cultures. Be patient, understanding and get to know the local culture"*.
- *"Having a local business partner in this market is a key success factor. Only a Vietnamese partner knows the specifics of his market well and has the relationships necessary to develop business. However, it is not enough to establish a relationship with any local partner. You need a really good partner who knows all the elements of the game in his country and is characterized not only by the willingness but also the ability to act together"*.

It is simple to notice that all the opinions of the respondents indicated strong cultural differences, as the culture and mentality of the Vietnamese can be a "shock" to people from the West. One of the interviewees stated that: *"It is worth living here for three months before deciding to make any investment. The cultural difference is colossal, and the Vietnamese mentality is the biggest obstacle to doing business here. Stay and see if you will be able to cooperate with the Vietnamese!"*. Polish entrepreneurs emphasized the patience and the need to find a good local partner who can help to overcome the barriers of entry. In this part of the interviews, the respondents were also asked about the choice of the entry strategies adopted by them when entering the market. From the analysis of their answers, it can be concluded that the necessity to find an appropriate local partner causes the Polish enterprises, regardless of their size or branch, to choose export and various forms of cooperation with local partners as the main methods of entering this market. It can be explained by the fact that a local partner knows the specifics of his own country, understands the rules, mentality, and customs, which allows reducing the risk associated with entering an unfamiliar market.

Furthermore, in Vietnam, as in other Asian countries, interpersonal relation is of great importance in all aspects of life. For example, it is quite known in the literature under the slogan "guānxi" in China [35, 36], "kankei" in Japan [37], "kwankye" in Korea [37], or "jaan-Pechaan" in India [38], which means colloquially: "I know someone who knows someone who still knows someone... who can help you". Hence, building a network of connections and trust is the key success of doing business not only in Vietnam but also in other Asian countries. High personal culture, as well as knowledge of the mentality and habits of the local people also play an important role.

6. Conclusions

This study analyzes the expansion of Polish MNEs into the Vietnamese market, focusing on two main issues, i.e., the challenges the Polish MNEs faced when entering this market and how they overcame these challenges. Using the data collected via the semi-structured interviews of 33 entrepreneurs and managers of Polish enterprises, this study finds that the most critical challenge that hinders the expansion of the Polish enterprises into the Vietnamese market is the psychic/cultural distance. In their opinion, to overcome all challenges and barriers, it is crucial to find an appropriate local partner. The study also shows that among

the possible entry strategies, the Polish MNEs tend to choose export and various forms of cooperation with a local partner as the main way to enter this market.

Despite the contribution of this study, it is important to note that the study is based on the expansion of MNEs from a single country into a single emerging market, thus it may limit the extent to which these results are generalizable to cover all emerging markets. Furthermore, the small number of the Polish MNEs participating in the study also yields a small sample size that hinders the power of statistical testing and my ability to utilize more complex methods. Future research may use data collected from a number of MNEs in a cross-country context.

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8. References

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