

Business associations in Vietnam

1. Framework and Infrastructure of Business Associations' Activities.

The Vietnamese system of business associations can be characterized as a mixed system, which has either pluralist or corporatist characteristics. In Vietnam the membership in chambers or associations is voluntary, the law regulating the activities of business associations does not exist, the functions of business associations are still not clearly defined as their activities are referred to the activities of mass organizations. But there is clear intention of the government make VCCI a main information channel for the business community. The evidence is that with the privilege given by the Government, VCCI has explicit recognition from the Government and became officially the only representative of the business community of all sectors at the national level. Although the law does not forbid the establishment of a new business association, it is very difficult to do it due to complicated procedures or can be denied on the grounds that an association in that field already exists. Associations also must be tied up with state organizations. Therefore in Vietnam there does not exist any association which is representing the private sector at the national level. At the local level all associations in principle must belong to the Fatherland Fronts. The regulations also differ by locations as local governments issue the guidelines for setting up and orientation for activities of business associations.

In Vietnam, business associations are organized either geographically representing different economic sectors or sectorally representing specific industries. They are concentrated mainly in big cities such as Ho Chi Minh City, Ha Noi, Da Nang Hai phong, in small cities or other provinces there are only few or even do not exist. In private sector, business associations are spread stronger at the local level than at the national level. At the local level there is a difference between locations. While in Ho Chi Minh City associations have a tendency to organize sectorally, in Ha Noi they are more territorially organized.

At national level VCCI has a role of central association. On one side it is organized like a umbrella association of other associations, on the other side it is an association in which mainly large enterprises are organized as its direct members.

2. Membership within Business Associations

The members of the association comprise mostly of enterprises, which belong to corporate private sectors. The number of private enterprises, which are organized in associations is still low with approximately less than 10% of the corporate private sector¹. Enterprises are organized either in form of chambers (territorially oriented) or sectoral associations (sectorally oriented). The membership of most associations is limited only at the local level. Because of big differences in development of the sector between urban and rural areas, associations are concentrated mainly in big economic centers. Within the current framework and conditions it is very difficult for private enterprises to organize themselves at national level as they must be tied up to different governmental organizations and be under control of different bodies. Recently there appears a tendency that all associations try to invite state owned enterprises to be their members in an attempt to raise their status in dialogue with Government and to solve the financial problems. The presence of state owned enterprises in the associations has raised the questions as to whether these organizations can really in the future represent and concern about the needs and problems of private sector. Except official members, which are in principle enterprises, there are also many high-ranking official who also are invited to be as a honorary members.

3. Objectives and the Way of Operations

- *Objectives and Establishment*

All associations have emphasized their objectives either to represent interest of or to provide services for the members. Depending on its own conditions and competence every association has different focuses in its activities. In fact there were also many associations which were established by initiatives of high-ranking civil servants in an effort to link with foreign organizations and look for external donors which can provide funding and assistance in different programs. The government officially has no financial support for the establishment or activities of new associations. But indirectly through its large and powerful corporations there can be an initiative to establish an associations at nationwide level which include mainly state owned enterprises. Interests and concern of private enterprises can

¹ Vietnam corporate private sector consists of three legal forms: private enterprises, limited liability companies and joint-stock companies(see 3.4.)

hardly be taken into account in these associations². Because the membership of the associations are limited only at local level, so their focus is also only on limited issues. In representation activities their concentrations are mainly on the issues which appear at implementation stage. At the policy making stage all is left up to VCCI, other associations hardly have any influence.

- The Way of Operations

As a rule all associations are self administered and have tried to build a democratic internal structure. The highest body is the General Meeting, which meets in every 3 or 5 year to elect the Executive Board. The Executive Board nominates the members of the Standing Board. This Standing Board then is in charge of day-to-day business, defines and coordinates activities of the association. At the Sectoral Association level this internal structure has functioned rather good. But at the central level as at Union of Associations it is more difficult. Since Unions of Associations are members of Fatherland Fronts, the Local Governments still have strong influence on the election process like to recommend and promote their candidates for the election. The leader's positions must also be approved by the local government and the Government can deny any candidates on different grounds. This explains why the enterprises are more active at sectoral level than at central union level.

All interviewed associations have rented rooms for their offices. Every sectoral associations has only one or two full time staffs, others are only part time. In the central union of associations normally every department has one or two full time staff, who help the Chairman in day-to-day business. Professionalism is variable depending on financial capacity of every association. All interviewed associations do not receive any regular subsidy from the government, they have to rely on income received from services offered to enterprises or external assistance and funding. But mostly only some associations, which succeeded to receive external assistance from international organizations, can then offer a range of services for the members. An example is UAIC which with assistance of the UNIDO program has set up Small and Medium Support Unit to provide training courses, consultancy in making business plan, information and business contacts for enterprises.

² Examples are establishments of Vietnam Garment Associations, Vietnam Plastics & Rubber Association, etc. Especially in Plastics and Rubber Industry Vietnam Plastics & Rubber Association with support of such a State Corporation as Vinaplas with its director is also a Chairman of Vietnam Plastics & Rubber Association has obviously much more power and influence than Ho Chi Minh City's Plastics & Rubbers Association which include mainly only private enterprises.

The associations (mostly sectoral associations) that do not have external assistance must rely on membership contribution and have very small resources for their operation. Existence and performance of these associations are strongly depending on the engagement of their leaders and some donor-enterprises, which are normally successful enterprises and interested in the development of the sector.

4. Performance of Associations and Expectation of Enterprises

- *The Performance of Associations*

The performance of associations will be assessed through three areas such as interest representation, services and delegation fulfillment. The achievements in interest representation activities are difficult to quantify and assess. Most of the associations have tried by different ways to influence the government in favor of their members. But their activities are limited mainly at the local level of implementations stage because they hardly have any voice in policy making process. All sectoral associations informed that the main results they have recently achieved in this field are various adjustments in different government's regulations. The associations are working normally independently without coordination depending strongly on informal personal relationship. So the results also differ by different associations.

The services of most associations are very weakly developed. The main services offered by the associations are in such fields as information, consultancy, training and mediation of business contacts. In the field of information only at the central level as union of associations there are a regular publications, newsletters or bulletins for members. At the sectoral level information is mainly by oral way or personal contacts reached to their members.

In the consultancy field associations are mainly active in such aspects as business establishments, legal matters, domestic and international transactions. The expertise offered is quite rudimentary and unsophisticated. At the union level the associations have organized a consultancy offices to facilitate this activity. But these offices in fact still do not have their full time consultant experts, rather they have separate partners in different fields, to whom they will ask for cooperation when someone needs a help.

In training field the associations offer training courses, workshops or seminar to their members. But there is no association, which can offer their own regular courses. Most of them have to base on assistance and cooperation with other organizations mainly with public bodies or on supports of international programs. Actually the role of association is limited mainly only as a mediator of such courses.

In the field of promotion of business contacts the activities differ across the sector. Most associations are engaged in such activities as to assist the enterprise in finding market for their products, promote exchange of experiences and knowledge between members, organized joint marketing, help member to participate in trade fairs or exhibitions, etc.

At the moment some delegation tasks are given only to VCCI as an exception case other associations still do not fulfil any delegation task.

- *Expectations of Enterprises*

The interviews with the enterprises have shown that services and business community are the main motives for membership in the associations. Then came other motives such as business contacts and interest representation. Only 44% interviewed enterprises said that their expectations were fulfilled. 56% said their expectations are more or less fulfilled. Many enterprises and leaders of the associations are agreed that within current framework not much can be expected from the business associations when the functions of business associations in a society are not clearly defined that make a lot of confusions in their activities. This is one of the main reasons that make enterprises identify representation as the most important task they wish associations to fulfill. Following this task services and information provision, mediation of business contacts and offering promotion programs are among the most important tasks enterprises wish business associations to fulfill.

5. Recommendations

As mentioned above private sector associations provide clear advantages as delivery channels for support services to SMEs. The central element in this approach of SMEs promotion activities is not to

offer assistance directly to enterprises, rather to the self-help organizations as business associations. Basing on the consideration of the situation in Vietnam, three groups which have essential role within this approach are identified to be targeted for the recommendations

a. The Business Associations³

Despite number of constraints due to the framework of association activities, associations must not wait for the initiative from the government, they must implement innovation in their activities in order to strengthen the internal organization, as well as improve their status and spheres of influence.

After start-up, the organization of associations normally is still weak, associations need to grow organically. The active engagement of members is vital for the existence of associations. Therefore it is necessary that interests of all members could be taken into account. Open discussions and debates on common issues and activities would be the good ways to motivate the members. The election based on democratic and fair basic is also very important to create positive atmosphere within the organizations. As stated the social motives play an essential role for the members in joining the organization. It would be better at the early stage for associations to organize in such a way that to induce affective bonding. The study has shown that enterprises were more active in sectoral associations. It is therefore recommended that at the first stage to organize rather in form of sectoral associations, since it is easier to raise the emotional attachments of entrepreneurs to a group of the same profession rather than in a group with different professions. It was also argued in the theory that organization in small group can help to reduce the free-rider behavior and create a sense of responsibility of the members as well as of the leaders. And it was proved also by the study that more has been done in sectoral associations in Ho Chi Minh city than in geographic associations in Hanoi. It was argued in the previous part that the sociological motives have more weight for the members to join the associations. Therefore it is to suggest that business associations should concentrate their activities according to the expectations of the members. It is also necessary for association to conduct survey with not only members, but also with potential members, in order to make orientation for their operations.

³ The recommendations for business associations here refer mostly to representative organ with its leaders and functional departments.

In the long term period, service provision plays a vital role for the existence of the associations. It was also identified by the survey that provision of services is one of the most important activities enterprises expect from their associations. In order to provide services to the members sufficiently, associations must first improve their professionalism. To facilitate this activity it is important for associations to have a systematic database that most are missing. The database system facilitates associations not only in providing direct services to their members, but also in cooperation with other organizations, especially it offers the possibility to convince the government to cooperate. The services may first focus on narrow aspects, which have potential of clear gains and direct effect on operation of the members such as promoting business contacts for members, marketing of products, participation in trade fair or joint buying of raw materials, etc. The associations need also to maintain awareness of another important aspect of services is that if possible they should bring some for associations to cover operational costs or amass funds to initiate new activities. The association may offer such services that can create the positive inducements to attract more members and conduct different income generating activities so that to improve the performance of the organization. Such services can be secretarial and telecommunication, bulk purchasing of raw materials or spare parts for equipment, show room for members, etc. Then at the maturity phase with number of on-going support schemes for the members, associations now can set up new service activities with more complicated administration efforts. In the field of information, a regular association publication such as a newsletters, bulletins about the activities of the associations, economic news and other information related to the sector that are of interest to the members are not only a methods of furthering formations to members, but also a very effective ways to advertise for the associations.

In the field of representation, it is difficult for business associations in private sector to influence the government as they are limited only at local level. Therefore the cooperation between different associations at different locations is necessary. By cooperation they can not only synergize their efforts, but also raise their weight in dialogue with the government. Furthermore recently many forums, seminars were organized for businesses to have direct dialogue with government authorities, it would be much better when businesses can have a consensus and more concrete proposals in any dialogue. The cooperation between associations in such issues may be very helpful. It is important to recognize the current role of the VCCI. At present VCCI is the most

influential organization of the business community in Vietnam. Recently it has appeared also very active in SMEs promotion activities. The close cooperation with VCCI can bring a number of advantages not only in representation field, but also in other fields for example such as human resource development as VCCI has relatively high expertise in association activities. This cooperation can be more effective if it is organized to facilitate strength of each side.

b. The State

Realizing the role of SMEs, the government has recently paid a lot of attention to this sector. The government intends to supply special supportive measures for the SMEs. As part of institutional changes, the government is now planning to introduce a credit guarantee system and to establish a governmental organization for SME promotion. The government organized a number of activities to facilitate this aim such as forum or direct meetings with businesses. Independently on which measures the government will take, business associations must have an important role due to their special position within the community. To the government the recommendation focuses on two aspects: one is the framework for business associations, other is promotion measures helping associations to strengthen their internal organization as well as the representation function.

- *Framework*

As stated in previous chapter at present to establish a business association in Vietnam is very difficult even the laws do not forbid it. Therefore the government need to create room for the development of such organizations. The following immediate steps should be taken

- Draft new laws to allow any group to establish organization representing the interests of its members. The procedures for establishment must be simple, avoiding number of controls from different governmental agencies. The laws must pave way for easy establishment of associations at national level
- Even when the associations have to register and report on their activities, the fatherland fronts appear not appropriate organizations to be in charge of the activities of business associations. Because fatherland fronts with their current function can not and do not have incentive to process or channel information received from businesses to the government authorities, the membership at

fatherland fronts can only be a burden with more bureaucratic procedures for associations. At the local level the department of industry might be a better solution.

- The cooperation mechanism between associations and governmental bodies should be created to assure that the interests of all groups can be taken into account during policy making process, as well as to facilitate the implementation of government policy or regulations. The government should play a role of partner and facilitator of business associations than maintain a role of controller of their activities.

- ***Promotion Measures***

The activities of private sector organizations, such as industry or trade associations, should be supported in terms of funding, information, facilities and affiliations. As the study has shown that most of the associations lack financial and personal resources. For this reason their activities are limited and can not offer much for the state as well as for their members. Therefore their activities and existence need support in terms of funding in upgrading offices, as well as personal development for their staff to acquire necessary skill for their operations.

Provision of services must be of a special importance for the existence of the associations. But as indicated in paragraph 2.7.4. the leaders can only indirectly benefit from the services and they tend to neglect this activity. Therefore associations must be motivated to provide services for members through assistance of government. For example, associations may be supported with expertise in building curriculum for training courses, in consultancy services or subvention in training trips to learn and get experience in abroad, etc. But the promotion of such activities may not be a full subvention for associations. It should require association to co-finance provision of such services. It must be assured that the associations can thereafter provide such services on a sustainable basis by themselves.

Depending on the performance of associations the government can also delegate some functions⁴ to them. For example, in organizing vocational training courses or participation in quota

⁴ It is very important to be sure that the association has competence to fulfill this task, in order to avoid a rent-seeking behavior of the association. Therefore the delegation must be based on thorough considerations.

distribution process, the sectoral associations can be the best option, since they know better about the specific characters of the sector as well as real capacity of each member. This measure on one side can help associations to strengthen their positions and image to attract members. On the other side it can create self-regulation possibility within the organization, thus it helps associations to provide return services to the government, for example, in gathering and dissemination of information important to particular industry. The representations should therefore also be improved.

c. Donor Agencies.

Most of the associations in Vietnam are newly and sometimes spontaneously established. They often do not have clear objectives and strategies and lack experience in carrying out their operation. The associations profoundly need to improve their competence and professionalism for their existence. Donors with their experience and vision can provide very effective supports to the associations in this area. The supports in this field can be in form of training courses on association management or seminars, workshops on this topic.

As the study has shown, service provision to the members in most of the associations is weakly developed due to the lack of expertise as well as resources. Therefore assistance for associations in providing services for SMEs should be a focus point of promotion activities. Since the lack of funds is usually the main reason of poor services, donors with funding capacities can help associations to provide services to their members, which in return will increase membership fee income on sustainable basis. Assistance can be through activities of information, consultancy, or vocational training. In the field of information, donor expertise in building a database system can effectively facilitate association activities in different area, not only in information provision, but also in consultancy, legal matters, etc. However it is important to take into account, specific characteristics and conditions in Vietnam to assure that the system can operate properly. Assistance in publishing regular association publications even in a very simple form such as newsletters or bulletins can also very helpful to advertise and improve image of the associations. Another activity is to promote business contacts. The associations need supports in organizing trade fairs or exhibitions, as most of them lack experience in such activities. Another important aspect is vocational training courses, in which assistance can be through training materials, personnel, facilities, etc. The observation of the

associations has shown that sectoral associations appear to be closer with the needs and problems of SMEs. The members of such associations are also more active in general activities and they have closer contacts with each other. The leaders therefore feel more responsibilities and are more engaged in association activities. So in the field of service provision aid donors are recommended to work more closely with sectoral associations in order to ensure effective support to enterprises.

The field of representation is a very sensible aspect, it needs a flexible approach. The activities in this field should combine with other field of activities, on one hand it can bring directly support to the members, on the other hand it can also help to draw the government's attention. Such activities can be in form of forums or seminars on economic issues with participation of governmental authorities. As the government has clear intention to make VCCI a main information channel for the business community, therefore the main partner for aid donors in representation activities is recommended to be VCCI. Through the cooperation donors can persuade and influence VCCI to take more interests of SMEs into consideration thus they can help to improve the representation of SMEs.

It is also recommended that the supports are divided into different stages in order to be sure that every stage is effectively implemented, and if so the next will take place. Such an approach can make the associations be more active and have more responsibility for their work.