

# The status of starting business and entrepreneurship ecosystem in Vietnam in 2017

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**Abstract:** *Based on the Global Entrepreneurship Monitor (GEM), the paper outlines a broad picture of starting a business in Vietnam throughout stages from potentiality to actuality and from early-stage to steady growth. In addition, it suggests an analytical framework for the entrepreneurship ecosystem in Vietnam, as well as recommendations for the improvement of the ecosystem and the promotion of the entrepreneurial activities in Vietnam in the coming years.*

**Keywords:** GEM, Entrepreneurship, Entrepreneurship Ecosystem, Vietnam

## I. Introduction

The Global Entrepreneurship Monitor (GEM) measures the perception of individuals for starting entrepreneurial activities, their efforts as well as their motivation to engage in business activities. With its importance, the GEM research in 2017 has attracted more than 100 participating countries, including Vietnam.

According to the GEM approach, the growth of a national economy is fully understood as the result of two factors: current business activities and entrepreneurial characteristics. Current business activities may impact national economic growth mainly through expansion of business or application of new technologies, which

leads to new job creation or productivity improvement; thereby it increases output.

Characteristics of entrepreneurs determine their entrepreneurship that creates more jobs and new values for society. The decision to start a business is primarily affected by an entrepreneur's attitude, which is referred to as an ability to recognize and grasp opportunities, an ability to take risks and tackle the fear of failure, and his/her perception and evaluation of conditions. The one who is capable of seizing opportunities, has a good business capacity, does not fear failure and enjoys high status for entrepreneurs, is more likely to start his/her own business than others in the community.

Each economy participating in the GEM cycle surveys at least 2,000 adults to collect information about their participation in entrepreneurial activities as well as their entrepreneurial attitudes and perceptions (Adult Population Survey; and 36 key experts' views about 9 factors that make up the entrepreneurial ecosystem (National Expert Survey) (Figure 1).

The GEM study in Vietnam in 2017 surveyed 2,118 adults and 36 experts. The data presented in the paper come from the 2016 GEM study (Global Entrepreneurship Research Association, 2017) and 2017 (Global Entrepreneurship Research Association, 2018). Data from previous years are cited by Luong Minh Huan (2015; 2016; 2018).

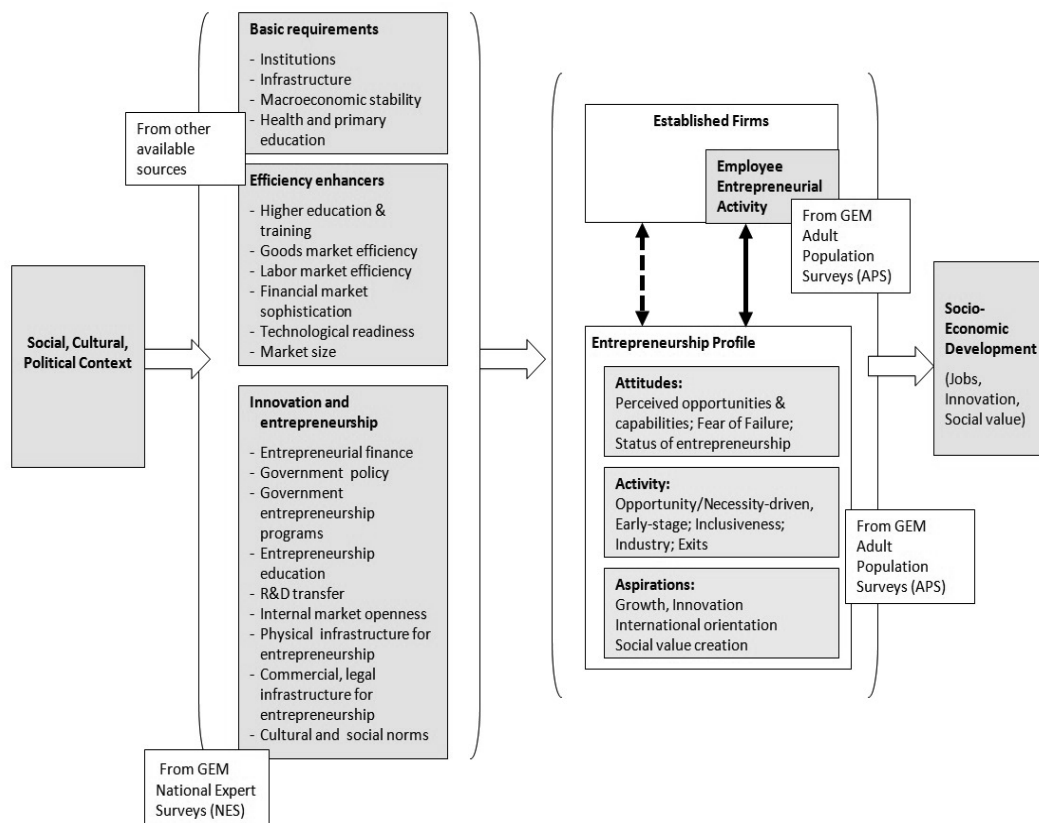
## II. Analysis of results and discussion

### 1. Entrepreneurial perceptions in Vietnam in 2017

#### 1.1. Perception of entrepreneurial opportunities and capabilities

Awareness of entrepreneurial opportunities in Vietnam in 2017 has decreased compared to 2015 but still higher than in 2013 and 2014: 46.4% of adults in Vietnam noticing business opportunities in 2017, ranking 23<sup>rd</sup> out of 54 countries (in 2015, it was 56.8% ranked 9<sup>th</sup> out of 60 economies). This rate in Vietnam in 2017 is higher than the average in many countries which is at the same or higher stage of development as Vietnam (factor-driven economies). Compared with other ASEAN-5 countries, the rate of perceived entrepreneurial opportunities in Vietnam

Figure 1: GEM Conceptual Model



Source: Levie, Autio, 2008.

in 2017 is higher than that of Malaysia, but lower than that of Indonesia and Thailand. The perception about entrepreneurial capabilities tends to be lower: the rate of perceived entrepreneurial capabilities in 2017 is 53%, lower than in 2015 at 56.8% and in 2014 at 58.2%. Regardless of several training programs on starting a business, the proportion of entrepreneurial confidence decreases by comparison with that of 2014 and 2015. It reveals the concern about a growingly intense business competition in the context of Vietnam's wide and deep integration into the world economy. It should be noted that the rate of Vietnamese respondents who have high capabilities perceptions keeps being lower than the average rate of developed countries in the phase I<sup>1</sup> (53.8%). Vietnam ranked 19<sup>th</sup> among the 54 economies in its capabilities perceptions in 2017; meanwhile it stayed the same ranking among 60 economies in 2015.

1.2. Fear of failure and entrepreneurial intentions

The GEM Global 2017 in Vietnam indicates that the rate of fear of failure slightly increases to 46.6% after a sharp drop from 56.7% in 2013 to 50.1%; 45.6% in 2014 and 2015 respectively. The fear of failure in business tends to be common in many countries. Therefore, despite the fear of failure, the ranking of Vietnam has dropped from 8<sup>th</sup> among 60 countries in 2015 to 10<sup>th</sup> among 54 countries in 2017 (the higher the rank, the higher the fear). Vietnam in recent years has made great efforts to improve the business environment, build a tectonic government, and gradually strengthen the belief of success

<sup>1</sup> The classification of countries by period based on the criteria of the World Economic Forum (World Economic Forum, 2018).

for entrepreneurs. However, the rate of fear of failure in Vietnam is still high, especially compared to the average rate of countries of the same development level as Vietnam.

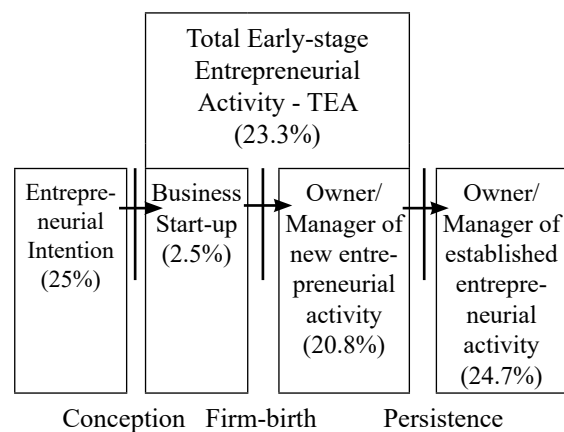
There has been an increase in Vietnam's rate of entrepreneurial intentions since 2014, to 25% in 2017, ranking 19<sup>th</sup> among 54 economies. It means that one in every four people has the entrepreneurial intention within the next three years, which is one of the important factors that helps achieve the goal of one-million active businesses by 2020 (according to the Government's Resolution No. 35/NQ-CP dated 16/5/2016). However, this rate is still low compared to the average rate of developed countries in phase I, even lower than that in phase II.

2. Entrepreneurship in Vietnam in 2017

2.1. Entrepreneurship development

To assess business development in countries, the GEM study has developed an index of total early stage entrepreneurial activity (TEA). The percentage of the adult population who are in the process of starting a business (a nascent entrepreneur less than 3 months) or started a business less than 3.5 years old before the survey took place.

Figure 2: Entrepreneurship development in Vietnam in 2017



Source: APS in Vietnam in 2017 (Global Entrepreneurship Research Association, 2018).

Figure 2 summarizes the basics of entrepreneurship development in Vietnam in 2017. Vietnam's TEA Index is 23.3%, in which the rate of nascent entrepreneur is 2.5% and the rate of starting a business less than 3.5 years old is 20.8%. In other words, in 2017, 23 out of 100 adults are involved in entrepreneurship activity. This index is higher than that in previous years, namely 13.7%, 15.3%, 15.2% in 2015, 2014 and 2013 respectively. The growth shows the results of improving Vietnam's business environment and policies to encourage start-ups in recent years.

It should be noted that GEM's research objects are general business activities, not just the business sector. According to the GEM definition, all activities aimed at creating jobs and generating income for themselves and/or others are business activities (except in the agricultural sector). Thanks to this strong growth, Vietnam has increased from 20/60 in 2015 to 6/54 in 2017 on TEA. Vietnam's TEA index is higher than that of ASEAN countries participating in the 2017 GEM study, including Indonesia (7.5%, ranked 41/54),

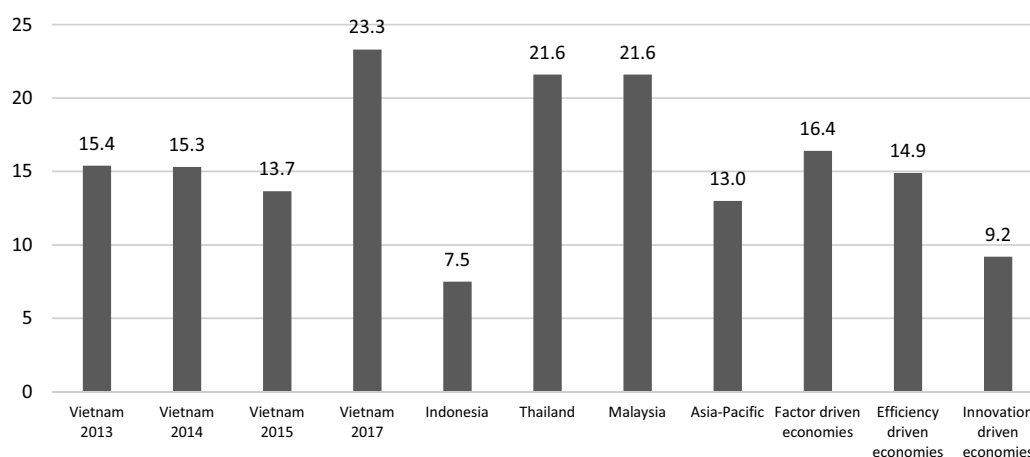
Thailand (21.6%, ranked 8/54), Malaysia (21.6%, ranked 8/54). It is also much higher than the average rate of countries in phase I as well as countries in the Asia-Pacific region (Figure 3).

## 2.2. Entrepreneur characteristics in Vietnam

### \* Gender

The GEM research advances the Female/Male TEA Ratio which is the ratio of women to men participating in entrepreneurship. A consistent finding with previous years is that men are more likely to be involved in entrepreneurial activity than women. Globally, the female entrepreneurs to male entrepreneurs ratio is up by 6% comparing the same set of countries which participated in the GEM survey in 2016. Women report equal or higher entrepreneurship rates than men in Ecuador, Vietnam and Brazil. Vietnam's gender equity index of business start-up continues to rank first among 54 economies in 2017, reached 1.14, which shows that Vietnamese women are actively engaged in entrepreneurial activities. However, women were more likely to start business out of necessity, compared to men.

**Figure 3: Entrepreneurial activities in Vietnam compared to other countries in the world in 2017 (%)**



Source: Adult Population Survey in 2017 (Global Entrepreneurship Research Association, 2018).

### \* Age

The GEM research in 2017 shows that the highest prevalence of entrepreneurial activity is among those aged 25-34 years. This is also the case in Vietnam where up to 32% of people in this age group participate in the early stage entrepreneurial activity, leaving far behind other age groups. Similar to developed countries in phase I, the proportion of people aged 18-24 starting a business in Vietnam is 22%, relatively high compared to developed countries in phase II and phase III. This situation is partly due to the higher rate of unemployed youth in the countries in Group I, the trend of opportunity-motivated entrepreneurship is thus higher.

### 2.3. Entrepreneurship characteristics in Vietnam

#### \* Industry sector participation

GEM divides entrepreneurship activities into four groups: Mining, Manufacturing and Transportation, ICT and finance, professional and other service; and Wholesale/Retail. Accordingly, the global entrepreneurship activities are mainly aimed at serving consumers. However, the differences in prevalent entrepreneurial activities in specific sectors reflect the changes in the relative contributions of each industry sector in each stage of the country's economic development. The rate of starting business in the mining sector is highest in factor-driven economies (such as Madagascar 30.42%, India 16.53%). The efficiency-driven economies have the highest rates of starting businesses in the processing sector (Egypt 43%, Morocco 34.45%). The highest early-stage entrepreneurial activity in ICT, financial and other services is observed in the

innovation-driven countries (42.16% in the UK and 36.17% in the US).

The entrepreneurial activities in Vietnam mainly aim to serve consumers, reaching 74.8% in 2017, much higher than the average of the countries in phase I or II. However, the rate of start-ups in other sectors has changed positively. The proportion of entrepreneurial activities in the field of processing has increased from 14.4% to 17.7%, and in ICT, financial and other services from 3.3% to 6.6%. The industry sector participation in Vietnam is gradually shifting in the same direction as economies in phase II.

#### \* Innovation levels of entrepreneurial activities

GEM assesses innovation in entrepreneurial activities by looking at *the extent to which entrepreneurs are introducing products that are new to some or all customers, and that are offered by few or no competitors*. The innovation index of start-up activities in Vietnam in 2017 only reached 13.9%, ranked 48/54, down from 16.5% in 2015. This index is lower than that of Malaysia and Thailand (reaching 29.3%, ranked 15/54) and only higher than that of Indonesia (11.6%, ranked 52/54).

#### \* International orientation of Vietnam's entrepreneurial activities

Compared with 2015, entrepreneurial activities in Vietnam having international orientation have been improved but remain lower than the average of countries of the same level of development as well as countries in Asia-Pacific region. Compared to the averages of countries in phase I, the proportion of early-stage entrepreneurial activities in export in Vietnam is lower

(26% vs. 31.5%), especially the rate of actually export-oriented entrepreneurial activities (the proportion of foreign customers accounting for over 25%) in Vietnam is much lower (1.8% vs. 8%). Global GEM research results 2017 show that the more developed the economy, the more international-oriented start-up activities are.

### 3. Vietnam's entrepreneurial ecosystem in 2017

Based on the views of key experts in nine sectors, the GEM study has developed a set of 12 indicators (See Table 1).

Vietnam's start-up ecosystem in 2017 continues to improve the highest indicators, but degrade the lowest ones. The ranking of basic indicators is still maintained, in

which *Physical infrastructure* continues to be the most appreciated factor, reaching 4.19 points (using a Likert scale of 1 to 5). The next two factors are highly appreciated as *Internal market dynamics* (4.15 points) and *Cultural and social norms* (3.62 points). If in the past few years only three of 12 indicators were above the average (3 points), the indicator of *Government policies: taxes and bureaucracy* (3.02) was introduced in 2017. The remaining eight indicators are rated below average, of which the lowest are: *R&D transfer* (2.19 points), *Government programs* (2.09 points), and *Entrepreneurship education at school stage* (1.83 points).

In terms of the 2013-2017 period, the top three indexes of start-up ecosystem are the

**Table 1: Ranking of the entrepreneurship ecosystem in Vietnam in 2013-2017**

(Unit: Points 1-5)

Entrepreneurial conditions	2017		2015		2013	
	Score	Ranking /54	Score	Ranking /62	Score	Ranking /69
Internal market dynamics	4.15	5	3.59	11	3.50	15
Cultural and social norms	3.62	6	3.23	14	3.10	20
Physical infrastructure	4.19	10	4.07	17	3.58	43
Internal market burdens or entry regulation	2.79	12	2.51	28	2.66	32
Government policies: support and relevance	2.4	13	2.78	15	2.89	20
Government policies: taxes and bureaucracy	3.02	25	2.62	25	2.77	13
R&D transfer	2.19	34	2.33	30	2.54	20
Entrepreneurial education at school stage	1.83	34	1.57	47	1.97	46
Commercial and legal infrastructure	2.82	36	2.93	42	2.89	45
Entrepreneurial finance	2.27	39	2.12	50	2.40	42
Entrepreneurial education at post school stage	2.61	40	2.53	47	2.64	50
Government programs	2.09	43	2.14	50	2.50	38

Source: The Global Expert Survey in the period 2013-2017.

ones that always tend to improve in the 2013-2017 period. Meanwhile, indicators that are poorly rated by experts often tend to worsen during this period, namely: *Government programs*, *R&D transfer*, *Government policies*. This decline does not necessarily indicate that these factors have deteriorated over the years, but that the improvement of these weak indicators has not been met as expected. Therefore, experts have evaluated these indicators lower.

Differences in the ranking of business conditions appear when comparing start-up ecosystems in Vietnam to 54 other countries in GEM research in 2017.

The two highest indexes of Vietnam in 2017: *Internal market dynamics* (5/54), *Culture and social norms* (6/54) are also the highest ones in period 2014-2015. *Physical infrastructure*, which has the highest average score in Vietnam, ranks third among the 12 indicators of entrepreneurship ecosystems, ranking 10/54. The next two highly ranked indicators are: *Internal market burdens or entry regulation* (12/54) and *Government policies: support and relevance* (13/54). The indicator of *Government policies: support and relevance* is only rated at 2.4/5 points but still ranked 13/54, indicating that the policy system to promote entrepreneurship and business development is not only a problem of Vietnam but of many countries around the world. Three indicators Vietnam has the lowest ranking in 2017 are: *Entrepreneurial finance* (39/54), *Entrepreneurial education at post school stage* (40/54) and *Government programs* (43/54), the same case as in 2015.

### III. Insights and recommendations

The analytical results show that, while the entrepreneurial activities in Vietnam in 2017 have improved and the proportion of entrepreneurs has increased, Vietnam lags far behind countries with the same level of economic development and countries in the region in terms of many indicators which are, among others, namely fear of failure, entrepreneurial capabilities, industry sector participation and entrepreneurial innovation, etc. Meanwhile, weaknesses of start-up ecosystems in Vietnam such as government support programs, R&D transfer, government policies, etc. have not been improved in comparison with the period 2013-2015.

Based on these findings, the paper has proposed some policy recommendations as follows.

*Firstly, it is necessary to continue to improve the business environment by stabilizing the macro economy, removing barriers, creating more credibility for entrepreneurs:*

- The Government continues to persist in measures to stabilize the macro economy, to control inflation and to regain the trust of entrepreneurs. These policies should be predictable and forecast so that people can develop their business plans. The policy implementation process needs to be monitored to ensure that the authorities comply with promulgated policy requirements.

- Ministries continue to remove barriers in business, review related regulations so as not to hinder entrepreneurial activities, resolutely abandoning types of licenses on conditions that hinder entrepreneurial activities.

- Create an environment for fair competition among economic sectors so that people will not feel that they are discriminated against in the process of accessing business resources.

- Improve the dissemination of market information through the application of IT to help people recognize the needs of the market, thereby generating entrepreneurial ideas instead of starting a business to solve needs of life.

*Secondly, develop supporting programs that encourage development of oriented start-ups in priority areas, promote innovation and activities with international orientation:*

- With limited resources, start-up support programs should not be distributed in a broad but selective manner, giving priority to start-up activities for key areas.

- Effectively implement policies to support and encourage research and application of scientific and technological achievements into production, promote services to support market development to improve the competitiveness of enterprises and of the entire economy.

- Request the transparent, fast and timely publicity of FTA commitments to people and businesses.

*Thirdly, it should improve the entrepreneurship ecosystem to promote the movement of entrepreneurship and business development in Vietnam*

- It is necessary to continue to innovate high school curricula in the direction of training creative, independent and teamwork skills.

- Need to complete business training programs at universities and colleges. Need to guide students/students of

technical schools, vocational schools on entrepreneurial skills so that they can create jobs for themselves by starting a business in the industry or field in which they have professional qualifications.

- In addition to the establishment and effective operation of start-up support funds, small and medium enterprise support funds, there should be mechanisms to encourage the development of private models of start-up funds such as venture capital fund, angel investment fund, mobilizing fund etc., to meet the demand for capital for entrepreneurial activities.

- Promote activities of linking universities, institutes, research centers with enterprises to apply and commercialize research results, especially in the field of information technology and high-tech agriculture.

- Build a focal point agency to gather government business support programs for businesses and business people to easily access.

*Fourthly, recommendations for business associations, businesses and start-up communities:*

- Strengthen information updates, propaganda and capacity building on international economic integration; promote services to support market development; enhance the competitiveness of each business to be able to participate in the global value chain.

- Build a social network of counseling and mentoring services to support start-up activities, which is especially important for young and female entrepreneurs.

- Take advantage of digital technology to create new products, services and business models.

- Actively promote entrepreneurship activities by encouraging innovation of employees, increasing investment in research and development (R&D) activities □

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