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# The neglected need for strategic renewal in emerging markets: Lessons from Vietnam in transition

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**Abstract** Research on strategy in emerging markets is based on overly static representations, paying insufficient attention to the impact of contextual change on the value of firms' resources. This article examines how a sample of the most successful Vietnamese private companies during the first decade of their country's transition from central planning was affected by the shifting rules of the game in their business environment. I suggest the primary takeaway is that sustained superior performance in an environment with changing keys to success requires dedicated and ongoing strategic renewal. I also suggest the need for both scholars and managers to immerse themselves in emerging markets if they care to fully understand the granular ways in which these settings differ from more familiar advanced economies.


## 1. Emerging markets are dynamically changing markets

Research on emerging markets has raised critical awareness that strategy and the value of a firm's resources are influenced significantly by the institutional contexts in which they are employed (e.g., Young, Ahlmstrom, Bruton, & Rhubanik, 2011). However, the study of management in emerging markets remains a nascent field within which the most prominent contributions consist mostly of tests of hypotheses originally formulated to answer research questions about business in advanced economies. Another characteristic of the research to date is rather static representations of market conditions, with very limited direct consideration of how firms are affected by the dynamic *change* that defines *emerging* markets.

In this article, I explore how some of the most successful private companies during Vietnam's first decade of market transition responded to continuing change during the second decade of transition. I draw on a decade of living and working in Vietnam alongside the results from a pair of firm-level

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surveys spaced by nearly as much time to come to the following three conclusions, which I discuss in terms of their implications for strategy in emerging markets:

1. Improving market conditions in Vietnam increased the relative value of domestically oriented business strategies relative to the export-oriented strategies that dominated early in the country's transition process.

2. Improving market conditions in Vietnam have meant that the most sustainable success stories have belonged to those early entrants willing to engage in substantial strategic renewal, which often involved strategic partnerships with foreigners.

3. While political connections continue to be of substantial value for accessing scarce resources in an institutional environment that remains very challenging even today, politically connected entrepreneurs have not proven themselves more likely than others to exhibit necessary strategic renewal.

## 2. Vietnam's dramatic transition

Vietnam makes for an especially intriguing setting to study the firm-level effects of contextual change. The country is probably still best known for decades of civil war and military conflict with Japan, France, and the United States as well as with fellow communists in Cambodia and China. In the late 1970s, the Vietnamese government compounded problems with disastrous central planning policies that led to deepening poverty and, when combined with a collapsing Soviet empire and a quite comprehensive global trade embargo led by the United States, to famine and millions of citizens setting off into the Pacific Ocean in makeshift boats. Fortunately, however, the country's communist leadership dramatically shifted gears in the late 1980s, dismantling the central planning system and establishing the basic institutions of private enterprise.

Since 1990, Vietnam has enjoyed annually compounded real gross domestic product (GDP) growth of 7.3%—a rate surpassed during the same period only by China, Macau, and Equitorial Guinea. Today, Vietnam is a global leader in the export of various agricultural products, including coffee and rice, as well as manufactured products, such as garments, shoes, and electronic equipment. Foreign direct investment, especially from other East Asian countries, has played a crucial role in the country's development story. Splashy recent investments include Intel opening the world's largest computer chip maker in Vietnam and prominent private equity funds like TPG investing into diversified Vietnamese business groups Masan and FPT.

Vietnam's transition bears many similarities to that of China. However, its success was achieved with both a far smaller domestic market and much less global fanfare. Furthermore, while China's massive allocation of resources into favored industries has revived popular debate over the pros and cons of state industrial policy (Hout & Ghemawat, 2010), Vietnam's continued emphasis on a leadership role for state-owned enterprises has produced only embarrassments. The perfect example is Vietnam's notoriously and disastrously corrupt shipping conglomerate, VinaShin, which defaulted in 2010 on a $600 million loan from a Credit Suisse-led group.

Vietnam's transition has taken place in two distinct phases. Vietnam's first company law was introduced in 1991, establishing a formal private sector that accounted for less than 10% of GDP throughout the 1990s. Stalled domestic reforms then led to a lull in economic growth in the late 1990s that also coincided with the Asian financial crisis. This, in turn, helped prompt turnover in senior leadership and a second round of reforms, which were highlighted by Vietnam's second business law in 2000, the signing of a bilateral trade agreement with the United States in 2001, and the opening of the country's first stock market in 2002. These reforms prompted rapid growth in the number, size, and GDP share of registered domestic private companies and dramatic improvement in the country's international profile. Increased market competition was the natural result of these improvements, which also showed up in terms of significantly increased rates of companies going out of business.

## 3. Vietnam's first decade of transition: Strategies for success

The entrepreneurs who succeeded in Vietnam's first decade of transition were a hardy, determined group. To learn more about these success stories, my colleague, Leila Webster, and I arranged in-person interviews in January 1999 with the managers of 95 of the country's largest private manufacturing firms (Webster & Taussig, 1999). Firms were selected to form a representative sample of private companies with at least 100 workers across Vietnam's seven most enterprising provinces. All the businesses we surveyed started small due to lack of formal start-up financing and very limited wealth accumulation by even the most