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BUSINESS LINKAGES IN VIETNAM: CASE STUDY APPROACH

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Abstract
Business linkage plays an important role in daily business activities, helping firms, especially SMEs with scarce resources of the labor force, finance, technology, skills, enhance their capability, access to the bigger market, and overcome regulations and other constraints. This paper is to discuss some theoretical aspects of business linkages, and illustrate with three case studies. We found that having a successful business linkage requiresfirmsto choose right partners to work with**,** carefully plan for the process of linkage, especially in terms of timing, and being sensitive to marketsare key determinants of success in constructing business linkage.

Introduction
In the past ten years, traditional market and hierarchical models of Vietnam based companies have been rapidly challenged due to the ongoing process of globalisation. In response to the fast-paced development of globalization and internationalization, business linkage has evoked as an effective method to conduct businesses, particularly in emerging economies. In regard of the importance of business linkage as well as its challenges, this paper is about to discuss and address some significant linkage issues among Vietnamese's private-owned companies. First and foremost, the explanation of key concepts in the introduction will raise the fundamental understanding of the topic. This will be followed by a detailed discussion about different types of business linkages via three case studies, and finally, sound recommendations will be generated from the aforementioned analysis.

Literature review
According to Jenkins et al. (2007), globalization has generated not only new markets and potential customers but also new competitive forces. Specifically, constant pressure to reduce costs, shorten lead times and enhancing efficiency along with core competencies have driven companies to change their operating strategies. As a result, many firms tried to cooperate with others and shifted their strategy toward internationalization in order to approach bigger markets and sources of customers. In fact, a large number of companies have become highly transnational with increasing presence in developing countries, contributing $4.5 trillion in value-added on a global scale (Jenkins et al., 2007). In support of this, Hansen et al. (2006) indicates the importance of cross-border business linkage by pointing out that one- third of world trade today is between TNCs and their foreign alliances.

Technically, these movements are often defined as "networks", "strategic alliances", "global commodity chains", "global value chains", "global production networks" or "cross-border linkage" (Hansen et al., 2006). As being denoted by Forsgren, Holm and Johanson (2005), a company creates business linkage when it is directly involved with other firms' business activities in the host economy via transaction or alliance-based relationships within or across industries, which influences the output, competencies development and productivity of partner firms. Hansen et al. (2006), on the other hand, explains the meaning of business linkage in two ways. Negatively, the linkage is an inter-firm exchange which is not merely market nor hierarchy. Positively, it can be defined as "formal and informal collaborative exchanges between legally independent firms, where material and immaterial resources are transferred, and/or practices shared and transmitted".

In general, business linkage formation process is largely driven by transnational corporations (TNCs) operating their value chains on an international scale, referring to the linkage between TCN and small and medium-sized enterprises (SMEs) (Hansen et al., 2006). A report from United Nations (2006) notes that transnational enterprises can have significant impacts in the host countries as well as contributing to the development of the private sector in those countries by promoting TNC-SME business linkage. In the light of this notion, numerous empirical evidences demonstrates that upstream, downstream and collaborative linkages between foreign subsidiaries and firms in host economies are of importance since they play a vital role in the success of these firms' development in capabilities and resources (Giroud & Scott-Kennel, 2009). United Nations' research maintains that business linkage is one of the fastest and most effective ways for SMEs to enhance their competitiveness and achieve a number of critical missing assets such as technology, management practices, skills and specialized knowledge or labor force (United Nations, 2010). In addition, the strong linkage can promote "production efficiency, productivity growth, technological and managerial capabilities and market diversification in local firms" (United Nations, 2006). Therefore, it is critically important to formulate healthy business linkages in today's diverse market, especially for the private-owned sector, which can be simply regarded as enterprises that are not owned by the government. Nevertheless, such collaborations are likely to be costly to generate and maintain, thereby they are barely developed easily or smoothly (Jenkins et al., 2007).

In emerging economies; described by Saccone (2017) as "a specific group of countries, arising from the necessity of differentiating developing countries that entered the take-off phase from those still entrapped in their early stages of development"; business linkages are becoming of great importance, which has been noted to gain growing shares of global trade in merchandise and services in recent years (Hansen et al., 2006). To illustrate, Vietnam has been successfully attracting foreign direct investment (FDI), where boosting productivity growth, especially that of the domestic private sector, is a key priority. Foreign direct investment (FDI); which is defined by Lundan (2016) as the territorial expansion of a firm's productive capacity outside its national borders including packages of asset or intermediate products such as financial capital, management expertise or technology; has increased dramatically in Vietnam since 2004 with total registered capital rose from $4.5 billion in 2004 to $71.7 billion in 2008 (Thanh & Duong, 2011). Nevertheless, despite opening up various opportunities, business linkage is actually a challenge for Vietnamese companies. Whilst it requires the tight collaboration among firms to formulate a strong and effective business linkage, a majority of enterprise find it difficult to cooperate with their partners due to the inability to meet corporate requirements along with international standards on production, lack of information, experience or resources and insufficient managerial skills/knowledge (United Nations, 2006) which will be discussed later.

According to Hansen et al. (2006), cross-border business linkages comprising five main types of relations: non-equity based linkage, TNC subsidiary, joint ventures, the regional firms as an indirect supplier or agent relation and local firms as sub-supplier. The first type involves the direct relations between the foreign firms and local firms without committing any equity in the host country, which could be a downstream or upstream relation. In general, downstream (forward linkage) refers to the collaboration between the firm and the supplier meanwhile upstream (backward linkage) refers to the collaboration with the distributor. Non-equity based relation includes various contractual options such as licensing, franchising or subcontracting. The second type of linkage indicates a foreign direct investment by the TNC in the form of a wholly owned subsidiary with either downstream or upstream linkages to local firms as suppliers or agent. The third type concerns TNCs involving in a joint venture, which can be further divided into two categories: linkage between the TNCs and local firms as joint venture and between the joint venture and local suppliers or agents. The fourth linkage occurs when TNCs collaborate with a regional intermediary as a third party to distribute products or services to local firms. Finally, the final type of linkage concerns cases when TNCs work with local firms as sub-suppliers, through which products and services are distributed to other firms in the same host country.

UNCTAD (2006), however, classifies business linkage based on another perspective of view and indicates only four categories: backward linkages, technology partners, forward linkages and linkages resulted from a spillover effect. In general, the backward linkages between firms and suppliers occur when companies purchase materials, inventory or service from other suppliers, building either arm-length transactions or close inter-firm collaboration depending on the types of advantages that offered by suppliers. While in the arm-length market transaction involved parties conduct business independently and have no interest in the transaction's consequences to the other party (Business dictionary), close inter-firm cooperation refers to long-term collaborations between separate organizations gathering together to achieve specific common goals (Hellman, Hovi & Nieminen, n.d.). Linkages with technology partner are formed when transnational companies offer their local partners access to technological and managerial know-how as well as access to local authorities, markets or institutions provided that they share the same goals. This kind of business linkages is often shaped via joint ventures, licensing or strategic alliances. Forward linkages with customers occur when TNCs outsource the distribution of their products through marketing outlets, or when TNCs produce any kind of inventory requiring after-sale services apart from the usual instruction on usage and maintenance. Other spillover effects include demonstration effects and human capital spillover. Demonstration effects consider the case when local companies are offered access to new export markets, management techniques or a better inter-firm division of labor whereas human capital spillover means local employees in TNCs or related suppliers benefit from the training provided by TNCs.

Despite a lack of consensus in classifying business linkage, in reality, it is not a matter how companies label their linkage type. As a matter of fact, the most important things firms need to consider are which business to exploit, who to cooperate with and how to develop a relationship with them. Consequently, three cases of business linkage in Vietnamese private sector will be discussed in order to generate a better understanding about this topic, concerning three distinct industries: food and personal care industry, agriculture and garment industry.

Case 1: Unilever Vietnam

First and foremost, it is noteworthy discussing Unilever Vietnam's story – a typical case study for successful FDI project about one of the key players in consumer goods industry in Vietnam, including food and beverages, cleaning agents and personal care products. Unilever is a British- Dutch transnational company with headquarters in London, the United Kingdom and Rotterdam, Netherlands. For approximately 90 years since it was founded, Unilever is now one of the world's largest multinational corporation, owning more than 400 brands and operating in 100 countries with 11 "billion-dollar brands", each of which gains in excess of €1 billion annually in 2009 (The Guardian, 2010). In Vietnam, Unilever has landed for over two decades and it now has a taste of success in fast-moving consumer goods (FMCG) industry. Most of its brands have turned into household names in Vietnam such as Clear, PS, Omo or Sunsilk with more than 5 million Unilever products reach Vietnamese households every day (Duong, 2011). That is to say, Unilever has become an important part in Vietnamese people's daily life. Nevertheless, it is a long story of success in business linkage with numerous hindrances when Unilever entered Vietnam's market.

In the early 1990s, Vietnam was a potential and unexploited market with many favorable conditions: literacy rate was over 92, growth rates exceeded 7 per cent per year with political stability and poverty was reduced dramatically with only 37 per cent of the population lived below the poverty line (UNCTAD, 2006). In addition, Vietnam's economic reform in 1986 made the market to be more open and FDI was growing at 3 per cent annually (UNTAD, 2006). Despite these impressive records, the negotiation to enter Vietnam was time-consuming because of a negative social and political attitude toward the private sector as well as an over-controlling involvement of the government with the dual pricing structure for foreigners, inconsistent regulations and policies and excessive bureaucracy. In regard to this, Unilever decided to work with local firms even though the SME sector in Vietnam was small and vulnerable. On one hand, they faced a more competitive market particularly from Chinese export since AFTA and WTO promoted trade liberalization while most of SMEs in Vietnam were producing low-entry-barrier or low-margin products in garments and footwear. On the other hand, they were heavily dependent on local and central officials along with a lack of a code of business principles and strategic vision.

Notwithstanding those difficulties, Unilever invested over $100 million to construct two plants and rebuild two existing plants in Vietnam. In addition, it upgraded nine major contract manufacturers and various suppliers, creating an intensive distribution network with massive support for that increasing the capabilities of local enterprises contributes to the growth in its own competitiveness. As a result, Unilever adopted a step-by-step strategy to approach Vietnamese SME in order to strengthen local firms. The company first carefully selected its partners, which was followed by Unilever's favorable treatment toward Vietnamese companies as preferred strategic partners and finally these SMEs' technology was upgraded via Manufacturing Sustainability

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Improvement Program (United Nations, 2006). Furthermore, Unilever also provided local firms with intensive training and access to technology. Consequently, such a healthy supply chain of growth-oriented contract manufacturers, suppliers and distributors allowed Unilever to gain about $4000 billion VND of its turnover in 2003 with access of 40% raw materials and 80% of packaging from local enterprises (United Nations, 2006). That said, Unilever has obtained a competitive advantage in price as local sourcing enable the company to gain additional capacity with low capital investments, cost competitiveness and a nationwide approach. From local SMEs' perspective, the flow of advanced technology and skills from Unilever also helped them to comply with international product quality standards, being able to enter export markets and diversify their business partners due to competitiveness in terms of cost and quality.

To sum up, Unilever is officially aware of the importance of linkages in conducting business activities. Therefore, they chose to source externally from Vietnam – a potential market, indicating a sensitive commercial sense. Furthermore, Unilever blended its working culture with Vietnamese's, utilizing local cultural traditions instead of introducing a brand new code of culture. On the other hand, long-term vision and commitment was adopted in doing business with Vietnam, which helped Unilever to surpass its rivals that have more global and less local approach to Vietnamese market. In short, all of these aforementioned factors are critical attributes to Unilever's success in Vietnam.

Case 2: Cong Binh Co. Ltd.

The second case study concerns a backward business linkage in the agriculture industry between the Cong Binh private company in Mekong Delta and farmers in Vietnam. Agriculture has been Vietnamese's traditional industry for ages with rice accounting for about 78% of the energy intake. According to Vo (2017), rice also dominates Vietnam's food exports, with annual exports of more than 6 million tons, valued at USD 2.7-3.0 billion. Nonetheless, there has been a steady decline in the rice planted area over the past decade. Inefficiencies in the rice supply chain are evident. The rice marketing system is highly fragmented with relatively weak vertical coordination, high levels of estimated quantitative and qualitative post-harvest losses, and relatively weak quality management. In fact, Phuong (2016) reports that Vietnam's paddy output is projected to experience a downfall of 1.6 per cent on-year, of which much of loss concentrates in the Mekong Delta that normally constitutes over half of the country's output. Besides that, although Vietnam is one of the world's largest rice exporters, it lacks a national brand as origin guarantee to enhance the rice price as well as credibility in the global market (VN Express, 2016). As a result, the price of Vietnamese rice is relatively low compared to Thailand, Pakistan or India (Phuong, 2016). Moreover, rice farmer's income is fairly low, most of whom are only able to cover household expenses and cultivating cost (Vo, 2017). As a matter of fact, many of them have dropped while the others are discouraged to continue.

In response to this, policies are fostered to advocate the development of agri-business linkages through the value chain approach with three main types: input material linkages, output paddy linkages and both input-output linkages between farmers and companies. All three linkages are not successful so far, mainly due to lack of responsibility among partners, nonloyalty of farmers to linkage rules and weak capacity of companies (management, logistics and facilities). Vo (2017) founded that less than 10% of the rice manufacturing companies have successful agri-business linkages. They did not only solve the 3 main challenges of linkages mentioned above, but also improve farmer income and build up healthy linkages. Cong Binh private company is a typical case among this 10%, which specializes in the production, processing and exporting of various types of rice, especially soft cooked rice and aromatic rice.

Initially, Cong Binh was a rice manufacturer for only domestic consumption. Its business significantly began expanding since 2009 when Cong Binh modernized its technology to obtain higher quality products of rice, especially exporting products in regard to market requirements and advantages from the new Government policy. Cong Binh is highly recognized for its growth rates in both turnover (50% growth annually) and profit (30% growth annually). The company has the potential to achieve more market share through its international strategic partners. However, it still lacks investment capital and has limited production capacity to accept larger deals proposed by those partners. In other words, a lack of access to credit and loans is the most difficult factor for Cong

Binh to expand its scale of business operations. Instead, the company cooperate with local farmers without any loans since it provides farmers with input materials including rice seed and cash.

Consequently, this linkage benefited both Cong Binh company and farmers within the linkage model. The company build up strong and close relationships with suppliers to ensure that farmers can receive input materials at the required quality standards with stable prices. In addition, Cong Binh buys all paddy produced by the farmers at VND200 per kilogram, higher than the market price at harvest time; which is not applicable for farmers outside the linkage (Vo, 2017). At this price, the benefit would provide an even split of profit/kg, 50% - 50%, between the farmer and Cong Binh company. Without the linkage, Cong Binh has to buy paddy and rice through other actors in the chain (collectors, traders) in which cases, Cong Binh still receives a profit/kg of 50% (with the remaining 20% going to the collectors and 30% to the farmers) but would not be able to guarantee rice quality because the paddy or rice from collectors is mixed with many other varieties of rice. That said, the linkage brings to the farmer a significantly higher and stable income, especially for poor farmers who do not normally possess enough financial resources to acquire input materials to grow the rice crop, without which the farmer has to acquire loans from banks and pay interest as well as pay interest to the input suppliers after harvesting. Currently, the linkage involves more than 3,000 farm households with a total area exceeding 3,000 ha while more and more farmers want to be members of Cong Binh's linkage so that they can enjoy a higher share of profit (50%-50%). Besides, Cong Binh company has been now able to export soft cooked rice and aromatic rice to many Asian countries as well as the United Kingdom and Australia, of which the annual export volume is about 100,000 tons (Vo, 2017).

To sum up, while many other companies failed to establish healthy linkage in Mekong Delta, Cong Binh has succeeded expanding its business to turn into an international company. The most significant achievement of this linkage model is that Cong Binh has been able to work hand in hand with farmers to communicate, listen, and make joint decisions to come up with solutions that are mutually beneficial to all parties – a win-win situation. In addition, Cong Binh shows that business ethics, reputation, willingness to share benefits with the farmers are very important factors for the successful linkage. Furthermore, the company concentrates on improving assembly line production technology to increase its competitiveness. Cong Binh has also been very proactive in the research of the overseas rice market and therefore it has much valuable information and knowledge to share with linked farmers about what needs to be produced in terms of quality and quantity. Apart from these, a close relationship and support from the local government along with other organization also contributes largely to Cong Binh's success. Without local governments, these important linkages would not be possible because they help to choose suitable land for rice production, crop timetable, integrated pest management or technical support. In addition, Cong Binh also receives support from the Vietnamese embassies for introducing partners abroad and market information providing. Moreover, since Cong Binh is a member of VCCI, it receives benefits of business training and market information for both domestic and international segment whereas close linkages with input partners allow the company to reduce the cost for raw materials.

Case 3: Vinhdat Co. Ltd.

The third case is about Vinhdat company, which will generate a different perspective of view on Vietnamese private enterprise. The company was founded in 1993, shortly after the government issued the Corporate Law. The owner of Vinhdat, Mr.Pham, had been working for a state-owned company for 20 years before deciding to conduct his own business because of the conservative management of his former company. Despite the nascent and uncertain status of the private sector in Vietnam at that time, Mr.Pham still consisted in building up a private-owned company and adopted a "careful, slow, but solid" development strategy for the company. Since the owner had developed a strong network consisting of officials, foreign customers, and other managers in the textile and garment industry throughout his career, Vinhdat began as a subcontractor for other private "middlemen," individuals who had contacts with Eastern European customers. The primary products are inexpensive jackets and trousers that are sold in foreign markets. However, the manufacturing facilities of Vinhdat are crowded, employees are low-skilled, and most equipment is secondhand. As a result, Vinhdat experienced a mismatch between customers' requirements and its capabilities between 1999 and 2000. Customers' demand increased, some calling for significantly higher quality work. Unfortunately, neither Vinhdat's size nor its technical capabilities had increased since 1999. The number of employees remained at 600 and no significant investment was made to upgrade equipment and employees' skills. A $60,000 loan from IFC (the International Finance Corporation) for upgrading the building in early 1999 was the only significant investment made since 1994 (Nguyen, Weinstein & Meyer, 2005).

Consequently, Vinhdat increased its subcontracting activities to about 50% of its business so as to meet customers' needs in terms of quality and quantity as reported by Nguyen et al., (2005). Although most of Vinhdat's subcontractors' technical capabilities are equal to or higher than Vinhdat's, they nonetheless have difficulty accessing foreign customers. The vast majority of these subcontractors are local state-owned enterprises (SOEs), which are perceived by foreign customers as slow, conservative, and difficult to work with. Many are located far from Hanoi (over a two- hour drive), making access to foreign customers cumbersome and some do not have government permission to export directly. As a result, these subcontractors rely on Vinhdat to generate export business while Vinhdat increases it yield of products via these alliances.

Notwithstanding various difficulties in establishing strong business linkages with strategic alliances, Vinhdat has been successfully expanding its business due to highly trust-based contracting modes. In general, the relationship between Vinhdat with its 18 subcontractors can be classified as market, recurrent and relational partners. For market partners, Vinhdat and two subcontractors entered into their business relationships with a short-term perspective and transacted without clear intentions of future cooperation. Meanwhile, 11 other subcontractors are categorized as recurrent partners, who interact frequently with Vinhdat during the implementation of the contracts, and a joint problem-solving approach from both sides is applied. The remaining 5 subcontractors are Vinhdat's relational partners. Both Vinhdat and these subcontractors had a definite intention of future cooperation in their business relationships. For these subcontractors, a verbal commitment was sufficient for a transaction; and thus written contracts could be signed anytime. However, the clearest distinction between these subcontractors and the others was their strong indication of reciprocal relationships with Vinhdat. An example of a reciprocal relationship is provided by the joint will of Vinhdat and its partners to share work in both off-peak and peak seasons. In the off-peak seasons (January to April of each year), Vinhdat often shared part of its business with its relational partners even though Vinhdat's own capacity was not fully utilized. In the busy season, conversely, the relational partners usually helped Vinhdat meet deadlines even though they were operating at full capacity at that time (for instance, by renegotiating deadlines with their own customers or asking their employees to work overtime). Another outcropping of relational transacting was evident when Vinhdat paid relational subcontractors even though the customer had not yet paid Vinhdat.

All in all, Vinhdat's collaboration with its strategic alliances has been so far profitable, yet there are some issues that might need to be thoroughly investigated. For instance, high political risks facing the private sector and the lingering illegitimacy of private ownership in Vietnam hinders Vinhdat's intention to expand in-house production, despite the potential gain in efficiency. At this point, the owner and his managers are still uncertain about the government's commitment to the private sector. The second anomaly concerns the timing of the development and evolution of trust- based contracting. According to Ring and Van de Ven's model (1992, cited in Nguyen et al., 2005), firms use the market as a basic, initial contracting mode. Over time, they may develop trust in each other and substitute recurrent and relational contracting. This implies that it takes a long time for a firm to develop recurrent and relational relationships with its partners. For Vinhdat's case, however, although all subcontractors are new, only two of them are categorized as market partners and 16 are categorized as recurrent or relational partners. Thus, the company sets out to form trust- based relationships with its partners right from the start. This raises several important questions: How do firms develop trust in each other without using market contracting as a precondition?

Besides, there is a likelihood that cooperating with many other companies might lead to some conflict of interest or business operations. Therefore, Vinhdat's linkages with its strategic alliances are questionable in long term.

Conclusions

Business linkage plays an important role in daily business activities, which is developing in Vietnam, particularly in the private sector. As a rule of thumb, private-owned companies seek business linkage since they are mostly SMEs with scarce resources of the labor force, finance, technology, skills, etc., thereby collaborating with the others would enhance their capability, bring about access to the bigger market or overcome regulations constraints. Firstly, generally, firms should carefully plan for the process of linkage, especially in terms of timing since it might take years to officially get connected to their partners, during which they will possibly miss various opportunities. A thorough plan should be generated from in- depth analyses about market, customers, company's capability and their main rivals' capability. In addition, due to limited sources to expand business of private-owned companies, which are mostly small and medium-sized enterprises, they should form a business association in which they can utilize others' strengths to make up for their own weaknesses. Specifically, a business association might act as the mediator of labor force or capital source that allows new entrepreneurs to raise fund, loan capital or get help with technology from other private-owned companies. Furthermore, such an organization will help to increase the private sector's bargaining power toward the government as well as TNCs as a rule of thumb.

Secondly, market sensitivity is a key determinant of success in constructing business linkage. It is likely that firms might choose an unsuitable market to exploit even though it looks favorable or an unprofitable partner without market sensitivity. In order to apply market sensitivity correctly, firms need to investigate market thoroughly and continuously to gain comprehensive understanding of both domestic and international market in which they are conducting business via in-depth research or purchasing information. In the meantime, enterprises should clearly identify its nature of business so as to figure out what categories of business linkage would be most beneficial. For example, Cong Binh private company runs it business in agriculture industry, in which rice is its primary input; therefore, backward linkage with farmers would not only be cost saving but also effective in enhancing product's quality.

Last but not least, inter-firm trusting is a fundamental attribute of a successful business linkage, which means it is important to choose right partners to work with. In the case of Vinhdat company, it will be risky cooperating with many other firms as subcontractors, from which a half of their outputs come. It will largely influence the company's reputation on a global scale if any of the subcontractors could not provide qualified products or breach the contract, for example. In other words, both parties of the business linkage should develop strong inter-firm trust for long-term relationship. This could partly be achieved through a careful selecting process of partners. That said, firms are recommended to investigate thoroughly about all of its potential partners, from which they can choose several companies that suit their code of business, have good intentions to build up long-term relationship and share certain goals to cooperate. Even though establishing strong inter-firm trust is a time consuming process, it worth carefully choosing alliances initially.

In conclusion, the private sector in Vietnam has many potentials to expanding its business, yet private-owned companies need to be careful and cautious in conducting linkages, especially international linkage. Therefore, they should have a clear plan toward business linkage, including some critical phases such as market research (in which firms have to clarify their business nature, market characteristics, main competitors and their own capability), strategy defining (firms need to determine which strategy of business linkage is the most suitable for the company), partners selecting (to identify and select the right partners), implementing and evaluating.

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