Intellectual Capital: Structural and Perceptual Issues in Vietnam

Ms Pham Le Thu Nga
Graduate School of Management
La Trobe University, Melbourne, Australia
Ph: 03 9479 3100
Email: nphamlethu@students.latrobe.edu.au

Dr. Keith Thomas
Graduate School of Management
La Trobe University, BUNDOORA, VIC 3083
Ph: 03 94793118
Email: Keith.Thomas@latrobe.edu.au

Dr. K.B. Oh
Graduate School of Management
La Trobe University, BUNDOORA, VIC 3083
Ph: 03 9479 3018
Email: k.oh@latrobe.edu.au
INTELLECTUAL CAPITAL: STRUCTURAL AND PERCEPTUAL ISSUES IN VIETNAM

Abstract Since the Doi Moi program in 1986, the Vietnamese economy has undergone significant structural changes. After the mid 1990s, moving away from agriculture, manufacturing and industrial production, the service sector has boomed in banking, finance, information technology, media, professional services and tourism. In these sectors, intellectual capital plays a large role. However, there is little research on intellectual capital in Vietnam and hence, a questionable understanding of intellectual capital by Vietnamese managers. This paper explores the gaps in their perception of intellectual capital and its contribution to firm value, the challenges of applying Western practices of intellectual capital management in Vietnamese firms and the structural issues relating to intellectual capital in the context of an emerging economy of Vietnam. (119 words)

Keywords: Intellectual capital, Vietnam
Word length: 2910 words

Introduction

In the emerging knowledge-based economy, intellectual capital plays a central role in terms of creating and maintaining a firm’s competitive advantage. Consequently, it is essential that firms understand the true value of intellectual capital and leverage its contribution to the value of the firm. A great deal of research has been done on intellectual capital, its constructs, models of valuation and management in the Western countries. Research shows that for many companies, the market value of the firm is much higher than the value of invested capital. Successful examples are Microsoft (97.8 percent higher) and Yahoo! (98.9 percent). The gap has been attributed to intellectual capital (Smith and Parr, 2002).

In emerging economies like Vietnam, dynamic companies are drivers of growth (Murray, 1997). In Vietnam, the number of companies has significantly increased in recent years and many have proven their success. This paper first, discusses the role of intellectual capital in the current development of Vietnam at three levels, including the national economy, the industry sectors and the individual firms. Then, given the level of interest by Vietnamese policy makers and relevance for both Western and Vietnamese managers. This paper next outlines some future research needs that could contribute to the pool of knowledge about intellectual capital, and in particular provide some suggestions for Vietnamese policy makers and managers.
**Intellectual Capital and Its Constructs**

Some authors use the terms intellectual capital, intellectual property and intangible assets interchangeably (Smith and Parr; 2002). On the other hand, many differentiate between intellectual capital and intellectual property. For example, intellectual capital is often considered to have a broader meaning, covering a range of intangible assets, whereas intellectual property has a narrower meaning of legal intangible assets such as trademark, copyrights and patents (Dzinkowski, 2000).

What constitutes intellectual capital is also varied among the authors. Smith and Parr (2002) decompose the intangible assets to four elements: Rights, Relationships, Undefined Intangibles and Intellectual Property. Blair and Wallman (2003) identify Ideas, Special skills, Organizational structures and capabilities, Brand identities, Databases and Networks. Dzinkowski (2000) defines intellectual capital in terms of Human skills, Relation capital and Organizational/Structural capital, and finally Kaplan and Norton (1992) in their Balanced Scorecard™ concept, identify four broad areas of finance, customers, internal process and learning and growth as the basis for valuing intellectual capital.

**Intellectual capital research in Asia and Vietnam**

Most of the world's current intellectual capital research is sourced out of Western countries. More specifically, intellectual capital research has generally focused on the USA, the UK, the Scandinavian countries, Australia, Canada, Austria, Ireland, South Africa (Firer and Williams; 2003). As well, some Asian countries such as Malaysia (Bontis et al., 2000) and India (Ashour, Bontis and Seleim, 2004). Thus, it would seem despite the emerging Asian economies having experienced significant growth in recent years, there is limited research generally in the area, and particularly in regard to the role of intellectual capital in sustaining that strong growth. In Vietnam, intellectual capital research has not yet received adequate attention.

For discussion specific to Vietnam, the general set of constructs by Dzinkowski (2000), of human capital, organisational capital and relational capital, is used. These constructs are widely used in literature and
readily applied in any practical situation. *Human capital* is understood as comprising a mixture of employees' accumulated occupational and general knowledge, leadership abilities, risk taking and problem solving capabilities. A strong focus will be given to characteristics of the leader as in Vietnam, there seems to be "unconditional obedience" to the figurehead of the community (Murray, 1997: 213). *Structural capital* comprises the sum of all the structural and cultural assets of the organisation that make the innovation ability possible. Structural capital can result from both tangible and intangible investments. One of the areas that are not paid adequate attention is intellectual property protection. Statistics from the National Office of Industrial Property shows that only about 25,000 products/services have been registered in Vietnam and very few industrial designs and mechanical designs registered (Ngoc, 2005). Therefore, it is critical to identify the perceived importance of intellectual property by Vietnamese firms and the reason for the low level of intellectual property protection sought.

**FIGURE 1:** Registration trend of Vietnamese Intellectual Property from 1990 - 2001

![Graph showing registration trend from 1990 to 2001](image)

*Source: National Office of Industrial Property of Vietnam, 2005*

*Relational capital* is the sum of all assets that facilitate the firm's relations with the environment, including the relations with customers, shareholders, suppliers and rivals, the state, the official institutions
and society (Bozbura, 2004). Again, in the context of Vietnam, when the market institutions are not sufficiently efficient, firms build self-supported mechanisms through strong relationships, especially with specific customers and suppliers (McMillan and Woodruff, 1999). For this reason, many private and foreign owned companies find it essential to have strategic alliances in Vietnam (Geib, 1999).

The Role of Intellectual Capital in the Vietnamese Economy

Most of the work written on the transition of Vietnam toward the market economy tends to provide a general picture of economic development; there is little focused on the role of intellectual capital in the transition stages. The following section discusses the evidence of intellectual capital development in Vietnam at three levels of the national economy, sectors and individual firms.

At the national economy level, since Doi Moi (Renovation) in 1986, Vietnam has observed rapid changes in its industrialization and modernization process. The economy has shifted away from the central planning system toward a market economy. This critical movement highlights the importance of a sound national strategy for development, which may be viewed as an essential part of the national structural capital. The nation's success is evident. In 1986, the country was still so poor that parts of the country nearly faced famine. It took only a few years after that for Vietnam to become one of the top world rice exporters (Murray, 1997). In 2004, according to the US Ministry of Agriculture, Vietnam was the second largest rice exporter with 4.2 million tons of rice exported, surpassing the USA and India (Vietnamese Ministry of Foreign Affairs' website). Vietnam is also amongst the top exporters of many other products including coffee, pepper, cashew nuts, rubber, aquacultural products and some other major export products such as garments, shoes, electronic products, computers and spare parts, and crude oil. Apart from the favourable resource based endowment of the country, much of the success so far to a market based economy results from the enduring capacity to accept hardship and to adapt in the Vietnamese people. The success of the economy would then appear the result of an intangible combination of national structural capital and national human capital represented by such elements as openness to ideas in policy and leadership after Doi Moi, a culture of enduring hardships and an ability to learn and adapt.
At the industry level, the role of intellectual capital is evident in the development of the service sectors, many of which are intellectual capital intensive. The economy is divided into three main sectors: agriculture and aquaculture; industry and construction; and trading and services (such as retail trade and export services). As depicted in the national coat-of-arms, the symbols of a rice plant and wheel highlight the respective emphasis of the nation on agriculture and industrial development (Vietnamese Communist Party's website). However, in recent years the trading and services sector has been leading the economy.

In 2002 for example, nearly 60 percent of the 62,908 businesses were in this sector, which contributed about 39 percent to GDP (General Statistics Office (GSO), 2002). Within the service sectors, banking and finance, media, tourism and information technology are the key players in terms of the contribution to GDP (GSO, 2002), not only serving the domestic market but also increasingly the international market.

For instance, in early 2005, Vietnam signed a contract to supply internet lines to Cambodia and export software to Japan (Vietnam Economic Times, 2005). Also in 2005, it has been estimated that Vietnam will earn about US$2.5 billion in revenue from the tourism sector (Vietnamese Communist Party's website, 2005). The growth of the service sector shows the broad development of the economy from sole reliance on traditional factors of production such as land and machinery towards a combination of tangible and intangible assets.

Turning next to the role of intellectual capital in Vietnamese firms, in face of growing competition firms are under pressure to develop their human capital, structural capital, as well as relational capital. Earlier, in a centrally planned economy, people were assigned a job on graduation from school or university. After Doi Moi (1986), the movement towards a market economy represented a transformation of labour relations accompanied by a re-distribution of human resources based on merit and influenced by education level, industry and gender (Oudin, 2004). From the mid 1980s, there has been a rapid expansion in labour supply both in terms of quantity and quality. According to the General Statistics Office (GSO) of Vietnam (GSO 2000), in the year 2000, some 37 percent of the population was between the ages of 15
– 34 years. This situation is expected to peak around 2005. Given the labour market situation, firms enjoy a good general supply of labour and increasingly will seek skilled labour (human capital).

As well, a new competitive environment puts pressure on Vietnamese firms to develop their structural capital. In the centrally planned economy inputs are allocated and outputs are distributed. The shortage of supply in these earlier times gave companies a ready market (Gates and Truong, 1992). Therefore, at the micro level, companies had low uncertainty of their going concern and hence no incentives to do better. With the transition towards a market economy with the strong privatisation wave and more open policies for private firms, the number of firms performing well is far higher, with an average annual growth of around 22 percent in the last 5 years (Ministry of Planning and Investment, 2003a). To sustain such growth, it is critical for companies to invest in tangible infrastructure, such as information systems, customer service procedures and training processes, as well as intangible factors that include strategic planning, coordination and development of a good corporate culture.

In terms of the importance of relational capital, literature indicates that social relations and networks are strategically important for Vietnamese firms. Although market institutions have been improved, it is complicated and costly, especially for start-up and private firms to access financial services of banks, to get information and to enforce legal protection (McMillan and Woodruff, 2002). The main reason for this is that the major stakeholders of private firms, represented by the Government, the financial services providers and the general public, all appear to have little confidence in the private sector (MPDF, 1999). Firms therefore have to build substitutes for the missing institutions. These substitutes are mostly based on personal and social relationships inherent in Vietnamese society. This issue highlights the importance of relational capital for all companies, without which they could not hope to succeed in Vietnam.

Thus, it can be said that at the micro level there is a need for Vietnamese firms to invest in human capital, structural capital and relational capital, especially in developing good personal and social relationships with trading partners and customers. Given the context of an even more competitive environment resulting from joining the ASEAN Free Trade Agreement (AFTA), signing the Bilateral Trade Agreement
(BTA) with the USA and the expected entrance into the WTO, firms will have to do more to improve their competitiveness (The World Bank, 2002). This in turn would suggest a greater focus on enhancing human skills and structural capital to remain competitive. Firms also have to develop alliances with elements of local and international capital. The resultant networks, as commented by Dixon (2003), are among the major factors in economic change in Vietnam. In summary, there is some literature on different components of intellectual capital in Vietnam; however, an overall integrated picture is missing. What is needed is a more systematic research in the role of intellectual capital in Vietnamese firms and particularly how Vietnamese managers perceive that role, because perception will precede suitable action.

The Vietnamese Government's interest and efforts in promoting intellectual capital

In human development, government spending on education and training has grown considerably over the past decade, from 4.4 percent of GDP in 2002, to an estimate of 17.1 percent in 2004 and 18 percent in 2005 (MPDF, 2004). In terms of structural capital development, the Resolution of the VIII Communist Party Representatives National Congress emphasised the importance of information technology to the national development, mentioning that applying information technology had significantly improved productivity, quality and efficiency, as well as enabling improved national and international information exchange (Communist Party of Vietnam, 2000). The Government of Vietnam has also done its best to provide a better environment for businesses, developing the Enterprise Law in 2000 and the Vietnamese stock market in July 2000. These structural changes give firms access to the financial market and give the economy a systematic mechanism for measuring the market value of companies, which in turn facilitates more efficient capital allocation decisions among firms and among the public. However, only 27 currently listed companies as at May 2005 enjoy this advantage (Vietnam Panorama, 2005), while the majority of companies still struggle to find access to capital, as well as the way to show their value to the public. To explain, according to the survey by the State Securities Commission in 2005 of 447 businesses in the North of Vietnam, 60 percent of the businesses are concerned about insufficient knowledge of securities
and the stock market, 48 percent are worried about complicated listing procedures and 38 percent are concerned about making their information public (Vietnam Panorama, 2005).

In terms of the absence of institutions, to improve the situation Prime Minister Phan Van Khai issued Instruction 4/2005 setting a target of listing 200 companies on the local bourse in 2005 (Vietnam Panorama, 2005). However, there are still things to be done. With the banking system restructured after Doi Moi commercial banks are less regulated, but their financing capacity is limited. The financing capacity of the whole banking system can only provide 35 percent of GDP, comparing with the common level of 55 percent in regional countries (Ministry of Planning and Investment, 2003b). This puts pressure on banks for their credit assessment, resulting in limited access to funding for small private companies, who are forced to seek capital through their social relationships. Conversely, state owned enterprises have on average a 14 percent higher possibility of getting a loan compared to private firms (IFC, World Bank and MPDF, 2003).

Another issue relates to administrative procedures for business registrations. On average, it can take businesses up to 200 days to obtain the land-use right and then a further 4.5 years to actually successfully shift the people living in the area allocated for development by the local government. These delays represent high opportunity cost while the respective businesses wait to commence operations (IFC, World Bank and MPDF, 2003). The legal system is another problematic factor, with businesses required to rely on self-supporting mechanisms such as family and social connections. In a joint survey by the International Financial Corporation (IFC), World Bank and the MPDF (2003), only 9 percent of firm reported having the local government solve business disputes, while only 10 percent indicated they used local courts and law firms' services to resolve legal difficulties.

In summary, the Vietnamese government's expenditure in terms of human development, business development and information technology structure are evidence of an increasingly interest in intellectual capital. However, there are things to be improved to allow a better business environment for firms. These intangible factors, both directly and indirectly, decide the viability of the firms. It can be concluded from
the above analysis that intellectual capital plays a crucial role in driving firms forward and has a positive impact at both industry sector and national economy levels in Vietnam.

**Future Research Implications**

Given the current level of interest from the Vietnamese Government and the firms in developing different aspects of intellectual capital, the need for more research in this area is evident. This future research to be beneficial for the firms in Vietnam must ideally take a systematic view that supports more efficient management of intellectual capital, particularly through providing common language and definitions, as well as standardised measures and performance criteria. The structural and perceptual issues indicate that although firms may understand the strategic importance of intellectual capital, they have encountered difficulty in developing this capability. The difficulty results from a lack of market mechanisms in terms of financial resources, administration procedures and regulatory framework. Research on structural and perceptual issues should also be combined with those on actual practices of developing and managing intellectual capital by Vietnamese managers as it can not be assumed that perception leads to real practice. Another avenue of research is in determining how Vietnamese firms measure the effectiveness and return-on-investment for intangibles, as well as how the measured results affect their investment decisions. Lastly, with the current average growth rate of GDP of 7 percent over the last 5 years (Ministry of Planning and Investment, 2003b), the environment for business has been changing substantially over recent time, which suggests researchers need also to look at intellectual capital management changes and related trends in Vietnam.

**Conclusion**

Given the context that intellectual capital has been playing a more important role in Vietnamese businesses at all levels of the national economy, industry sectors and individual firms, Vietnamese managers should have a fair understanding of intellectual capital and its composite elements in order to leverage its contribution to the value of the firm. Most Vietnamese firms realize the importance of intellectual capital constructs of human, structure and relations. With the movement toward a market
economy, firms have to invest in good labour management practices as well as good organization structure and strategy. In this context, relational capital seems to be more appreciated by Vietnamese managers. The reasons for this focus are in part reflective of Vietnamese culture, but more importantly the effect of an absence of supportive market institutions such as financial resources, administration procedures and regulatory framework. Firms find social relations and networking a useful strategy to overcome unfavourable competitive conditions.

Research of intellectual capital in the Western countries has produced a rather detailed picture of intellectual capital, its measurement and its management. The question however is, how much of the currently existing knowledge can be applied to the emerging economy of Vietnam. The short answer is that intellectual capital practice cannot be assumed to be directly translatable to Vietnam. Rather, research is needed to determine Vietnamese managers understanding and perceptions of intellectual capital. Conversely, there may also be some value in bringing an Eastern view to the current discussion on intellectual capital, a perspective that will be of equal interest to both Western and Asian managers, as well as policy makers in Vietnam.

BIBLIOGRAPHY


