

BITIS in Viet Nam

Creating Values Through Good CSR Initiatives in Supply Chain

Viet Nam

Case Study:
Viet Nam

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Executive Summary

This case focuses on the experiences and practices of a Vietnamese shoe-making enterprise, BINH TIEN Consumption Goods Production Company Limited, popularly known as BITIS. It is an example of the development and implementation of an effective CSR strategy in the context of Viet Nam's rapid integration into the global economy and the concurrent transformation of BITIS from a modest local enterprise into an organization linked to a global supply chain. Given Viet Nam's fast-paced economic reform and recent accession to the World Trade Organization (WTO), Vietnamese enterprises are finding new ways of doing business in a more sustainable and competitive manner.

Becoming part of a global supply chain requires compliance with international standards, as well as considerable innovation in management practices. BITIS, supported by good CSR practices, has successfully developed its brand reputation and market presence. BITIS has a strong focus on improving its environmental and human resources practices, while working with overseas partners.

The growth of BITIS has followed closely the "Doi Moi" [renovation and opening up] of Viet Nam over the last 20 years. Its success shows that the private sector has played a key role in the economy's development and growth by "doing good and doing well".

Background

Viet Nam is entering into a period of more rapid economic integration with the facilitation of foreign investment and the increase in trade, all supported by internal economic reforms. These changes bring with them stronger economic growth as well as challenges for Vietnamese companies which are under increased pressure to improve their productivity, strengthen their competitiveness and develop their human resources.

Viet Nam's economy has experienced a spurt of growth following the "Doi Moi" reforms that began in 1986. Viet Nam is being touted as the next Asian miracle economy. The economy is attracting more Foreign Direct Investment (FDI). It has high literacy rate of above 90%. With its sustained growth rate of 7.5% per annum (2001-2005) Viet Nam has seen an impressive record of poverty reduction. At the same time the young population is demanding a better standard of living.

Viet Nam continues to make a successful transition from a centrally planned to a market-oriented economy. During the 1990s, Viet Nam's economy doubled in size, and the rate of poverty was halved. Export earnings grew from US\$2.4 billion in 1990 to US\$32.2 billion in 2005. Exports have grown at an average of 18% per year since 2000. This trend is expected to continue, guided by the government's commitment to export-led growth.

Viet Nam: Key Socio-economic Indicators (2005)

Population	82 million
GDP growth rate	8.1%
GDP per capita	US\$640
FDI	US\$3,3 billion (by end 2005)
Export volume	US\$32.2 billion (by end 2005)
Growth and Competitive Index	81/117 rank
Private enterprise	200,000 (by 2005)

Source: GSO and MPI, 2006

Viet Nam's international economic integration took important steps forward with the implementation of the bilateral trade agreement with the United States and the ASEAN Free Trade Agreement (AFTA), which required the reduction of tariffs and import barriers among all ASEAN members by 2006. Viet Nam achieved full membership of the WTO with its accession in late 2006. This will further advance Viet Nam's integration into the global economy.

Nonetheless the government recognizes that the pace of economic reform has been slower than it might have been, and that Viet Nam's economic growth path is not yet on a sustainable footing. Economic efficiency is not high, labour productivity is generally low, and many sectors and products are not competitive in global markets.

The implementation of socially responsible management practices by Viet Nam's business enterprises is recognized as an effective way to strengthen their competitiveness in the global marketplace on a sustained basis. But according to Transparency International's *Growth and Competitive Index*, Viet Nam ranks 81st among 117 economies. The World Bank's *Doing Business 2008* reports that Viet Nam ranked as number 91 out of 178 economies. Clearly there is room to do better.

Similarly, WTO membership has created both opportunities and challenges for Viet Nam. It is clear that Viet Nam is striving to facilitate its trade and is committed to the removal of trade barriers in order to stimulate growth in exports and imports. Not surprisingly, the impact of trade liberalization level differs from sector to sector. Research done by the Viet Nam Academy for Social Science has indicated that the commitments made in the WTO accession process would have negative impact on the fishery sector but would have positive impact on shoe production and textile making. At the firm level, the challenge will be for Vietnamese-controlled companies to compete effectively with foreign investment for their share of the Viet Nam market, not only in terms of their available resources, but also in terms of their business management capability. Adopting global standards in management practices and integrating into the global supply chains have become crucial requirements in this new and more competitive business environment.

CSR in Viet Nam's Private Sector

The World Bank Group's *CSR Practice* defines corporate social responsibility (CSR) as "the commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development."¹

The concept operates at four quite distinct levels. First, CSR is perceived as the participation of business enterprises in humanitarian and charitable activities. Second, CSR is based on good management practices, satisfying customer demands in terms of quantity and quality of product as well as timeframes for delivery of goods. Third, CSR often involves a certification process, such as SA 8000. Fourth, CSR can be viewed from a "brand protection" perspective. In this context safeguarding the quality of life of workers, stabilizing and developing the production of safe and reliable products, and operating in an environmentally-responsible manner all contribute to building a company's credibility and reputation in the marketplace.

The CSR agenda is relatively new in Viet Nam, although safeguards for worker's rights and working conditions are well-articulated in national legislation.² Just like in other APEC

¹ "Strengthening Implementation of CSR in Global Supply Chains," Oct 2003, World Bank Group.

² "Corporate Social Responsibility (CSR) in Viet Nam" - World Bank- Institute of Labor Science and Social Affairs Ministry of Labor - Invalids and Social Affairs, Viet Nam ,December 2003.

economies, CSR is a particular challenge for smaller enterprises, which predominate in Viet Nam. Indeed, there is a growing fear that many SMEs may have to shut down their operations if they fail to meet the new and tougher global standards. Hence, the strengthening of socially responsible behaviour concurrent with the further growth of SMEs is critical to the overall success of Viet Nam's development.

SMEs are defined as businesses and production establishments that have a registered capital of less than VND10 billion (about US\$670,000) and/or fewer than 300 annual permanent employees. SMEs contribute significantly to the Vietnamese economy as they account for 65% of the GDP (based on value-added), employ 85% of the industrial labour force and comprise 20% of the exports.³ A profile of Viet Nam's SMEs is shown in the following table.

Table 1:
Profile of the Small and Medium-Sized Enterprise Sector

Item	2000		2002		2004	
		%		%		%
Total number of Large Firms (>D10 billion)	5,983	—	8,692	—	12,335	—
Total number of SMEs	36,305	100.0	54,216	100.0	79,420	100.0
SMEs with less than D1 billion in capital	22,801	62.8	29,585	54.6	39,378	49.6
SMEs with D1 billion–5 billion in capital	10,759	29.6	20,141	37.1	32,739	41.2
SMEs with D5 billion–10 billion in capital	2,745	7.5	4,490	8.3	7,303	9.1
Total number of Large Firms (>300 employees)	2,391	—	3,077	—	3,533	—
Total number of SMEs (<300 employees)	39,897	100.0	59,831	100.0	88,222	100.0
SMEs with less than 5 employees	10,169	25.5	12,079	20.2	17,977	20.4
SMEs with 5–9 employees	10,900	27.3	18,139	30.3	26,459	30.0
SMEs with 10–49 employees	12,071	30.3	20,718	34.6	32,443	36.8
SMEs with 50–299 employees	6,757	16.9	8,895	14.9	11,343	12.9
SMEs by Sector (based on employees)	39,897	100.0	59,831	100.0	88,222	100.0
Agriculture, forestry, and fishery	3,230	8.1	3,223	5.4	2,221	2.5
Industry and construction	13,142	32.9	21,300	35.6	32,679	37.0
Services and commerce	23,525	59.0	35,308	59.0	53,322	60.5

— = not available, SME = small- and medium-sized enterprise.

Source: General Statistics Office and Asian Development Bank estimates.

Following implementation of the new enterprise law in January 2000, the private sector has flourished in Viet Nam. Some 38,100 private enterprises were newly registered in 2005, up from 14,400 in 2000. Viet Nam has about 200,000 private enterprises, with a total registered capital of about US\$26 billion. The improved investment climate has continued to support foreign investment growth, with US\$2.4 billion in new investments in the first five months of 2006, up by 19.7% from the 2004 level. The domestic private and foreign invested sectors currently produce almost 60% of industrial output and 33% of production value in manufacturing.

As noted, the SMEs in Viet Nam are contributing significantly to value-added, but most of these enterprises are still highly focused on the domestic market. The typical export-oriented enterprise in Viet Nam is larger and more productive.

A stronger involvement of the private sector in the supply chains could help SMEs identify overseas partners and improve quality standards. Strengthening CSR backwards through the supply chain is one strategy for promoting these linkages. Many Transnational Corporations (TNCs) have helped introduce CSR to the local enterprises in their supply chain by requiring compliance with a code of conduct or with local laws and regulations

³ Website: <http://www.wasmeinfo.org/statearungse3.htm>.

Under the SME development plan 2006-2010, the Vietnamese government has supported the development of new enterprises by simplifying procedures for company registration, taxation, import and export clearances, land renting policies, and establishing industrial zones. This policy has also facilitated the availability of credit loans to SMEs, capacity building, and information and technology.

Opportunities and Challenges in Viet Nam's Leather and Footwear Sector

As one of Viet Nam's leading export industries, the leather and footwear sector has attracted significant foreign investment and has been a stable supplier to customers around the world, particularly in developed economies. With Viet Nam's integration into the global economy, leather and footwear enterprises have had more opportunities to access advanced technologies and to penetrate the global market at a larger scale.

However, leather and footwear enterprises have also faced increased competition, not only internally but also from other regional manufacturers, mainly from China, who are supplying 75% of the total requirements for footwear of major global brand names like Nike, Adidas, and Reebok. To compete with these overseas companies, Viet Nam's enterprises have been forced to enhance their positions by increasing their capital, investing in modern technology, improving management practices and applying quality assurance. In particular, they have had to increase their direct interactions with potential overseas clients.

The Viet Nam government's policy is to support both domestic production and exports of leather products and footwear. The shoe industry is Viet Nam's second largest industrial employer, employing approximately 500,000 people. Demand for footwear products throughout the world and Viet Nam's footwear exports to the US market have also increased, especially after Viet Nam became a full member of WTO in 2006.

Despite these successes, however, Viet Nam's leather and footwear sector faces stiff competition from other regional suppliers, especially China. In addition, despite the reduction in tariffs Viet Nam producers still face (or potentially face) a variety of non-tariff barriers to trade including technical barriers, US monitoring mechanisms for garments, and anti-dumping provisions in the European Union. Finally the sector is facing increased pressure to strengthen its governance practices and transparency and improve its record on CSR.

At the enterprise level, the main difficulties are perceived as follows:

- limited expertise, management skills and technical competencies in majority of the enterprises;
- out-of-date production methods with a focus on sub-contractor performance,
- obsolete technology and equipment;
- insufficient availability of specialized skills on the production line, and a general shortage of skilled labour;
- poorly designed or styled products;
- poor quality domestic materials supply source, which fail to compete with imported materials; and
- low labour productivity levels, with high labour turnover.

Migrant labour, predominantly female, constitutes a large proportion of the workforce in the footwear industry. Workers lack job security and often quit when they are faced with difficulties related to their living conditions. Work is seasonal in nature, leading to the *ad hoc* labour arrangements. The work day may extend up to 10-12 hours during peak times, but workers may be idle during other times of the year or they may be forced to move to obtain seasonal employment.

Vietnamese enterprises are very much aware of the need to employ advanced technologies and modern production management methods, improve business ethics, enhance employees' benefit and maintain good client relationship with key clients as fundamental requirements for conducting business globally. Enterprises are upgrading infrastructure to meet requirements for environmental protection.

The presence of many TNCs in the footwear sector in Viet Nam has facilitated the development of strong linkages between local production companies and overseas customers, which has positively influenced the production processes, design, and quality standards, trade volumes as well as labour-management practices and working conditions throughout the supply chain. Eighty percent of Vietnamese footwear companies export their products, mainly to EU markets. They receive materials from overseas companies and add value through labour-intensive manufacturing and assembly operations. The resulting products are sold under global brands such as Nike and Adidas.

This outsourced production has resulted in stiff competition for traditional EU-based shoe producers while giving very limited bargaining power to local SME suppliers.⁴ In this environment, the initial efforts at strengthening CSR in the supply chain by the TNCs were generally in response to the demands of end consumers in overseas markets, and generally took the form of a code of conduct that was implemented. This required buyers to assess and certify local companies as having met global standards. As a result, enterprises had made "great efforts" to fulfill the buyer's requirement specified in the code of conduct.

BITIS, the subject of this case, stands out as an example of a Vietnamese enterprise that has adopted good CSR practices and has successfully carried out its operations in the global marketplace.

BITIS: "Tender Care of Viet's Feet"

The BINH TIEN Consumption Goods Production Company Limited is commonly known as BITIS, and also by its tag line "*Best solution of your sourcing in Viet Nam.*" Over its 25 years of operation, BITIS has become the most renowned company in Viet Nam's footwear sector for the quality of its human resources. Building customers' trust is the core of the company's business strategy.

The first production units of BITIS were set up in 1982, called *Bình Tiên & Vạn Thành*, with 20 workers and producing only rubber sandals. After the Doi Moi in 1986, these two production units were merged into a Binh Tien Production Collective to produce high quality sandals. The challenge was to upgrade the production capacity from the initial level of the collective, which was based on only 20 low-skilled workers. This led to Binh Tien Production Collective's decision to have one of its production units enter into a joint venture with a Chinese Taipei-based company.

⁴ LEFASO, 2006.

The joint venture, named Son Quan Joint Venture, was the first registered joint venture in the Viet Nam footwear sector in 1991. However, the whole company was still a Vietnamese controlled private company, under the leadership of Mr. Vuu Khai Thanh, registered as a limited company, BINH TIEN Consumption Goods Production Company Limited, when the first Vietnamese Enterprise law was issued in 1992. The business venture opened up opportunities in new markets and also helped the company to employ more workers, and to manage its work force in a modern way.

By 1989 or very early in Viet Nam's opening process, BITIS had become the first registered Vietnamese private company to produce goods for export. The company's trading activities started, strongly supported by its relationship with global partners. In 1990, the management decided to renovate its production technology and adopt global standards - a move which helped BITIS to integrate faster and make the BITIS trademark well-known outside Viet Nam.

BITIS attributed its success to the company's commitment to grow through market opportunities and the increasing role of the private sector.

The BITIS group encompasses three companies under a single brand, with a total labour force of over 7500. BITIS operates both in Viet Nam and as part of global supply chains. Within Viet Nam, the company has 11 branches (see Figure 1), two business centers and over 4,500 agents.

Figure 1:
BITIS Supply Map in Viet Nam



The company exports to more than 40 economies, including Japan and the United States. It has three representative offices in China, and two business centers in Central Highlands and in Lao Cai Border with total investment of US\$10 million. As of 2005, BITIS reported total turnover amounting to nearly 1,000 billion Dong (equivalent to US\$66 million), of which 30% was from exports (See **Table 2**).

Table 2:
BITIS Performance: 2001-2006

Particulars		2001	2002	2003	2004	2005	2006
1. Turnover (Dongs mil.)		465,742	559,060	695,616	726,082	836,354	828,057
2. Number of products (pairs)		10.588.961	13.068.306	14.788.186	15.179.308	16.031.713	17.843.160
3. Number of suppliers/retailers	Domestic	3007	3591	4179	4567	3448	3561
	Foreign	21	21	20	34	32	31
Average Income per employee(dongs/month)			856,371	853,829	846,892	867,465	

CSR at BITIS

BITIS actively contributes to community development and environmental protection. For example, BITIS has been honored for its work in supporting poor people and children with health examinations and social assistance. BITIS is not only committed to the production of high quality products but also to innovation in its human resources management. The company understands that improving working conditions and safety will redound to productivity improvements. The company also pays close attention to environmental sustainability and to the development and enhancement of its sustainable strategy and customers' trust.

In 2001 BITIS received the BVQI and QUACERT certificates for ISO 9001:2000. BITIS was honored for its products which have consistently been among the “Top Ten of Viet Nam” based on consumer votes, for the last eight years. BITIS is committed to integrate CSR into its overall management approach, particularly with regard to labour conditions and environment protection. BITIS intends to make CSR integration an important core competence of the company.

Employing about 7,500 workers in its various operations, BITIS views its people as key assets. The company has invested heavily in education and skills development through the setting up of a training institute. The company has also invested in improved working conditions for its employees believing that this will pay off in terms of employee enthusiasm and long term commitment. It has given priority to employee health and safety and has made significant investments to make the factory environment clean and comfortable as well as safe places of work, giving much attention to cleanliness, ventilation, noise levels and lighting. These investments have simultaneously supported improved productivity. For example, working places are well-maintained and kept clean, hygienic, and non-toxic. Workers are properly trained for health and safety protection, have scheduled rest time, and provided with nutritious meals.

Specific Strategies in Using CSR in Supply Chain to Achieve Competitive Advantage

BITIS supplies raw materials, packaging through sub-contractors and provides finished goods through distribution services and its wide spread retail sale chain. A key strategy for integrating CSR throughout the supply chain is continual innovation in production technology and retail distribution. The company sets quality, safety, and environmental standards for its partners and provides the technological inputs necessary that would enable its partners to meet those standards. The wage rates for suppliers' employees are also determined in labour contracts and are above the legal minimum rates.

Technology and Modern Management have Improved Working Conditions and Boosted Productivity

BITIS has focused on transforming itself from a product-oriented to a market-oriented company. It regularly provides training supportive of continual improvement, with an emphasis on the application of international standards to its production sites and those of its suppliers. Growing demand for its products in China has made the company highly responsive to technology changes such that 80% of its production is now automated. Through such automated technologies, BITIS has been able to meet consumer demands even from rural areas in China, supplying durable and high quality goods at low cost to these areas. To encourage innovation, the company introduced a campaign for employees entitled “promotion of talents and knowledge” and created financial incentives (both bonuses and base salary increases) to encourage technical staff to propose innovations in production technology and business promotion. BITIS investment in technology improvement has increased to 2,613 million Dongs in 2005 (equivalent to US\$175,000) from 326 million Dongs in 2002.

Consistent with its market orientation, BITIS has linked its production facilities closely to its retail marketing. BITIS imparts its knowledge of best practices to its key contract manufacturers in such areas as equipment formulation and processing, as well as repairs and maintenance. Retail distribution receives special emphasis particularly in regions adjacent to the Viet Nam-China border. In China, where BITIS has over 20 wholesale units and 350 retailers, the sales system has been tailored to fit the local context and consumer demand. A one-price policy is in effect in all markets. Market expansion focuses on rural and remote areas, but this encompasses a large and growing population

Human Resources Management and Development

The owner of BITIS, Mr. Vuu Khai Thanh, sees his employees as collaborators and shareholders in the company. Provision of good working conditions in a safe and healthy work place environment is a value that not only benefits the work force, but also generates a positive impact on productivity and on the quality of the products. Investing in human resources development is also a basic policy. Employees benefit from improved knowledge and skills and remain with the company longer.

A number of programs are in place to support workers’ long-term commitment to BITIS and to encourage continuing education and skills upgrading, including leadership, management and professional development, as well as quality, occupational health and safety and environmental standards. As mentioned earlier, the company has established a system of collective bargaining and a code of conduct. These complement a comprehensive compensation system, that includes base salary, incentive pay and allowances, for example, for housing and health care. Labour standards are set out in contracts with suppliers, including the legal minimum working age of 18 years in conformance to Vietnamese law.

CSR - Before and After the CSR Initiatives in the Supply Chain

BITIS has seen a number of tangible results from its investment in CSR through its supply chain, as follows:

- Improved image and enhanced consumer trust in the BITIS brand, resulting in growth in sales in both Vietnamese and overseas markets.
- Enhanced ability to design its own products to meet local market conditions, while assuring high quality standards.
- Better brand positioning in global markets, in particular the successful penetration of the China market in direct competition with local products.
- Gaining employee's loyalty in order to retain talent and assure labor stability.
- An increase in production capacity by 65% over five years, through the systematic application of new technology and improvements in management systems.

In summary, BITIS's good CSR practices include:

1. the respect of the enterprise for the basic rights of employees, supported by extensive training on product quality, a code of conduct based on respect for human rights, and providing decent working conditions,
2. the respect of the enterprise for the perspectives of consumers and buyers towards the products offered,
3. the commitment to investment in clean technology and waste treatment in order to protect the environment, and
4. the commitment to comply with the law, especially labour code obligations, and fair competition.

Conclusion

Globalization has created both opportunities and challenges to Viet Nam's social and economic development. Though faced with fierce and increasing competition, BITIS has been able to flourish in this dynamic environment through a commitment to product quality, customer focus, support for its employees, and respect for the environment. The BITIS brand is now well known and trusted, both in Viet Nam and overseas.

CSR is a core value of the business that has created a source of competitive advantage for the company. BITIS shows its commitment through continual improvement, management innovation and human resource development. BITIS strives for the adoption of good CSR practices throughout its supply chain, from its suppliers to its retail distributors. The key to sustaining the company's growth is maintaining the trust and commitment of employees and other stakeholders, understanding its markets, and supporting the communities in which it operates.

