

# Sustainable Development of Enterprises: Barriers and Policy Recommendations

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## Abstract

Enterprise development towards sustainability is a strategy that needs to set for enterprises if all existing and long-term development in the context of deeper integration and intense competition. In order to achieve the objective of sustainable development of enterprises, on the one hand, there is a need for changes of enterprises themselves, on the other hand, need to be oriented and supported by the state. In the context of open economy and fierce competition, Vietnamese enterprises have encountered barriers to the implementation of sustainable development. This study gives the concepts of sustainable enterprise development that emphasizes enterprise development activities. Then, from the identification and multidimensional analysis of these barriers, recommendations have been proposed to unravel in order to achieve the goal of sustainable enterprise development in the coming time.

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## 1. Introduction

According to the United Nations on sustainable development in 1987, sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (United Nations, 1987). The concept of sustainable development of enterprises may also need clarification. According to Bong et al. (2017), in fast developing countries, there are significant increases in waste where continuous efforts are needed towards cleaner production. It seems that enterprises with sustainable approaches are highly importance and there is a demand in markets for organizations which operate in a sustainable way and produce environmentally friendly products. One of the sustainable development aspects of enterprises is corporate social responsibility (CSR) which are studied by Carroll and Shabana (2010), Ananda (2011). The concept of CSR is grounded on stakeholder theory (Clarkson, 1995, Donaldson and Preston, 1995). Within the stakeholder theory framework corporations have responsibilities towards society and the manager's role is to search for a balance between the needs and demands of multiple stakeholders and not only to serve the interests of shareholders, as supported by a more traditional view of the business (Friedman, 1970). Typically, corporate sustainability, corporate citizenship, ethics and accountability are the cores of CSR concept including the triple bottom line of social, economic and environmental factors.

Sustainable development of enterprises seems to be connected to firms' value propositions, value chains and economic models to act according to promises they made to customers and societies. Bocken et al. (2014) argue precisely that value proposition is essential and can offer measurable social, environmental and economic value. Henriques and Catarino (2015) argue that improving economic and ecological efficiency of companies means higher value and competitiveness.

It is generally agreed that the concept of eco-innovation is also one of the sustainable development of enterprises aspects. James (1997) defines eco-innovation as new products and processes which provide customer and business value but significantly decrease environmental impact. Rennings (2000) explains eco-innovation through sustainable development in technological, social and institutional innovation. Niesten et al. (2016) agree that collaboration among companies, governments and other institutions advances sustainable benefits by generating legitimacy of sustainable technologies, reducing waste and improving environmental and social performance of firms. Especially the new circular economy (CE) model supports the "reduce, reuse, and recycle" more than "take-make-consume-disposal" approach and the adoption of new business models based on the close-loops of reuse and refurbishment when delivering a higher economic and environmental value (Ghisellini et al., 2016).

## 2. Theoretical Framework of Sustainable Development

In terms of the economy, according to common scientific understanding, *sustainable development* is the development process that ensures the three closely linked economically, socially and environmentally. Sustainable development is development process that have effective results in term of the economy, and that results bring positive spread to the society and environment (collectively, it comes to the realization of human social progress). The emphasis in this concept is that when assessing sustainable development or when formulating policies for sustainable development, it does not isolate three aspects of development process including economy - society - environment, instead of, that needs to be integrated. In the context of Vietnam's economy, the economic aspect is

considered as the most important aspect to solve the relationship between economic with the others. That means that, in evaluating the outcome of social and environment aspects, should not be assessed separately, instead, it is necessary to consider whether economic effects have a positive or not impact on social and environment aspects. That understanding is not only significant when studying the economy, but it also has important implications when studying sustainable development of enterprises.

Enterprise is a part of the economy, the implementation of sustainable development of the economy depends largely on the sustainable development of enterprises. The notion of sustainable development of enterprises can also be defined based on sustainable development of the economy. That means that the sustainable development of an enterprise in the development process must ensure all three elements that are economic, social and environmental. However, from a system point of view, the sustainable development of enterprise can be studied in a different perspective. Enterprises are part of the economy and the rest are the ones who are affected or benefited by the development of the them. According to this understanding, first of all the enterprises themselves must be sustainable and then the sustainability of the enterprise has positive spread to the rest (the beneficiaries of enterprises). The enterprises must be sustainable, meaning that they must be able to stand firmly in the face of fierce market competition, which means they must earn high profits (high efficiency) in production and business activities. However, in order to achieve high efficiency, enterprises often choose ways of doing things that are beneficial to them and do not benefit the rest of the economy.

Thus, the above analysis presents three contents, namely: *first*, when referring to sustainable development enterprise, it should address the interaction of enterprises with the rest of the economy and sustainable development of enterprises should include their own sustainable enterprises and the positive spread of enterprises to of beneficiaries; *second*, when assessing sustainable development of enterprises, it is more meaningful to assess the activities of enterprises in ensuring high profits in production and business than in assessing the economic achievements that enterprises achieve; and *thirdly*, criteria for assessing sustainable development of enterprises may not need to be separated into two groups, instead, criteria should be developed to assess enterprise's action towards their own sustainable enterprises and the positive spread of enterprises to of beneficiaries.

According to the above, the paper is from the point of view: Sustainable development of the enterprise is to carry out development activities to ensure simultaneously (i) the ability to stand firm in the context of open market economy, fierce competition (effective); and (ii) the ability to create positive effects of business on the environment, society (friendly). Sustainable development of enterprises is the implementation of activities that ensure the integration of both "effective" and "friendly" elements. With this understanding, the content of sustainable development of enterprises includes the following:

*(i) Products restructuring towards suitable and "green"*

In order to ensure efficiency in production and business, if Vietnam's enterprises want to stand firmly in the face of fierce competition, the product structure must be shifted towards products with high economic value which is compatible with technological level and price of capital and labor of enterprises. In the context and level of development of Vietnam today and by 2030, in view of the paper, the reasonable product structure of the enterprises of Vietnam includes products with equal capital and labor capacity or high capital-intensive products (second-generation industrial products, according to the classification of three industrial generations in the process of industrialization).

However, in order to sustainable development, the products with high economic value should have to be "censored" by a second criterion that is environmental friendliness. The "friendliness" of industrial products includes: *first*, applying clean production program to bring high economic benefits, good quality, saving input sources such as energy, fuel, water, and minimizing the pollution of the environment; *second*, improving working conditions for workers. The product structure of enterprise must always be renewed. The task of product innovation must be considered by the enterprise as an annual task and it is necessary to set an annual goal for innovative products with a higher economic value and friendlier.

*(ii) Innovative and friendly technology*

Technology innovation is an important element for the sustainable development of enterprises. This process helps enterprise to improve product quality, adapt to the requirements of the product and compatible with flavor trends and consumption level of society. Product innovation helps businesses to consolidate, maintain and expand product markets, diversify product designs. In order to sustainable development of enterprises, technology innovation should simultaneously aim at two aspects, such as: *first*, improving labor productivity and economic efficiency, and *second*, reducing fuel consumption and negative impact on the environment. It is necessary to focus on the above two aspects to create motivation for enterprises to innovate technology. If both effectiveness and friendliness are implemented, technological innovation will help enterprises move towards sustainable development.

*(iii) Energy saving and efficiency*

Using energy saving and efficiency will reduce production cost, bring benefits to enterprises and protect the environment, that is efficient and friendly in development of enterprises. In the production process and other activities, a sustainable enterprise should commit to using resources and energy efficiently such as electricity,

water, gas, etc. in order to minimize negative impact on the environment, reduce production costs and improve the economic efficiency. If the enterprise desires sustainable development, it should put the interests of the community above its ones. The reduction of energy consumption combined with the reduction of other costs not only ensure economic benefits for enterprises, but also help enterprise create their own position on the path of development with many fierce competitions.

### **3. Barriers of Sustainable Development of Enterprises in Vietnam**

Sustainable development is an indispensable trend and is becoming popular in the global business community, including Vietnam. In Vietnam, the Vietnam Chamber of Commerce and Industry (VCCI), with the role of representing the business community in Vietnam and supporting the business community to enhance their competitiveness in the integration process, has been assigned by the Government to carry out activities related to sustainable development of enterprises. VCCI has developed the Corporate Sustainability Index (CSI), which is used to evaluate sustainable development of enterprises in the economic, environmental and social terms, and in 2016, these criteria is used to rank 100 most sustainable enterprises in Vietnam. In recent years, the movement of enterprises towards the goal of sustainable development has also had some positive trends. Many enterprises have not only created great revenues, high profits, but also more contributed to the State budget, created more jobs, especially often pay attention to environmental protection activities.

However, based on the studies on sustainable development in general and enterprises in particular, the paper presents the biggest barriers to the sustainable development of enterprises in Vietnam. In fact, there are barriers that belong to enterprise and in the range outside the enterprise. This paper focuses on research and barriers from enterprise with the notion that the enterprises desires sustainable development, first and necessary, it need to overcome their barriers. When not overcome the barrier from the enterprise cannot be said to develop sustainable of enterprise. However, there are barriers combating the implementation of sustainable development. These barriers are following:

#### *(i) The popularity of unsustainable development thinking*

In Vietnam's economic situation, there are many difficulties, domestic enterprises are mostly small and even small, so most of enterprises have short-term thinking, attempt to overcome difficulties to survive to have higher revenue, higher income than before. The attention of enterprises to sustainable development is not much or not comprehensive. In fact, there are few enterprises that have the vision and take sustainable development goal into their strategy. This is an issue that makes people working in promoting sustainable development of enterprises in Vietnam very concerned. In the world, sustainable development goal has become the focal point of the global agenda. The UN Summit on Sustainable Development in late September 2015 identified 17 sustainable development goals for the period 2015-2030. Accordingly, 193 member states of the organization have strongly urged the business sector to adopt innovative business solutions to address the challenges of sustainable development. While enterprises in countries around the world, especially developed countries, are extremely interested in sustainable development, and they consider taking part in international fora on sustainable development as an opportunity to embrace the new global business trend, in Vietnam, 98% of medium and small enterprises are still indifferent to sustainable development. Vietnamese enterprises are not only lacking in resources but also unaware that the world is changing and they must change to survive. This is a great barrier for Vietnamese enterprises when they want to improve their competitiveness in the international market, especially in the period of integration and sustainable development which are the basic condition for raising the brand in the eyes of consumers.

#### *(ii) Financial barriers*

To implement sustainable development requires the financial capacity of enterprises which helps they are applying better production and management processes, higher quality machinery and equipment, improving the product and technology towards efficient and friendly. However, not only the amount of self-owned capital of enterprises is very limited, but also the access to loans of them is limited while they are not enjoying the policy of encouraging long-term investment for development whilst the cost of borrowing is still very high.

While the financial support has not been available, Vietnam has not had the positive technical support for enterprises and localities. Moreover, there are also no organizations or services centers supporting the enterprises or consulting technology for them. According to a study conducted by the Hanoi Department of Science and Technology on The Enterprise Development, up to 75% of enterprises have always had difficulties in process of technology innovation. There are some biggest difficulties that are the lack of capital, human resources; administrative procedures in the import of machinery and technology are too complex; transportation infrastructure, electricity, water, etc., are also badly. But financial constraints have created obstacles for the removal of these difficulties.

#### *(iii) Poor quality management and technical resources barriers*

In order to implement sustainable development of enterprises, it is necessary to have highly technical and manager human resources. In fact, there are some lower-level enterprises but thanks to manager who has qualification,

knowledge and grasp opportunities, enterprises have overcome the challenges, difficult to achieve success. However, there are also companies that have a good standing-point with abundant financial resources and stable market, but poor management skills and limited cause businesses to suffer losses even bankrupt. Thus, the quality of human resources plays a decisive role in the survival and success of enterprises. In Vietnam, the quality of human resources in enterprises, especially small and medium enterprises, is limited not only to employees but also to the management team. The concern is that few people with college or university degrees or above have the knowledge of economics, business administration, and business law. When the economic crisis happens, that unfolds the more clearly the backwardness and the restriction in the quality of corporate governance.

There are many reasons that cause barriers exits in human resources, following: (i) Backward thinking in human resource management in enterprises. While the world has given up on Personnel management and is moving from Human Resource Management to Talent Management and Human Capital Management, the enterprises or organizations in Vietnam are still struggling with document management, salary, bonus ... (Human Resource Management); (ii) The enterprises has not been only relied on the state and education and training systems, but also develop human resources inactively. One major reason is that most businesses do not have long-term development strategies; (iii) Short-term training courses at schools and centers for employees are often not as effective as desired. That is because enterprises lack skills to identify training needs, evaluate the quality of education and training systems, and enterprises not support the application of skills into practice after training. These are the points that need to be taken into consideration when addressing the barriers to human resources for businesses in Vietnam.

*(iv) Technological barriers*

Investment in high technology is considered as the most important factor for sustainable development of enterprises. The big barrier for enterprises towards sustainable development is lack of technology capacity for increasing productivity and value-added. According to data of the Ministry of Science and Technology, the majority of domestic enterprises are using lower technology compared to the world average. Backward and outdated equipment accounted for 52%, while modern equipment was only 10% and average equipment was 38%. Notably, in the small production area, the equipment is backward and very backward, accounting for 70%. According to a survey of 100 enterprises in Hanoi and Ho Chi Minh City, the investment for technology innovation of domestic enterprises only accounted for 3% of their revenue per year. The majority of enterprises are using the technology of the 80's of last century; 69% of enterprises are depending on raw materials; 52% enterprises are depending on imported equipment and technology and 19% are depending on key technology, and the number of skilled technicians is only about 7%. Due to poor technology should create barriers for enterprises implementing product innovation towards effective and is a major barrier to the use of environmentally friendly energy.

*(v) Poor monitoring and evaluation systems*

A basic problem is lack of specific targets (globally, nationally and at local level), measurement and data to track progress, resulting in a lack of information available to decision-makers. It is suggested for strengthening monitoring and evaluation of sustainable development strategies in order to establish a dynamic improvement process, with an objective of increasing their effectiveness. It is recommended that governments should turn up deeper and assess the socio-economic impacts of developmental projects, rather than the outcome alone.

The above barriers are also intrinsic causes, so that enterprises in the process of operation can only aim at immediate profitability without paying attention to sustainability factors. Weak internal capacity has made difficult for Vietnamese enterprises to associate with enterprises in production process. It is difficult to get involved in the production chain of FDI enterprises, to innovate and apply high technology. Limited capacity has impacted the implementation of technology transfer targets from FDI enterprises, although this is the best technology transfer channel to take advantage of, and it is the channel that can pull Vietnamese businesses out of the domestic market and penetrate the international market.

#### **4. Policy Recommendations for Sustainable Development of Enterprises in the context of Vietnam**

The improvement of the conditions for sustainable development of enterprises should be based on the detection of barriers that make it difficult to implement sustainable development and find the ways to overcome the barrier. In fact, overcoming these barriers requires efforts from the business community, however there is very important element that is support of the state. This study gives the following recommendations:

*First, raising awareness of enterprises to promote sustainable development*

Sustainable development is the strategic choice of every enterprises as well as the state. If Vietnam's enterprises continue with the current model, they, especially Vietnam's industry, will hardly escape the situation of industrialization and will face technological backwardness, environmental pollution, lack of motivation to carry out restructuring of products in the direction of sustainable and competitive, difficult to penetrate into the world market. Understanding this point is the process of changing of the enterprises that will help them to give up short-term thinking, instead of that they should have long-term thinking in all of production activities. Moreover, they also uphold activities that bring both profit for them and benefit for communities. That requires State agencies and

enterprises having consensus in implementing the measure towards sustainable development of enterprises. State's supports, including localities should focus on:

- (i) There are courses and short-term training for enterprises managers on the content of sustainable development of enterprises and the implementation of sustainable development at the enterprise level. These courses aim at updating the rapid change in science and technology, new technology, and the eyes of consumer.
- (ii) It is necessary to design a program on Vietnamese television or news sites on sustainable industrial development. That provide information, policies and experiences on the sustainable development of domestic and foreign enterprises with contents on technological renewal, using environmentally friendly energy, restructuring and product innovation towards sustainability.

*Second, improving the quality of human resources, which emphasizes the capacity of managers and technical staff of enterprises*

It is to improve the support policies for training of the State for enterprises in general and especially for small and medium enterprises. In recent years, the State has promulgated many rightly and promptly policies creating the legal corridor for the establishment, operation and development of enterprises. There is no period of business establishment is facilitated as today, especially with the passage of the Revised Enterprise Law. Small and medium enterprises or newly established enterprises are facing many difficulties in the management and business management, they also want to improve the level of knowledge. Some localities have provided training support for the owners of small and medium enterprises but there are also formal trainings.

Therefore, the State needs to improve the support policies for training for small and medium enterprises. It is considered a mandatory content. If he or she want to manage the business, they must pass the training. The organization of training courses can be assigned to the state management agencies of enterprises such as the Ministry of Planning and Investment or Professional Social Organizations, Associations etc.

Business owners themselves need to be proactive in improving their qualifications. Every business owner must be aware of his or her responsibilities, obligations and limitations to have a plan to overcome. Business owners need a great skill in speaking foreign language and using the internet. Therefore, every business owner must self-study to update new knowledge, be dynamic and innovative to looking the working methods and new markets.

Active learning of business owners can be done in a variety of ways through training sessions, workshops, trade promotions, actual visits etc. In recent years in Vietnam, there are many small and medium enterprises having actual visits to learn from each other. However, it is only limited in the country, the regional and international trade promotion activities are still limited. In the deep integration, communication and learning is necessary to improve the international level.

The owners of enterprises, especially small and medium enterprises should be enhanced the knowledge integration. Although Vietnam has been an official member of many international organizations, the understanding of enterprises on the mechanism of operation, rules, regulations and rules of international organizations is still limited. Most enterprises are not ready to take the chance, overcome challenges when the country integration. Enterprises which are passive in trade negotiations because they do not know and do not understand it are very disadvantageous in the context of fierce competition.

Therefore, it is required that the State, Organizations, Associations and each enterprise should actively learn the knowledge of international economic integration. Understanding the right and fully regulations will help enterprises to be confident in the integration process.

It is necessary to promote the role of associations and professional social organizations in consulting and supporting for small and medium enterprises in improving the quality of human resources. The system organizations should be developed throughout the country from central to local. Organizations such as the Vietnam Chamber of Commerce and Industry (VCCI), the Vietnam Cooperative Alliance, the Young Business Association, Vietnam Association of Small and Medium Enterprises, etc., both enhance representation and protection of legal rights and interests for member enterprises and carry out trade promotion activities. In recent years, associations and socio-professional organizations play a great role in supporting enterprises in many aspects, especially trade and market. However, the support in improving the quality of management human resources in small and medium enterprises is still limited, the role of these organizations has not been maximized.

*Third, improving financial and technical support of the state and local governments towards enterprises*

- (i) The State should create a favorable business environment, in particular, to maintain macroeconomic stability and to give enterprises the confidence and conditions to invest and develop their business.
- (ii) Financial supporting. The State could enhance supporting not only the state enterprises but also other economic sectors. For example, the enterprises are very excited when Prime Minister of Vietnam has committed the Government to support investment in high technology in agriculture with a total capital of up to 100 trillion VND from many sources. The problem now is that enterprises need to analyze the market and have a specific, possible, and effective business plan, including linkage with others to expand business and investment.
- (iii) Technical supporting for enterprises. Development support policies for enterprises is only one side of the

whole building the new economic institution. But that is the condition to create the best business environment for the enterprises to develop by themselves. By 2020, Vietnam should set a goal that has 1 million enterprises which not only are registered and operating, but also activate towards efficiency and quality. The government cannot “work hand in hand” for each enterprise but making good business and investment environment must be the top priority such as simplification of administrative procedures including easier taxation, more equitable loans etc. From 2016, Vietnam had joined the ASEAN community and signed many free trade agreements with other countries, these are favorable conditions to promote the development of enterprises, however, the State agencies should have specific guidelines for enterprises to select suitable business plan.

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