

**EXPLORING THE LINKS BETWEEN INTERNATIONAL BUSINESSES  
AND SOCIO-ECONOMIC DEVELOPMENT OF VIETNAM  
A CASE STUDY OF UNILEVER VIETNAM**

*Reported by: The Central Institute for Economic Management (CIEM)  
(Ministry of Planning & Investment – Vietnam)*

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**EXECUTIVE SUMMARY**

**BACKGROUND**

This Case Study was initiated by the Central Institute for Economic Management (CIEM), a think tank under the Ministry of Planning and Investment of Vietnam, whose main function is to advise the Government of Vietnam on socio-economic policy matters.

The Study attempts to make a deeper understanding of the relationship between a multinational company (MNC), such as Unilever, and the overall socio-economic development in Vietnam, so as to ultimately help the Government design better policies that aim to create a better environment where local businesses in general, and MNCs in particular can play a greater role in the development of the society and economy of Vietnam.

Unilever Vietnam (UVN) is selected by CIEM for the conduct of such a Case Study because of its strong position as a leading and successful foreign investor in Vietnam. Unilever Vietnam is pleased to cooperate with CIEM because of its role in the local economy and of its Mission that aims to help improve the life of every Vietnamese. Within Unilever, this is the third Study of this kind, the first two are on Unilever Indonesia, conducted by Oxfam, and on Unilever South Africa, done by INSEAD business school. This Study, as conducted from the perspective of the Government, will help to complement the views by an NGO (as in the case of Indonesia) and by an academia (as in the case of South Africa).

The Case Study analyses impacts of UVN on the country's socio-economic development in 3 aspects often referred to as corporate social responsibility (CSR): impact of operations, impact through the value chain from suppliers to distributors to consumers, and voluntary contributions to the community and society.

The study is completed based on in-depth interviews with all key stakeholders, including but not limited to government officials, UVN's customers, partners and 3Ps, consumers, employees and beneficiaries, as well as on data and information provided by UVN and other official and unofficial sources.

**KEY CONCLUSIONS AND RECOMMENDATIONS**

At the completion of this report, what is left in long memory of every member of the research team is special sentiment about Unilever Vietnam, a MNC that through all its activities goes far beyond common impacts often mentioned in the existing literature about the good things that foreign invested companies could do for the host country. Below are the key lessons learned from the Study.

- Firstly, there may be many different types of foreign invested companies. Unlike several of them, UVN is a long-term investor, who has been deeply rooted in the local society and economy, having strong forward and backward linkages and by and large serving domestic

consumers. The company will prosper if Vietnam grows well and vice versa. This fact makes UVN closely linked to socio-economic development of Vietnam and care about the future of the country.

- Secondly, not all foreign invested enterprises are competitors and crowd out local SMEs within the same industry. The UVN case is a real model of a constructive partnership and efficient collaboration between a MNC and local businesses, which results in a win-win situation. Through coaching and training by UVN, the SME partners obtain necessary skills, experience, techniques and working discipline to become more efficient and competitive.
- Thirdly, spill-over effects may be far reaching, not just confined to capacity building, technology transfer, but also cover social and environment areas, where good conduct, influence and partnership requirements by the foreign invested enterprise have an effect of raising awareness and improving performance standards of the local partner.
- Fourthly, enterprises can contribute significantly to national socio-economic development through doing their business. By incorporating selected national priorities into the business agenda and implement them, UVN reaches double targets of advancing both national and company agenda.
- Last but not least, despite being a big MNC, UVN does not forget to serve the poor majority of who live in rural areas. More than that, the company has developed and is implementing a strategy to serve them based on detailed studies. Despite tremendous challenges, UVN is determined to be successful in this respect.

The Research Team has the following policy recommendations to relevant policy makers:

- The government should encourage disseminating and sharing examples of good investors such as UVN. To do that, businesses should be willing to be studied and the results are shared widely. If a company works on good faith, the outcome of the study should be favourable, raising its reputation and position in the business community.
- The government should improve the legal framework for business environment, introducing a legal infrastructure (e.g. through tax deduction) that encourages businesses in re-investing, coaching local partners, providing social security packages and insurance to employees.
- The government should introduce policy requirements of fulfilling CSR, including employment policies, working conditions and safety net, policy on protecting natural environment.
- The government should have appropriate incentive policy measures for good conduct of investors and punitive sanction measures for violation cases.

## **KEY SUPPORTING FINDINGS OF THE STUDY**

**Macroeconomic Impacts:** The macroeconomic impacts that UVN has made in Vietnam include: wealth creation, employment generation, mobilisation of capital for investing in productive assets, spill-over effect, financial contribution to state budget, and positive impacts on the balance of trade and balance of payment. These contributions are very important for Vietnam, where investment, job and income generation have always been in high on its development agenda.

These impacts are possible thanks to the strong and rapid growth that UVN has achieved in Vietnam (at an average of > 30 percent per annum over the past 14 years), becoming one of the fastest growing companies within Unilever in Asia, as well as in Vietnam within the fast moving consumer goods (FMCG) industry. As of 2008, the company's total sales represent approximately 1 percent of Vietnam's GDP. By 2007, the company ranks the 27<sup>th</sup> largest business in Vietnam,

and the largest in the FMCG sector. UVN has become the market leader in almost every category that it has entered. At the same time, UVN is being among the biggest tax payers to the state budgets as a direct result of its strong business performance.

As of today, UVN has invested a total of USD 130 million in Vietnam, focusing on investments in research and development, upgrading technology and improving product quality to enhance its competitiveness in both domestic and overseas market, as well as to generate wealth and income for the country.

Positive impacts are also created through UVN's utilisation of a wide range of local materials and services for its production and packaging (by 2007, 60 percent of its raw materials and 100 percent of its packaging materials are sourced locally). At the same time, its exports have also been growing at a very high rate (higher than its output growth). Together with its infusion of capital for investment purpose, all these have helped to improve the country's balance and payment and balance of trade.

**Impacts on Employment:** Job creation along the value chain, sound working conditions, human capital improvement and non-pecuniary benefits are among the greatest social impacts by UVN. Although the number of employees directly working for UVN is not large (about 1,200), the company makes a significantly larger impact on indirect employment. The company has successfully established and developed a network of local SMEs, including 76 input suppliers, 54 co-packagers and third parties who produce Unilever's products under a subcontract, and 283 distributors with more than 150 thousand retail outlets nationwide. Overall, the company generates up to 8,000 indirect jobs throughout its extended value chain.

More important is the human capital improvement that UVN has brought about to Vietnam, a country with abundant unskilled labour but few highly skilled or trained workers. This improvement, as seen in UVN employees' better skills, increased income, career progress, better use of their potentials and improved selves, is equally essential to the development of Vietnam. To a large extent, these positive impacts are results of the company's policies and practices of the company regarding its human resource. UVN applies high standards of corporate behaviour towards employees, including non-discrimination, diversity, gender balance and localisation. Training and coaching at UVN take various forms: full time, on-the-job, domestic, overseas, expatriate work, exchange programs and secondment. In 2007 the company's spending on training and recruitment is equivalent to 12.5 percent of the salary budget.

UVN has established itself as one of the 5 most preferred employers of Vietnam for many years now.

**Impacts on Suppliers and Third Party Enterprises:** Over the 14 years of the operation in Vietnam, UVN has formed a diverse network of linkages with local suppliers and manufacturers, most of them are local SMEs. Impacts of UVN on SMEs go through backward linkages. These linkages are of particular importance because they provide a means of diffusing valuable knowledge and skills through direct flows to the linked firms. These linkages thus help improve local firms' dynamism and competitiveness, resulting in increased output, employment, income, improved production efficiency, technological, managerial capabilities and market diversification. They have been successfully growing together with UVN, expanding their business and capable of competing better in the market.

UVN provides various types of support to the local partners which can be classified into four major categories: technical advice and technology transfer; human resource development; information sharing and facilitation of access to capital.

Major impacts of UVN on suppliers/manufacturers include: business opportunities for local suppliers, especially SMEs; economic and social impacts; spill-overs effects as well as catalyst and demonstration effects. 89 percent of the surveyed partners believe that the partnership and linkages with UVN and the assistance that they receive from UVN are important for them in upgrading skills, accumulating experience and improving their performance.

The partnership with the local partners is a win-win situation, where UVN also benefit. The benefits include: increased flexibility and specialisation, lower asset base, lower cost, better use of resources through enhanced access to local tangible and intangible assets, effective adaptation of technologies and products to local environments.

**Impacts on the Distribution Chain:** Being the leading FMCG in the market, UVN develops and maintains a wide and far reaching distribution network, which in reality has been one of its key success factors in Vietnam. By end 2008, the company has a network of about 200 distributors and cover over 400,000 retail outlets, As a result, the impacts that UVN has positively generated through the whole distribution chain is enormous and various, including but not limited to:

- Stable business and increasing income: 40% of UVN distributors have 100% of their sales from UVN and another 40% have more than 50% of their sales from the company. Over time, they have all seen solid growth in their business with the company
- Strong training and support from UVN: All distributors acknowledge that they receive more and better training and support from UVN than from other FMCG companies, and that their company's performance becomes much more professional and systematic, and much more efficient, especially with UVN's IT assistance. Training for distributors covers a comprehensible range, from improving management skills, leadership skills, to sales skill and MIS.
- Job creation through a total of nearly 450,000 companies in the network, big and small, including those in remote and disadvantaged areas
- Provision of care for the distribution network's employment, such as: social insurance, health insurance, sickness allowance, periodical health examination, sick leave, maternity leave and annual leave as regulated by Vietnamese laws.
- Fair income for their sales people: On average, most of the surveyed distributors pay their workers competitively, higher than the national average.

**Impacts on Consumers:** Linkages between UVN and Vietnamese consumers are deep and far reaching. Through its wide range of household, personal-care and food products, UVN has generated positive social impacts on consumers, making hygiene and personal care practices commonplace, as well as helping to improve nutrition and cooking.

UVN works hard to constantly move and improve the whole supply chain and distribution to serve an increasingly wider spectrum of the population, from the highest income group to the lowest ones. To do that, UVN make enormous efforts to understand the consumers, their needs, and habits, lifestyle, consumption patterns, preferences, taste and the local culture to create products for them. With good quality, at affordable prices and through the far reaching distribution network, UVN products are able to reach consumers across the country, including those with very low income, in effective and flexible ways. Five million of UVN products reach Vietnamese households everyday at the present time.

Most importantly, it is found that despite its leading position in the market, UVN does not abuse its market power to affect consumers adversely.

**Wider Impacts on Community and Society:** UVN is an excellent case to prove that through its business a company can make real contributions that help both promoting the business and benefiting the society.

UVN believes CSR is more than writing a cheque. The company's social and community strategy aims to use its core competencies (including its brands, its scale and presence in the market, its people ...) to help address the country's key social concerns and problems. Therefore, its CSR platforms are refined to 3 main areas (i) health and hygiene; (ii) education and children development; and (iii) women empowerment.

UVN executes its CSR strategy through: (1) long-term strategic partnership with the relevant Government authority for each platform (Ministry of Health; Ministry of Education and Training; and the Vietnam Women Association); (2) Annual grants and donation made through the Unilever Vietnam Foundation (UVF) to community-initiated projects within the 3 focus CSR platforms; and (3) through its employees; own donation and efforts.

Developed as a vehicle to further integrate its social and business agenda, UVN's CSR programs are closely linked to the building of its brands' social imprints, with each key CSR platform being endorsed by and executed closely with selected relevant brands, such as Lifebuoy and VIM for Health and Hygiene, OMO for children development; Knorr and Surf for women empowerment.

During the first 10 years of operation (up to 2006), UVN contributed a total of more than 260 billion VND to the local society via a wide range of community projects throughout the country. Since 2006, UVN, through its brands' activation programs and corporate commitments, has pledged 70 billion VND (USD 4.3 million) per year to all CSR activities by its brands and corporate, which has benefited million of Vietnamese people, especially women and children across Vietnam, especially in disadvantaged and remote areas.

For many years now, UVN has been widely recognised by both the Government and the public at large as being the best company in Vietnam for CSR impacts.

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