

# COMPLETION REPORT

## **Innovation capabilities and firm performance:**

### **Case study from Japan-invested companies and Lessons Learned for Vietnam**

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In such an internationalized and fiercely competitive business environment, innovation has become the key to economic and societal development for every nation, as well as a strategic tool to ensure enterprises' survival and sustainable progress in the market (Keller, 1996; Eaton and Kortum, 1999; Griffith et al., 2004; Fagerberg et al., 2010). The relation between innovation capabilities and firm performance has been widely discussed in economic and strategic management literature (Schumpeter, 1994; David, 1997). However, empirical tests on developing countries are still limited.

In Vietnam, innovation has recently become the topic of concerns and attention. Most Vietnamese enterprises do not invest in R&D activities and only 20-30% of them have such activities (Vietnam 2035 Report, 2015). Instead of investing in technology, they mainly rely on the advantages of cheap labor and raw materials exploitation. In contrast, Japan Investment Enterprises (JIEs) in Vietnam, have a tradition of doing continuous improvement (kaizen) and innovation. This research will discuss the effects of innovation capabilities on firm performance of JIEs in Vietnam.

By collecting and evaluating the theoretical and experimental studies relating to innovation capabilities and the relationship between the innovation capabilities and business performance, we identified seven groups of innovation capabilities containing 20 dimensions, including: (1) Capabilities for knowledge exploitation, (2) Entrepreneurial capabilities, (3) Risk management capabilities, (4) Networking capabilities, (5) Development capabilities, (6) Change management capabilities, (7) Market and customer knowledge. In addition, a Balanced Scorecard (BSC) with 17 dimensions is employed to measure firm performance of JIEs in Vietnam. We conducted a survey of Japanese companies doing business in Vietnam in various fields to quantify the impact of innovation capacity on business outcomes. Survey results were collected with 144 valid responses for the final analysis.

By using the method of multi-variable data analysis (Cronbach's Alpha test, factor analysis, correlation analysis, regression analysis, variance analysis and data description by mean, standard deviation and 95% confidence intervals) we identified that there are five factors of innovation capabilities which have a clear impact on the performance of Japanese firm doing business in Vietnam, including: Change management capabilities, Networking capabilities, Capabilities for knowledge exploitation, Entrepreneurial capabilities and Risk management capabilities.

In particular, these factors have an impact on financial results including capability to take opportunities, capability for the market and customers, capability for change management. Factors which have effects on customers status relating to the capability for change management, the capability for networking and capability for risk management; affecting on internal processes will be counted on the networking, recognize and exploiting the knowledge and capability to change management; Affecting on learning and growth will include the capability to recognize and exploitation of knowledge, the capability to seize the opportunities and changes management.

The study results also show that the innovation capabilities of JIEs in Vietnam is still low on average so that urgent improvements should be made in the near future. From the analysis of the results, five suggestions are made to enhance innovation capabilities and firm performance, including: (1) focusing on improving the capability of change management; (2) improving the capability to identify and exploit knowledge; (3) enhancing the capability of networking; (4) improving the capability to exploit opportunities and (5) improving the capability for risk management. In addition, we also discuss the contributions, limitations and future research directions for the same research.

#### Publication of the Results of Research Project:

Thesis (Name of Journal and its Date, Title and Author of Thesis, etc.)

Le Thi Thu Ha & Ho Thi Thu Quynh, *Relationship between the product differentiation and firm performance of Japanese invested enterprises in Vietnam*, Journal of External Economics, 2016, (in peer review process)

Le Thi Thu Ha et al, *The relationship between innovation capabilities and firm performance of Japanese invested enterprises in Vietnam*, (Forthcoming)