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Host Country Institutional Factors Affecting Dutch and Vietnamese FDI Flows: Perspectives from Academic and Policy Maker

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Abstract:
This study explores the challenges that investors from a developing country investing in a developed country and vice versus have to face, regarding the country-specific nature of institutional factors. These factors are: corruption, political stability, labour regulation, corporate law, taxation policies, logistic infrastructure availability, and labour skills. In-depth interviews were conducted with the representatives of the government and academic expertise of both countries. These structured discussions provide insights about the current level of each institutional factor and their influences on investors from each other's country. The answer to this comparison study between the two countries reveals not only the institutional challenges that concern Dutch and Vietnamese firms, but also other intriguing patterns, such as whether these challenges vary across different countries. Strategies for firms to cope with the identified obstacles are also proposed.

Keyword: *Mutual FDI flows between developing and developed countries, Institutional factors, Dutch FDI, Vietnamese FDI, FDI obstacles.*

1. Introduction

Expanding internationally is desirable for most firms. Research has found that international diversification has a positive effect on company performance (Hitt, Hoskisson & Kim, 1997). Prior to entering a foreign market, it is important for firms to identify the challenges in the geographically new market in order to prepare suitable strategies. The study by Reardon, Erramilli and Dsouza (1996), in accordance with previous observations, identifies government restrictions by the host country as the most common problem faced by internationally expanding firms. Putting government restriction aside, there are a number of other institutional factors in the host country affecting the foreign firms. As market factors have traditionally received more attention, but may provide only a partial picture, recent scholars are calling for more attention to institutional factors. (Dunning, 2006; Rodrik et al., 2004; Sethi et al., 2002).

Referred to as "the rules of the game in a society" (North, 1990), institutions are crucial for firms to understand. However, current literature on the effect of host country institutional factors is limited and rather inconsistent (Pajunen, 2008). Several studies have been conducted in different countries, yielding diverse answers about whether a particular institutional factor has positive, neutral, or negative impact on firms. A possible explanation for this inconsistency is that institutional challenges should be perceived as market-specific factors. Country-specific factors are more influential and play a bigger role in differentiating the results than firm or industry specific factors, as noted by Geroski and Jacquemin (1988). Taking this point of view, a particular geographic context is necessary when examine the effect of such institutional factors. The Netherlands and Vietnam have been chosen to study in this paper, not only because their strong diplomatic relations omit host country government restrictions and enable the sole examination of other institutional factors, but also because their immense difference in geographical location, culture and development level can be interesting to look at.

This paper seeks to provide an insight about institutional obstacles that Dutch and Vietnamese firms face when operating in each other's country. It adds to the existing literature a case study of significant host country institutional factors and how they influence foreign firms. Moreover, it provides Dutch and Vietnamese investors with more realistic anticipations and expectations about each other's market.

Next section discusses theoretical background about various institutional factors of the host country and their possible effects on foreign firms. Section 3 provides short information about the Dutch economy, the Vietnamese economy, and their economic relationship. Section 4 presents research methodology while section 5 analyses the response of interviewees about the influence of previously mentioned factors on foreign firms in the Netherlands and Vietnam. Finally, in section 6, the paper elaborates on implications of the findings, discusses limitations of this study and makes recommendation for future research.

2. Literature Review

This paper defines institutions according to Scott (2001): “multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources” that “provide guidelines and resources for acting as well as prohibitions and constraints on actions”. This explanation is in line with the brief description of North (1990), which has been mentioned “the rules of the game”.

To examine which institutional factors pose challenge for foreign firms, it is useful to study the relationship between these factors and relevant variables. If an institutional factor causes firm performance to be lower, the institutional factor is perceived as an obstacle. More intuitively, FDI attractiveness can also be relevant to identify difficulties for foreign firms because investors view a country as unattractive if they foresee unfavourable factors for their business. Therefore, previous research about the relationship between institutions and firm performance or FDI attractiveness is considered to theoretically identify institutional factors that are possibly challenges for foreign firms.

Among various institutional factors, five factors have been chosen because they are clearly conceptualized and have received adequate attention in research. They are (1) Corruption, (2) Political stability, (3) Labour regulation, (4) Corporate law, and (5) Taxation policies. In addition, Vietnam has faced some insufficiencies that are obstacles to attract FDI. Among those barriers are: (i) un-harmonized and inconsistent law and regulation, (ii) un-matching infrastructure system to national economic requirement, and (iii) low un-trained and un-skilled labor forces to meet high requirement (MPI, 2013). Therefore, two economic factors are added: (6) Logistic infrastructure availability and (7) Labour skills. In the subsequent section, seven institutional factors are reviewed:

2.1. Corruption

Monetary and non-monetary bribes, such as political patronage, nepotism and cronyism are considered as forms of corruption (De Rosa et al., 2010). Corruption level refers to “the degree to which business transactions involve corruption or questionable payments” (Mauro, 1995). Research in African countries shows that corruption reduces firm performance (Faruq et al., 2013). Similarly, Wei (2000) did a research with 12 source countries (developed countries) and 45 host countries (both developed and developing countries) and found that host country corruption inhibits FDI. On the other hand, Blagojevic and Damijan (2013) show that in Central and Eastern Europe, involvement in corruption activities is more likely to have positive impact on foreign firms. However, Kolstad and Villager (2004) find no significant impact between corruption and FDI in their sample of 75 developing countries. Overall, previous findings are inconsistent, but the traditional and more dominant view is that corruption may hind FDI and firm performance.

To measure “Corruption”, this study applies Corruption Perception Index, which is the most accepted used in worldwide. The perceived level of public sector corruption ranks on a scale of 0 (highly corrupt) to 100 (very clean). The Corruption Perception Index provides by Transparency International Organization.

2.2. Political Stability

Kaufmann, Kraay, and Mastruzzi (2005) define political stability as “the likelihood of violent threats to, or changes in, government, including terrorism”. Some studies suggested that FDI inflow is inhibited in countries with high level of political instability (Loree & Frey, 1995; Li & Resnick, 2003). Since the 1970’s, many authors have concerned themselves with political factors, when examining FDI theory. Vernon (1971), when applying his "sovereignty at bay" model views governments as sources of “ineffective obstacles” to FDI. Gilpin (1975), with his "neo-mercantilist" model, opines that governments are largely ineffective in their efforts to restrain FDI and harness it to serve their own national security interests. The ‘Eco-political’ model of Schneider and Frey (1985) confirms that both factors impact FDI inflows into developing countries. For political aspects, they find that the amount of bilateral aid coming from Western countries has the strongest effect, followed by multilateral aid, while political instability reduces FDI. Obviously, political stability is one of driver to promote FDI.

To measure “Political stability”, this study applies Political Stability and Absence of Violence/Terrorism - PV, which indicates on a scale of 0 to 100, where higher rank higher stability. The PV is one of 06 dimensions of the Worldwide Governance Indicators which are produced by Kaufmann, Kraay, and Mastruzzi annually.

2.3. Labour Regulation

This paper understands labour regulation flexibility as the extent to which firm can hire and fire their workers without being restricted by legal rules such as minimum wage, minimum age, maximum working hours, severance pay, and no layoffs. The case of Eastern and Western European countries shows that high flexibility in host country’s labour market leads to more FDI inflow (Javorcik & Spatareanu, 2004). In contrast, economists such as Baumol and Blinder (2004), and Woft (2005) associate flexible labour regulation (e.g. cheap labour in China) with low productivity, and thus this factor does not necessarily attract more FDI (cited in Larudee & Koechlin, 2008). Although the evidence is not united, the majority of studies do not associate flexible labour regulation with low productivity, thus this factor may have a positive effect on FDI and/or firm performance.

To measure “Labour regulation”, this study applies Hiring and Firing practices, which reflects the impeded by regulations on hiring and firing of labors. The score ranks on a scale of 1 (restriction) to 7 (freest). The Hiring and Firing practices provides by the World Economic Forum.

2.4. Corporate Law

Corporate law of the host country is a vital element that firms must thoroughly understand. It directly has a legal impact on what firms must comply with in their business. Besides fulfilling their obligations, firms are also interested in corporate law to recognize to what

extent their business is defended by legal enforcement. Firm and investors prefer to operate in a context where legal institutions enable and protect them (Trevino, 2008). In search for the effect of legal institutions on investment, Guler and Guillen (2009) find that investors indeed prefer local legal systems that protect investors' rights, but it is less critical to direct investors that it is to portfolio investors because the direct investors tend to acquire a majority stake (Caves, 1996). The right of owners to accumulate and use their possessions is one of crucial prerequisite to motivate investment. Indeed, it is easy to find the property right article in investment law of almost countries in the world.
To measure "Corporate law", this study applies Property Right, which reflects the government protection of private property. The score ranks on a scale of 1 (worst) to 7 (best), higher value, higher protection. The PR provides by the World Economic Forum.

2.5. Taxation Policies
Taxation policies have always been a major concern for international firms. In various studies of less-developed countries (Gastanaga et al., 1998), the UK (Billington, 1999), Central and Eastern Europe (Carstensen & Toubal, 2004), researchers find that high level of corporate tax does not lead to an increase in FDI inflow, but there is not enough evidence to state the negative impact of high corporate tax on FDI. Wei (2000) studied samples of bilateral investment from 12 source countries to 45 host countries and conclude that an increase in tax rate on multinational firms lead to a decrease in FDI inflow. On the other hand, Swenson (1994) and Garret and Mitchell (2001) claim a positive relationship between tax rate and inward FDI. Wheeler and Mody (1992) suggest that taxation does not have a significant impact on FDI. The findings are rather contradictory, although it is generally agreeable that firms prefer a friendly tax rate than a harsh tax rate.
To measure "Taxation policy", this study applies the Total tax rate, % profit, which records the company's paying taxes and mandatory contributions as well as measures the administrative burden of paying taxes and contributions; where the higher value, the more affect on business accounts, while the lowest value is the most tax friendly. This index reflects the attractiveness of government policy in terms of tax. The Total tax rate, % profit score provides by World Bank.

2.6. Logistic Infrastructure Availability
Besides firms' internal capacity, the host country infrastructure system plays a large role in shaping firms' logistic performance. A country with efficient transportation system of road, rail, air, and waterways is considered as good logistic infrastructure for operating companies. Supply chain is a key area of all production companies. Successful logistic systems have a positive impact on firm performance in areas such as "sales growth, return on assets, market share gain, and overall competitive position" (Tracey, 2004). Firms are more likely to invest in countries with improved physical infrastructure, since physical infrastructure positively influences productive efficiency, and thus, reduces costs of production and increases market competitiveness (Lall et al., 2003). While Baden-Nabende (2002) finds that under-investment in infrastructure deters FDI in South Africa, Lall et al. (2003) and Ang (2007) states that FDI is attracted to Caribbean and Malaysia, respectively, through higher infrastructural development. Likewise, Rehman et al. (2011) find strong positive impact of infrastructure and FDI attractiveness was revealed in the case of Pakistan. Most literature seems to support the crucial role of a good logistic infrastructure on FDI and firm performance.
To measure "Logistic Infrastructure availability", this study applies the Quality of overall infrastructure, which indicates the weighted average of the country scores on transport, telephony, and energy on a scale from 1 (extremely underdeveloped) to 7 (extensive and efficient). The Quality of overall infrastructure provides by the World Economic Forum.

2.7. Labour Skills
It has been argued that the degree of human capital development has a favorable impact on FDI inflows in terms of ensuring an adequate supply of skilled labor (Ioannatos, 2001). Firms are likely to invest in countries with a higher level of educated populace, since this reflects higher learning and decision-making capabilities and levels of skills (Lall et al., 2003). Both Nunnenkamp and Spatz (2002) and Nonnemberg and de Mendonça (2004) find highly positive significant correlations between FDI flows and years of schooling. Correspondingly, Hafiz and Giround (2004) indicate that the quality of a labor force remains a strong factor in attracting FDI. This paper does not only view labour skill as the level of education or the level of experience, but it also takes into consideration the chance that firms can find suitable employees for their operation. With this empirical evidence, labour skill is indicative of a positive relationship with FDI inflows into the host country.
To measure "Labour skills", this study applies Higher Education and Training (Quality of Education in particular), which measures secondary and tertiary enrollment rates and the quality of education in reflecting well-educated workers, higher value higher quality. The Higher Education and Training is annually published by the World Economic Forum.
From the above literature, results are quite inconsistent. However, firms generally may find it challenging to operating in a country with one or more of the following condition: high corruption, low political stability, low logistic infrastructure availability, low labour regulation flexibility, low labour skills, not being protected by corporate law, and harsh taxation policies.
Institutional factors are country-specific. Hence, it is not wise to make a general claim on the effect of institutions. This remark calls for a country-specific research where different countries are examined to see the unique set of institutional factors and its effect on foreign firms. The Netherlands and Vietnam have been chosen to be studied in this paper.

3. The Case of Vietnam and the Netherlands

Currently, the Netherlands is the largest European investor in Vietnam and ranked 11 out of 101countries and territories investing in Vietnam with a total registered capital of U.S $6.45 billion for 145 projects. Key investment areas are production and distribution of electricity, gas, water, air conditioning; processing and manufacturing; and mining. Many investment projects are very effective operation, with large companies famous like Heineken, Unilever, Royal Dutch Shell, Foremost, Akzo Nobel Coating, and Philips. On the other hand, Vietnamese foreign direct investment (FDI) to the Netherlands is a little amount of U.S $6.26 million for 04 projects (FIA, 2014). However, Dutch FDI in Vietnam is still modest compared to the potential and aspirations investment cooperation between the two countries. The main reasons by Dutch firms still do not understand the investment's environment and policies as well as the human and potential market of Vietnam. Both governments agreed that the relationship is "shifting from a relationship based on development aid to one that supports trade and investment by improving the business climate and expanding the business scope", as noted by the Netherlands Consul General in Ho Chi Minh City Van der Burg (2013).

Reardon et al. (1996) raise the problem that the government support can help firms in gaining entry to a foreigner market, but little assistance can be made once they have entered, and this is actually when firms have to encounter different challenges. Therefore, it is deemed that providing more insights about the challenges that foreign firms may encounter in the Netherlands and Vietnam is crucial, especially in this period of time.

Table 1 provides the evaluation of seven institutional factors in the Netherlands and Vietnam. These evaluations have their own limitations and may not fully represent the actual situation of the studied countries. They sorely serve as a tool to generate an impression about the Netherlands and Vietnam and the gap between the two countries.

Institutional Factor	**Measurement Index/ Interpretation**	**Netherlands**		**Vietnam**		**Year of measurement report**
		Value	Rank	Value	Rank	
Corruption	Corruption Perception Index a scale from 0 to 100 (clean)	83	8	31	119	2014
	(Source: Transparency International)	Very clean		Moderately highly corruption		
Political Stability	Political Stability and Absence of Violence/Terrorism percentile rank from 0 to 100 (highest)	1.12	0.89	0.22	0.56	2013
	(Source: Worldwide Governance Indicators - WGI)	Stability		Moderately stability		
Labour regulation	Hiring and Firing practices a scale from 1 to 7 (best):	3.05	123	3.91	65	2014
	(Source: World Economic Forum – WEF)	Restrictive		Not a problematic factor		
Corporate law	Property Rights a scale from 1 to 7 (best):	5.84	14	3.6	101	2014
	(Source: WEF)	Highly Protection		Averagely Protection		
Taxation policies	Total tax rate, % profits (Source: World Bank - WB)	39.3	75	35.2	61	2013
	High value high tax rate	Highly tax rate		Averagely tax rate		
Logistic infrastructure	Quality of overall infrastructure a scale from 1 to 7 (best)	6.3	6	3.3	123	2014
	(Source: WEF)	Very high quality		Above average quality		
Labour skills	Higher education and training a scale from 1 to 7 (best)	5.99	3	3.74	96	2014
	(Source: WEF)	Very high skilled labour		Above average skilled labour		

Table 1: An impression of institutional factors in the Netherlands and Vietnam

From such measurements, it can be seen that institutional factors strongly differ in the Netherlands and Vietnam. Except for ranking similarly on taxation policy, the two countries score oppositely on the other scales. Therefore, Dutch and Vietnamese firms expanding to each other's country are likely to encounter different challenges.

Figure 1 gives a general picture the differences of the institutional factors between the Netherlands and Vietnam.

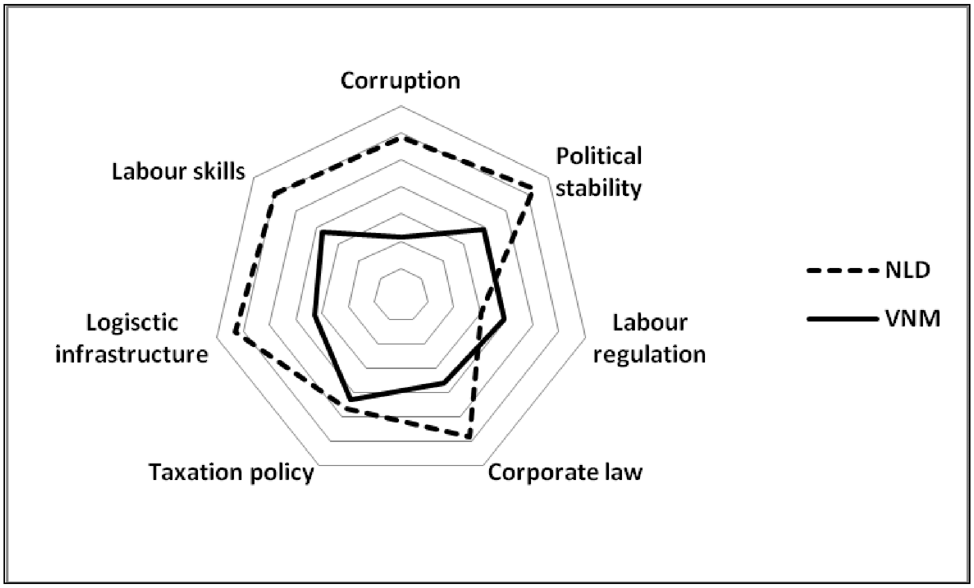

Figure 1. Factors' differences between the Netherlands and Vietnam

Based on the data table and previous literature, the following propositions regarding what firms may find difficult in the Netherlands and Vietnam are made:

- P1: Dutch firms investing in Vietnam may find high corruption level of the host country as a challenge,
- P2: Dutch firms investing in Vietnam may find instability in political environment as a challenge
- P3: Vietnamese firms investing in the Netherlands may find restrictive labour regulation as a challenge,
- P4: Dutch firms investing in Vietnam may find it challenging if the corporate of the host country does not enable and protected the foreign investors,
- P5: Vietnamese and Dutch firms investing in each other's countries may find the harsh tax rate of the host country as a challenge,
- P6: Dutch firms investing in Vietnam may find low logistic infrastructure availability of the host country as a challenge,
- P7: Dutch firms investing in Vietnam may find low labour skills of the host country as a challenge.

Although logistic infrastructure and labour skills in Vietnam are evaluated as average by the above reports, they are still lower than the Netherlands. Therefore, Dutch firms, who are used to the higher standards, may not be satisfied with the situation in Vietnam.

4. Research Methodology

This study is of exploratory nature. Current literature does not provide adequate information on how different institutional factors affect foreign firms. Besides, being a small and undeveloped economy, not much attention has been paid to Vietnam in research. Additionally, statistical records have been scarcity in the case of Vietnam. Hence, in-depth interview with institutional stakeholders and experts is a better way to obtain insights about the influences of institutional factors. Respondents from different backgrounds and representing different parties were asked to evaluate the level of seven institutional factors in the Netherlands, and how such levels affect Vietnamese firms operating in the Netherlands; similar procedure is done for Vietnamese institutional factors and how they influence Dutch firms. Definition of each institutional factor was provided to ensure that the interviewer and interviewees have similar understanding of the term. To gain insights of the same matters through lenses of different parties, structured interviews were conducted: all interviewees received a homogenous questionnaire. However, they were asked to elaborate more on certain aspects of their answers if the interviewer deem necessary. For instance, when a respondent mentioned that Vietnamese government offered tax advantage for firms in some industries, she was asked to specify which industries it was. Institutional factors that are evaluated by respondents to have negative impact on foreign firms are labeled as obstacles. Respondents are asked for advice to help firms cope with the situation.

Due to the politically sensitive nature of some questions, the identities of respondents are confidential. Four interviewees with different backgrounds and representing different parties were carefully selected. These parties are the Dutch and Vietnamese government, and the Dutch and Vietnamese academia. Throughout this research, answers are coded as follow:

- DA: answers from the respondent representing the Dutch Academia
- VA: answers from the respondent representing the Vietnamese Academia
- DG: answers from the respondent representing the Dutch Government
- VG: answers from the respondent representing the Vietnamese Government

5. Effects of Host Country Institutional Factors on Dutch and Vietnamese Firms

5.1. Corruption

All available evaluations from the respondents stated that the Netherlands scores very low on corruption. The transparency and efficiency in public administration makes no room for any trivial corruption. In addition, the Dutch regulation always promotes high ethical standards. According to the Dutch Penal Code, Dutch and foreign company can be ordered to pay up to 780,000euro for bribery. On the other hand, the evaluations are not that positive for Vietnam. Respondent DA and DG openly say that corruption is high in Vietnam, while respondent VA and VG imply the existence of corruption. Traditionally, giving gift looks like a culture of Vietnamese people to show love, hospitality and respect. In Vietnam, there is a sentence that "A quid of betel and areca-nut starts the ball rolling". However, “gift” is metamorphosed petty corruption by either requesting of civil servants or lubricating by businesses. Respondent DA and DG also acknowledge the high level corruption in Vietnam has negative effect on Dutch firms operating there. Deeply aware of the threat of corruption, variety of guidelines, policies and solutions for preventing and fighting corruption has been issued such as Law on Anti-corruption 2005, the National Strategy on Anti-corruption towards 2020, Criminal Code 1999 (revised in 2009) and the others. However, it does not necessarily mean the low level of corruption in the Netherlands has a positive impact on Vietnamese firms, as one respondent confirms the positive effect and one is neutral. Overall, the existence of corruption in Vietnam is a barrier that Dutch firms have to overcome. This result confirms proposition P1.

5.2. Political Stability

All respondents agree that the political environments of both the Netherlands and Vietnam are stable. Respondent DA is neutral on the effect of this factor, whilst other respondents think political stability has a positive impact on firms because firms are more confidence in making investment and composing long term plans. The Netherlands is a constitutional monarchy with a parliamentary system of government and one of the most politically stable and pro-business governments in the European Union (Invest in EU). At the same time, Vietnam is a socialist republic country with a single-party, communist state political system. It is a socialist-oriented market economy. Throughout recent history, its economic-political regime controls FDI policy, has been changed and impacted by national government policy. Among low cost, young and well-educated of labour, fast growing, high demanding market, and increasing consumer spending, political stability is one of attractive factors to attract FDI in Vietnam (Control Risks, 2015). Either way, this factor in the Netherlands and Vietnam does not cause any trouble for foreign firms. Proposition P2 is not valid according to this finding.

5.3. Labour Regulation Flexibility

Available responses indicate that labour regulation is strict in the Netherlands and it is a barrier for foreign investors in general, and for Vietnamese firms in particular. In The Netherlands, the Labour Law is a complex system relating to hiring and firing employees. In some certain cases, dismissing is impossible or expensive (LVH Advocaten). Generally, together with high Dutch labor costs, the complex labor laws are both obstacles for FDI. But the Vietnamese labour regulation seems to be weaker than the Dutch’s. Respondent DA notes that some Dutch companies even have to establish their own standards in employing local people. Nonetheless, the effect of this weak labour regulation is viewed as having positive effect on Dutch firms by two respondent and neutral by one. Respondent DG discussed another aspect of the matter: labour regulation concerning bringing foreign workers to Vietnam. This process requires a lot of paper works and is time consuming, which is difficult for Dutch firms who want to hire non local employee, but it does not have a serious negative impact. Based on the majority of opinions, restrictive labour regulation in the Netherlands is a challenge for Vietnamese firms expanding there. This finding is in line with proposition P3.

5.4. Corporate Law

While respondent DA and VA see Dutch corporate law as good and clearly define, respondent VG thinks that Dutch corporate law focus more on protecting labour and consumers, thus firms are not strongly enable and protected. Nevertheless, no respondents claim a negative effect on Vietnamese firms. About the situation in Vietnam, three out of four respondents perceive corporate law in Vietnam as favourable for firms, among which there are two votes for positive impact on Dutch firms and one neutral. In fact, both countries’ laws encompass articles to protect investors’ property such as “The owner has all possible powers over his property” (Dutch civil law); “the State shall take appropriate measures to protect the interests of the investors” (Vietnamese Investment Law). Additionally, respondent VA has a more critical view: corporate law in Vietnam needs to be updated to catch up with the current economy, but the impact is neutral. Generally, corporate laws of both countries are not identified as a challenge for investors. This result does not approve proposition P4.

5.5. Taxation Policies

Respondents DA's view about the Netherlands as a tax heaven is backed up by examples by large corporates such as Google, Amazon, and Starbucks establishing offices here to enjoy the positive effect. Respondents VA and VG are neutral on this matter. All respondents acknowledge the existence of tax incentives in Vietnam (e.g. tax reduction, tax free or payment delay for firms who are willing to invest in certain sectors and areas). Respondent DA and VA perceive these tax incentives as having positive effect on Dutch firms. Respondent VG thinks of such incentives as a fair way to balance the invisible costs that Dutch firms suffer when they invest in rural areas, which means they are not getting much benefit out of such tax reduction. Respondent DG points out some difficulties regarding taxes such as problems in expense deductibility, taxation administration, and taxation guidance. There is a conflict in the answers of respondent DG and VG. Both mentioned "transfer pricing" as a problem in taxation. However, respondent DG (and EuroCham) implies the transfer pricing policy should be taken care of by the Vietnamese government because it "could prove problematic for attracting greater investment from European countries, and to future growth overall", whereas respondent VG accuses foreign firms of using transfer pricing as an effective way to avoid pay taxes (which is beneficial for foreign firms and harmful to the Vietnamese government). It is unclear how this debate may develop. As for this paper, there is one vote from respondent DG on how certain aspects of the current Vietnamese taxation policies can be difficult for Dutch firms. Proposition P5 does not hold in this situation.

5.6. Logistic Infrastructure Availability

It is united among respondents that the Dutch's logistic infrastructure is extremely well designed and has a positive impact on Vietnamese firms expanding there. Except for respondent VA, who maintains a positive attitude about Vietnamese infrastructure (as potential chance to invest), three out of four respondents point out that the current logistic infrastructure in Vietnam has a negative impact on Dutch firms. This factor seems to be critical in international expansion: respondent DA identifies it as a key factor, respondent VG confirms that the Vietnamese government usually receives complains from foreign companies on this factor, and respondent DG calls for further improvement. Actually, physical infrastructure in Vietnam is an inadequate system needing large scale improvements. This is considered to be a major obstacle for developing and expanding business investments and activities. Although the government has invested large amounts in Vietnam's infrastructural system, it still falls behind the demands required for socio-economic growth (Nguyen, 2011). As a result, low logistic infrastructure availability is recorded as a challenge for Dutch firms expanding to Vietnam, which is in according with proposition P6.

5.7. Labour Skills

All respondents view Dutch labour as highly educated and highly skilled. However, respondent DA raises the problem of mismatching in the supply and demand of the Dutch labour market: there is a serious shortage of technical personnel, illustrated by 15000 vacancies in ASML (ASML is the world's largest supplier of photolithography machines, located in Veldhoven, the Netherlands), due to less people attending technical schools. While the high skills of Dutch labour does not have a positive impact on Vietnamese firms; the lack of technical personnel can be disappointed for Vietnamese firms who want to learn more experience or operate in technical industry. Responses about the labour skills of Vietnam fall in the low basket. Different problems are brought up, such as unskilled labour, lack of employees for technical and managerial positions, or employees abruptly switch jobs. From international investors' viewpoints, the shortage of skilled workers is the third most important operational constraint in Vietnam. It is true that the Vietnamese labor force is young, dynamic, and energetic as well as educated and endowed with well-honed skills. However, unskilled labor is abundantly available there, while highly educated and skilled labors are scarce, especially in middle management levels (Nguyen, 2011). Overall, the responses suggest that low labour skills in Vietnam have a negative influence on Dutch firms. Proposition P7 is confirmed by this result. However, labour in Vietnam remains an attractive factor for foreign investors mainly due to the low cost.

6. Conclusions and Implications

This paper confirms the country-specific nature of institutional factors: each country possesses a different level of seven institutional factors. Moreover, institutional challenges vary across countries: Dutch and Vietnamese firms are facing different obstacle when operating in each other's country, those are differences in level of development. It is uncertain whether these obstacles also vary across industries.

For Vietnamese firms operation in the Netherlands, restrictive labour regulation and lack of technical personnel (labour skills) have been identified as challenges. As suggested by respondent VA and DA, in order to cope with the strict labour regulation of the Netherlands, Vietnamese firms should study the law carefully and consider import/export method instead of establishing their factories and offices in the Netherlands.

For Dutch firms operating in Vietnam, the existence of corruption, low logistic infrastructure availability, poor labour skills, and certain aspects of taxation policies has been identified as challenges. For Dutch firms to protect themselves against corruption in Vietnam, respondent VA and VG suggest them to report the problem to higher level of the governmental hierarchy and ask for support. Respondent DA did not see every forms of corruption as crimes; some of them could be cultural features that firms have to engage in when doing business in Vietnam. Therefore, the headquarters are advised to formulate a corporate policy on this matter and make sure that the representatives in Vietnam know their limits when carry out this "cultural practice". Infrastructure availability is a tricky area for foreign firms to tackle: they can only pressure the local government. Currently, the Vietnamese government is investing and calling for more investment to improve the logistic infrastructure. Therefore, Dutch firms who have long-term plans in Vietnam may consider providing financial assistance to the Vietnamese government in exchange for tax benefits. Unfortunately, there is not much that firms can do concerning the low labour skills and taxation policies. Regarding giving trainings, firms should be careful in setting up a legally binding agreement with the employees in order to avoid the cost of employee abruptly switching jobs after trainings. In general, respondent VG advices firms to make use of their business networks to share experience, and hire a Vietnamese assistant for the Dutch manager, because the assistant knows "tips and tricks" to handle unscripted problems, such as cultural behaviours, gray areas in taxation, or time consuming administrative procedures. Respondent DG also encourages Dutch and Vietnamese companies to contact The Netherlands Embassy in Hanoi and the Consulate General in Ho Chi Minh City to get

supported. It is also noticeable that different reports, measurements or parties hold different, or even contradictory, views on the level of certain institutional factors. For examples, according to the Political Instability Index, the Netherlands and Vietnam are moderately high risk countries; but according to all respondents, the Netherlands and Vietnam have stable political environments. Therefore, to obtain the most nearly accurate evaluation, firms should consult different parties and perform their research carefully.
As cited in Chacar *et al.* (2010), previous studies show that home country institutional factors are important for both developed (Porter, 1990) and developing countries (Cuervo-Cazurra & Genc, 2008). Upon the decision to invest in a particular market, international firms face the same host country institutions, but they have different pressures from the home institutions, which also affect their actions and competitiveness. Thus, a study about how home country institutional factors affect Dutch and Vietnamese firms will be a valuable add-on to this paper.

6.1. Limitations and Future Research
The analysis is based on responses of four experts. Although they have been closely involved in the subject matter on a broad spectrum, their opinions may not represent the whole population. The preferred approach of the exploratory part is conducting a survey to ask Dutch firms and Vietnamese firms who are currently investing in each other's country about the institutional obstacles that they had or experiencing. This method will show the most relevant and immediate obstacles (most cited problems) that worry the firms. Moreover, the results will clearly show if firms in different industries experience different difficulties, or perceive same difficulties at different severities. For future research, based on respondents' ideas, the banking system and the enforcement of law should be involved in studying institutional factors.

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