

The Entrepreneurial Role of the State and SME Growth in Vietnam

Thanh Hai Nguyen¹

Quamrul Alam²

Marcia Perry³

Daniel Prajogo⁴

Abstract

Since the introduction of 'Doi Moi (economic transition) of the economic transition to socialist market economy in 1980s, the business environment in Vietnam has improved significantly. This paper examines the extent to which Vietnam's policies support the development of market principles for the growth of SMEs and assesses issues of the sustainability of the measures engaged by the government. The qualitative interview approach applied a conceptual framework of 'enabling' and 'hindering' factors to the relationship between the state and the market, and the impact on SME development. The findings indicate that where defective market factors and inadequate institutional support mechanisms are evident, it is vital that the state pursues a more entrepreneurial role to facilitate the development of SMEs. Further, the social networks and private credit for the development of SMEs in the early stages of Vietnam's journey towards a market economy still plays a key role.

Keywords: Transitional economy; SMEs; state and market; Vietnam.

¹ PhD Candidate, Department of Management, Monash University, Caulfield campus, Australia.
Email: nguyenng8172@yahoo.com

² Senior Lecturer, Department of Management, Monash University, Caulfield campus, Australia.
Email: Quamrul.Alam@buseco.monash.edu.au

³ Lecturer, Department of Management, Monash University, Caulfield campus, Australia. Email:
Marcia.Perry@buseco.monash.edu.au

⁴ Senior Lecturer, Department of Management, Monash University, Caulfield campus, Australia.
Email: Daniel.Prajogo@buseco.monash.edu.au

Introduction

This study assesses issues affecting the sustainability of the measures taken by the government under its 'Doi Moi' policy. The 'Doi Moi' initiative was started in 1986 by the Vietnamese government under the pressure for economic transition shifting from a centrally planned economy to a market economy. However, Vietnam is at the early stage of its transition to a socialist market economy. Unskilled labour, inadequate capital for business activities, lack of land for business premises, and weak supporting services in the areas of technology and information are the main weaknesses that Vietnam has to deal with to create a supportive market environment for businesses to grow. These inadequate market factors limit the level of support and render some policy initiatives ineffective.

The review of Literature suggests that transitional economies need to take some specific measures to create conditions to encourage entrepreneurial activities and for small and medium enterprises (SMEs) to find opportunities to grow in different sectors of the economy. In the absence of strong market forces in a transitional economy, the state has to play a decisive role to create those conditions. The experiences of some transitional economies suggest that policies use intangible and tangible resources; clustering and network activities among businesses have played a significant role in creating the critical mass for SME growth and development. In order to attain the critical mass needed to create support infrastructure, the entrepreneurial role of the Vietnamese state is vital in creating that infrastructure and the institutions that are adequately resourced to facilitate the development of SMEs, and supports an entrepreneurial culture. This paper examines the role of state institutions in creating market conditions for SME growth. The adequacy of the policy regime and the effectiveness of the support infrastructure have been discussed to identify the problems of the market development process under the socialist market economy model of Vietnam.

State Policies for SME Growth

Support policies for SMEs vary from country to country and from developed countries to less developed countries due to differences in business contexts, culture and the level of industrialization. The CEE experience suggests that the conditions outlined above are vital for business development.

According to Batra and Mahmood (2003), SMEs in developing countries in East Asia receive support from local governments in the form of micro finance, interventions to increase private sector training, technology development, and market information. China, Malaysia, Indonesia and Thailand benefited from these policy reforms, network relationships, cluster linkage to markets, and the new support infrastructure (Brimble, Oldfield and Monsakul, 2002; Harvie, 2001; Tambunan, 2005; and Harvie, 2002). In Vietnam, policies that provide support are a critical factor for SME growth.

Market Factors

From the experiences of CEE countries, Dallago and McIntyre (2003) state that SMEs are not themselves sufficient for growth without the proper development of institutions and support structures. Identifying the importance of institutional change for the growth of entrepreneurship, Smallbone (2004) suggests that businesses need to adhere to the following conditions: firstly, a legal infrastructure that is appropriate to market conditions; secondly, the creation of a legal framework that facilitates the development of entrepreneurship; finally, the creation of commodity, capital and labour markets. Institutions that include regulatory and tax authorities, licensing and registration offices, and private sector institutions, such as banks, accounting firms, other professional bodies and Chambers of Commerce, must provide business support to SMEs (The Expert meeting on good governance for SMEs, 2004).

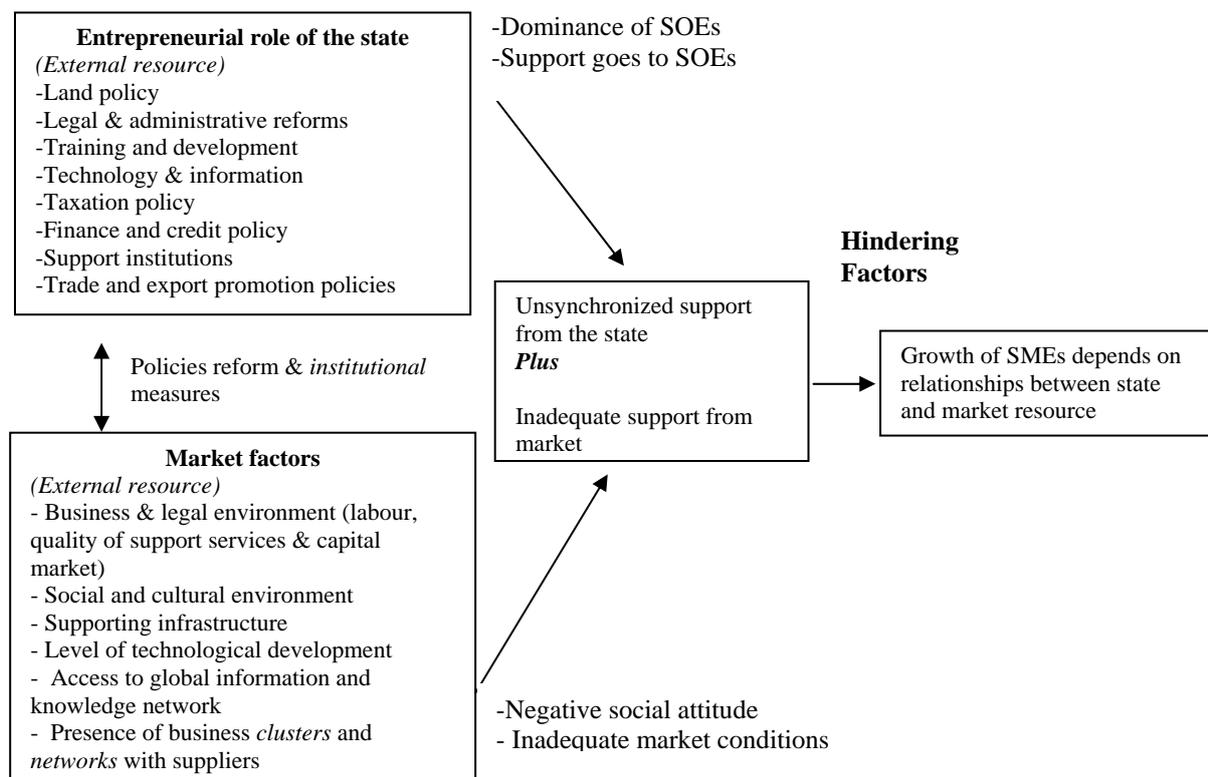
Social and Cultural Environment

Gibb and Lyapunov (1996) suggest that an entrepreneurial culture needs to be nurtured to support SMEs in areas such as values, beliefs, attitudes and behavioural norms. Gibb also argues that a personal network based on social value constitutes an important variable that influences transactions between firms and customers, marketing channels, suppliers, employees, family, regulatory authorities, banks, accountants, and competitors. Ha and Swierczek (2003) found that the performance of SMEs in Vietnam was positively related to entrepreneurial culture. This means that the owners of SMEs are not willing to take risky business decisions and the presence of a risk avoidance attitude is prominent among entrepreneurs.

Business Environment and Support Infrastructure

SMEs need to identify key success factors such as finance, technology transfer, taxation, market promotion, export opportunities, and research and development strategies that determine the conditions for them to overcome difficulties in both their internal and external environments (Petri, 1995; Assaf, 1998). Wattanaputtipaisan (2002) proposes that competitiveness can be leveraged by factors other than location and natural resources such as: on-going access to global information and knowledge (market standards, marketing opportunities and technology); participation in clusters of firms, networks with suppliers, producers or complementary product distributors and consumers; and on-going learning and improvements in efficiency and flexibility. This network relationship created a new information flow and knowledge base for SMEs that could be the model for the efficiency of resource distribution to SMEs by numerous policy packages from the state and the market.

Figure 1. State and Market Factors impacting on SMEs in Vietnam



Conceptual Framework and Research Methodology

The resource base, clustering, networking, and institutional theories referred to by Petri (1995), Assaf (1998), Brimble, Oldfield and Monsakul (2002), Harvie (2002), Tambunan (2005), Ha and Swierczek (2003), and Gibb and Lyapunov (1996) provide an understanding of the factors supporting SME

development in developing countries. A conceptual framework was applied to examine the evolving relationship between the state and the market and the impact of that relationship on local SMEs (See Figure 1). The conceptual framework included enabling or hindering factors associated with (1) the entrepreneurial role of the state through policies, resources and infrastructure, and (2) market factors.

This paper uses qualitative data drawn from a number of semi-structured interviews held in Hochiminh City, Vietnam. In order to identify key themes in this data, a content analytic approach was taken. The researcher incorporates categorised information and logically identifies the key important themes. Seventeen respondents were selected randomly and interviewed in June 2006. Semi-structured interviews were conducted mainly in Hochiminh City. Based on the conceptual model, a group-comprehensive questionnaire was developed to address the overall research issue of identification of the effectiveness of SME-related policies. Identified issues were analysed and coded through applying NVivo-assisted themed qualitative analysis methods. The codes of the emerged themes can be structured in a hierarchy or incoherently. This NVivo software helps the researcher to conduct parallel analysis of information from different questionnaires or interview scripts and look at coded segments of the data contextually. Hence, it was very easy for the researcher to investigate the coded data/information.

Major findings

Taxation and Financial Policies

A shortage of information about tax incentive policies, including difficulties and hidden costs in the application procedure for tax incentives and unclear tax incentive policies deterred SMEs from applying for them. Taxation officers appear to have strong power to enforce the tax rates, and this is creating tax return and tax incentive application difficulties for SMEs. The delay and bureaucratic assessment of tax incentive applications sometimes have led to unfair conduct in provision of tax incentives and have added hidden costs for SMEs. Hidden costs and delays in application processing for tax incentives and tax-free arrangements cause difficulties for both tax payers and tax collectors. An inconsistently imposed VAT rate also indirectly encourages corruption and tax evasion. Problems with financial and credit policies included: discrimination against SMEs; corruption; strict application procedures; unreasonable credit policy; inadequate land laws concerning land use rights; a shortage of government monitoring; vague roles for supporting agencies in helping SMEs to overcome financial constraints; a lack of information about credit policy; and the lack of credit insurance funds to act as guarantors for SMEs to access credit. In addition, while SOEs may have longer terms and lower interest rates for credit without the need for mortgages, thanks to their managerial governing bodies' guarantees, SMEs are not able to access these advantages.

Land Policy

Despite many positive changes in the land law, land ownership and use of land for business purposes are still under bureaucratic control which has made the system complicated. Poor land records, data bases in land registry offices and conflicts between landowners' interests because of nearly a century of wars have made it utterly unreachable for the new entrepreneurial class in Vietnam.

It seems that SMEs do not receive any noticeable land policy aid and have to "swim alone in the ocean". Despite the fact that supporting policy is in place, SMEs do not know where to ask for assistance. Other hindering factors include: a lack of information about land issues such as resources and industrial zones, high rental fees and bureaucratic procedures involved in rent application processes. These factors and other strict requirements in industrial zones such as discrimination against SMEs in accessing land resources and a lengthy, bureaucratic application procedure for land rental have resulted in SME despondency about entering industrial processing parks. While spacious land is made available for SOEs, SMEs are restricted to their own limited land or they must rent it from SOEs or elsewhere.

Training and Development for Managerial Skills Development

Support in training is the government's indirect assistance to improve SMEs' managerial skills and to equip SMEs with professional skills. As a result, SMEs will have more opportunities to improve product quality, reducing the cost of production, and increasing their competitiveness. Through training programs, SMEs managerial skills and professional skills for SME labour can be improved. The Vietnamese government has been offering many training programs, which are partly subsidized or free of charge. The findings indicate that some government officers' inadaptability to a market-oriented economy has created annoyance and difficulties for SMEs. According to interviewees, the insufficient skills and knowledge of executive officers has actually discouraged them from working with SMEs effectively and actively. Surprisingly, all respondents claimed that the roles of these supporting agencies is still not strong in providing a high quality of advisory and training programs for SMEs. Training programs are not practically focussed and are too general.

Supporting Institutions

Having identified the important role of information for SMEs, the government has been trying to promote supporting business institutions in order to facilitate the development of SMEs through the provision of information. However, the quality of information for SMEs is still questionable. There are shortages of good technical advisors and information. One respondent reported difficulty in seeking qualified information and does not know where to seek advice. It seems that supporting agencies have failed to meet the demands of SMEs. Respondents have doubts about the roles of supporting agencies and the quality of technological consulting services. Information provided is too general and there is a shortage of necessary information about incentive policies and legal regimes available for SMEs.

According to the findings, a common SME problem is the lack of formal linkages among businesses, since most of the cooperation is through informal relationships. This has led to the absence of a leap-frog approach for entrepreneurial development through which cooperation among potential businesses for production, sharing information, supply chain and outbound value chain activities could evolve. In the absence of such an entrepreneurial culture, SMEs do not know where to seek advice and where there might be opportunities for cooperation. As a result, SMEs find it risky to engage in international businesses with foreign partners. As claimed by respondents, the weak and unsynchronized role of supporting institutions in facilitating networking and cooperation also could be the reason for the slow growth of SMEs. On the other hand, the findings also indicate that there is lack of cooperation among supporting institutions.

Technology Support

Having identified these technological issues, the Vietnamese government has been trying to set up related organizations and policies to develop technology and information supporting services for SMEs. Generally, there are some positive improvements in the current technological policy to support the development of SMEs in Vietnam since the government established the first step of the legal framework for technology transfer in 1988. However, a number of common technologically-related issues were still referred to by respondents, such as legal barriers and an ineffective policy regime for property rights; patents and trademarks; technological transfer; and importation of used equipment. Also, there was a lack of formal network linkages and technological cooperation among technological research institutions, between SMEs and supporting institutions, and with other firms. The shortage of funds for investment and for technological development, and the existence of an ineffective legal framework have prevented SMEs and research institutions from cooperating with each other. Hence the findings indicate that there is evidence of a deficient overall national technological research and development strategy.

Legal Framework and Administrative Reforms

Business registration is one of the new issues in Vietnam. Aiming to minimize bureaucracy during the registration process, Ho Chi Minh City authorities and related government offices in other provinces have standardized the business registration process by establishing a system of online registration. This registration system helps SMEs save on unnecessary business licensing expenses, avoid bureaucratic behaviour of registration officers and find relevant information about business licensing procedures.

Respondents stated that there were too many unnecessary licenses, problems of management overlap and regulation barriers, particularly when businesses apply for a business license, tax file number or business seal. Several respondents complained that they still needed to obtain numerous 'unnecessary' licences and certificates from different local authorities and management offices that are to them clearly costly. The findings also indicate that the gap between the formulation of rules and the implementation of those rules is significant. The weak role of law enforcement organizations in supporting SMEs in resolving commercial disputes discouraged potential SMEs. A deficiency in the current business laws also added more confusion and uncertainty. Instability of business-related laws may impede the development of private sector. There are too many replicated and contradictory regulations, circulated letters and decrees from the governments and related managerial authorities that can be applied to a single business issue. Each local authority also has different legal documents and regulations, with many weak and unclear points that can be understood differently and may create confusion for management authorities due to a lack of valuable information and legal knowledge. Furthermore, business inspection procedures are sometimes inconsistent and not compliant with the law.

Trade and Export Promotion Policy

In the context of globalization, gaining competitive advantage is the critical factor for SME survival and development in both domestic and international markets. Trade and export promotion could be the focus and will be the key point to facilitate the growth of the private sector. Aiming at improving SME competitiveness, the government has been trying to provide SMEs and other business sectors with increasing support through support institutions that offer market information and credit incentives. In addition, the government is trying to reduce its direct interference in SMEs' business activities. There are numerous promotional activities, including trade and market information, export consulting activities, training for improved international business skills, brand promotion, trade exhibitions and business supporting infrastructure. However, there is noticeable respondent evidence that the tariff incentive policy is not clear and seems not aimed at SMEs. SMEs are still facing many hurdles in relation to tariff barriers. For example, the tax rate on used equipment is normally based on custom officers' whims, given that the tariff criteria for quality assessment are not clear. There is evidence, too, that export promotional funds and incentives are not available to SMEs. Subsidy policies are offered to SOEs as large exporters. Furthermore, import and export quotas are not easily obtained. This is due to the bureaucratic administrative regime and difficulties in the import-export licensing system that have prohibited SMEs from doing business directly. As a result they are restricted to operating as subcontractors for larger firms and SOEs.

Discussion

Targeting utilization of internal resources for improving SMEs' competitive capabilities to enter global markets, the government has, to a certain extent, greatly improved the business environment's conduciveness to SMEs development. However, despite the government's strong initiatives in promoting the business environments and market factors in Vietnam, there are still a numbers of inadequacies.

Poor Financial and Capital Market in Vietnam

The results of our study indicate that SMEs in Vietnam are currently facing significant difficulties in accessing formal credit and they have to rely heavily on informal credit. This is consistent with the statistical data from GSO (2004) that, although credit capital is too low, more than half of the credit is reserved for SOEs. The results from our study also show that while SMEs have almost no access to long-term credit, or even to short-term credit in domestic formal credit funds, they also have nearly no access to international formal credit. Similarly, Pham (2002) observes that credit for SMEs from venture capital and foreign funds is very small.

Low Level of Technological Development

As stated by Le (2006), an inadequate technological market or weaknesses of technological support services are significant barriers. The technological market has failed to meet the demands for technological research development and transfer. The author also reveals that there is no real technological support for SMEs, since only state-owned technological research institutions and state-owned technological support services are operating in Vietnam, and they support large SOEs. This is consistent with our research findings.

This observation is consistent with our research results that supporting technological development activities are too underdeveloped to assist SME growth. On the other hand, those support policies seem to pay more attention to SOEs' technological research and development, rather than supporting and facilitating the sustainability and growth of SMEs in private sector.

Inadequate Business and Legal Environment

Market support factors: land, legal framework, labour

According to the vnexpress.net (as at 6 Dec 2006), the Vietnamese growth competitiveness index (GCI) has dropped to a rank of 104 in a list of 175 countries. Despite the fact that Vietnam is one of the countries that have undertaken notable reforms in public administrations, and gained some positive improvements in the business environment, these achievements are not enough to sustain economic development as well as enhance the competitiveness of the economy. From our research findings, there is clear evidence that the existence of some inadequate business factors has obstructed the development of a business environment in Vietnam. Basic business environmental factors are not adequate for supporting SMEs. These business factors include: A poor level of technology development, unskilled labour, insufficient capital for business activities, poor land management, and inadequate quality of business support services for technology and information.

Poor quality of support services for SMEs

It could be said that due to many defective market factors, the current unfavourable business environment does not allow SMEs to utilize their creativity and undertaken further business expansion due to a lack of information about the legal and business environment. Moreover, the results of our study indicate that SMEs are neglected by consulting firms. As a result, they tend to seek guidance from unofficial sources or they rely on their hired advisors for market information. Hence there is a gap between SMEs' needs and the services available for SMEs.

Poor Support Infrastructure

Our study reveals that the monopoly of SOEs in several key industries has led to created unreasonable costs, such as high internet and telecommunication fees, utilities fees and transportation fees for SMEs. As a result, business expenses in Vietnam are higher than in other regional countries. These expenses include land rental and business premises rental fees and other business expenses. According

to Ho, Do and Chu (2002), export credit funds can only satisfy 26% of the real demands. Hence only a limited number of SMEs and other business firms can access such funds.

Social and Cultural Environment

Discrimination among business sectors

The research findings describe SMEs' vital roles are not widely acknowledged by the government and Vietnamese society. This is agreed by Le (2006) and Pham (2002). On the other hand, SMEs have tended to be viewed negatively by labourers and the public as a high-risk policy that would generate insecurity in the job market. As a result, it is very tough for SMEs to attract qualified labour and access adequate support such as credit, land, and other external resources. Negative social perceptions towards the roles of SMEs would have a significant influence on the development of this private business sector and discourage SMEs from business development in many ways. Although the current legal regimes do ensure fairness of competition between the public and private business sectors, so-called "unwritten laws" of discrimination against SMEs still exist strongly in society. Operating in such unfavourable environment, together with defective supporting institutional developments, inadequate regulatory frameworks and the SMEs' poor internal resources, it is obvious that SMEs are struggling to survive and develop.

Strong uncertainty avoidance and attitudes of mistrust

Our findings show that strong uncertainty avoidance and attitudes of mistrust exist among SMEs and other business entities. Having no reliable information about business opportunities for cooperation, poor internal resources, and social discrimination against them may also deter SMEs from seeking the opportunity to establish strategic alliances, business cooperation with other firms and financial supporting institutions and to achieve better performance. This finding is consistent with the findings from Nguyen, Le, and Freeman (2006) and Ha and Swierczek (2003).

Presence of business clusters and networks

According to the results of our study, there are no strong linkages between SMEs and other supporting agencies. As stated by a respondent, "*Linkages between academic and research institutions, universities, supporting organizations, and SMEs are still questionable*". SMEs and those institutions tend not to seek cooperation because of a lack of mutual trust between them. SMEs still consider that they are self-contained firms, so that they prefer not to form any clusters or to develop linkages and networks.

Numerous studies, such as McMillan and Woodruff (1999), Nguyen (2005), Nguyen et al. (2005), and Nguyen et al. (2006), indicate that trust is an important factor for cluster and network development which may help to facilitate the development of necessary supporting infrastructure. According to the VNCI project and building Vietnamese competitiveness (VNCI-1, 2003, p.2), "*Efforts on building commercial collaboration among cluster members were limited. As a result, the foundation for trust and cooperation among cluster member were not significant enhanced. The effectiveness of forming a broad partnership with key cluster champions, including association leaders, local governments, VCCI, universities and other donor is low.*"

Access to information and global networks for cooperation

Our research findings reveal that most of the information for SMEs is from informal sources. This is consistent with Webster and Taussig (1999), Harvie (2001), Ho et al. (2002), Vu (2001), and Pham (2002). According to a respondent in our study, information about market, opportunity for SMEs, the importance of strategic plan and trade policies are not widely revealed to SMEs by the concerned parties. SMEs have limited access to market information and information.

Harvie (2001) observes that most information is obtained through the media or by personal contacts of firms, and not through formal channels. Only the more dynamic SMEs tend to get in touch with formal organizations like the SMEs club, the VCCI and the various trade associations for information. As a result, SMEs may face problems of missing out on business opportunities and cooperation or being deceived by their overseas partners due to the lack of reliable information.

Conclusion

As discussed earlier in our conceptual model, the evolving relationship between the state's entrepreneurial role and market factors is critical for economic growth and development. The findings indicate that in the absence of strong institutional support and a well-articulated market factors, the state has to successfully play a crucial role in creating adequate market conditions by facilitating the evolving relationship between policy measures and market factors. It is also found that in the Vietnamese Confucian culture and socialist market economy, social network relationships are vital to support SMEs. Any initiatives to facilitate the coordination between policy measures and institutional support with existing market factors must take into account issues of social-cultural impact on the entrepreneurial spirit of SMEs when they are emerging and growing.

It should be emphasized that most business network relationships in Vietnamese SMEs are informal, and have been built on long-term trust under the strong impact of Confucian culture in which distant power relationships and a high level of uncertainty avoidance exist. Trust, therefore, is considered a critical requirement for doing business. Strong uncertainty avoidance and attitudes of mistrust exist among SMEs and other businesses. This is the important finding of the research study. More importantly, when effective market conditions and supporting institutions are not in place, the role of the government is critical in facilitating the three-legged relationships: the reformulation of economic regulations; social regulations (values, norms, culture); and administrative reform to support SMEs.

In the context of Vietnam, the development of business support institutions and, in particular, the development of related business supporting services may involve several supporting institutions from both the public and private sectors. These may include market support institutions such as financial support institutions, public policies and administrative institutions, regulatory frameworks, academic and research institutions, industrial and business associations, supporting industries and numerous other business supporting services and advisory services. Obviously there is no coherent coordination between these institutions and no strong linkages between SMEs and supporting institutions. This also indicates that the role of supporting organizations and the role of the government are not very effective in acting as the main facilitators for coordination and linkages between entities. The problem may be partly caused by a deficiency in the legal framework and failure of government policies in identifying the critical roles of business supporting services and industrial business associations. Those supporting organizations receive no favourable policies such as a tax incentive policy or a fair competitive business environment, and they also cannot act as representatives to protect the rights of their customers.

In regard to technology and information policy, the current gap between the supply and demand sides for technological research and information, training and development and business support services are not easy to solve in the short term. The findings suggest that the state's entrepreneurial role is of special importance since it can coordinate existing market factors to provide support policies, infrastructure resources and support institutions for SME development in Vietnam. This highlights that inadequate policy regimes and inadequate market factors may become hindering factors instead of being enabling factors for SME growth, if government and supporting institutions do not play a key role in acting as facilitators for the efficient distribution of resources.

Lastly, the findings indicate that, for a successful model for SME clustering and networking to utilize their resources and to make proper use of comparative advantage, Vietnam needs to develop the state and SME relationship and devise market practices around SME activities to build a road to a socialist market economy. Industrial clustering and networking of SMEs in Vietnam will not be similar to

clustering models in other transitional countries. From analysis it appears that linkages of SMEs in Vietnam tend to be based on informal relationships and are heavily dependent on cultural characteristics. The literature has proven that a substantial difference in entrepreneurial attitudes exists among countries, and there is evidence that cultural characteristics have an impact on entrepreneurial activities. For that reason, it is important to consider the cultural dimension as an important external environment which strongly impacts upon the effectiveness of policies from the state, because SMEs need to rely on economic policies, social regulations (in this case culture, norms and values of a society), and administrative reform for reducing transaction and compliance costs and for growth. Therefore cultural factors can positively or negatively affect entrepreneurs' willingness to take risks and make business decisions, while the presence of a risk avoidance attitude would remain prominent if an entrepreneurial culture was not strong. This explains why the Vietnamese-specific culture is extremely important to entrepreneurial culture, which, in turn, positively or negatively influences the development of SMEs.

Though our study has not gone further in explaining to what extent these support policies packages should be provided to different SMEs, we hope that it proposes an insight into the pathway of designing relevant policies to satisfy SME demand for support. This could also be a helpful suggestion for policy makers and academic researchers to become aware of the important role of private business and to take a more positive view of their valuable contributions to Vietnamese economic development.

In the context of an emerging state and market relationship where large SOEs are still dominant, SMEs in Vietnam need to develop networked relationships and operate within a semi-cluster environment in order to form the critical mass to attract the attention of important policy actors. At the same time, a legal framework and adequate business laws need to be put into practice so that support institutions can work in a more coordinated manner to create a sustainable market framework for SME growth. Vietnam is not in a position to create large internationally competitive business enterprises. To make proper use of its comparative advantages Vietnam needs to develop the state and SME relationship and devise market practices around SME activities to build a road to a socialist market economy. Efficient, competent and innovative SMES will pave the way for large domestic and international companies to invest in the sectors in which Vietnam has competitive advantage.

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