

Entrepreneurship and Social Networks in Vietnam: Panel Data Evidence[#]

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Abstract

In the last decades, Vietnam has experienced spectacular social, economic and political changes. Impressive economic growth in the last decade has entailed a remarkable drop in poverty figures, drastic changes of the labour market structure, but also a surge in inequality as further trade liberalization and world integration have been developed. Reforms since the *Doi Moi* (process of moving away from central control towards a market economy) aimed at allowing entrepreneurship to flourish but no specific policies were designed to assist the private domestic sector, in particular the household business sector. Non-farm household businesses (NFHBs) are embryonic SMEs. Their number is often used as an approximation of the informal sector (Cling et al., 2010).

In this paper, we use a panel of formal and informal NFHBs to examine the effects of the use of family labour and of redistributive pressure on firm performance. To our knowledge, there are few empirical studies which have specifically addressed the link between social networks and entrepreneurship in developing countries. More generally, for developing countries, researchers remain divided on the precise nature and roles of social networks in the mechanisms of facilitating (or not) labour market integration. One can wonder whether the *Doi Moi* has changed the relationship between social networks and individuals' professional trajectories, in particular entrepreneurship, for those workers who have to cope with a changing economic environment.

A recent interesting example for Africa can be found in Grimm et al. (2011). Using survey data for seven cities of West Africa and focusing of internal migrants, the authors found that local family and kinship-ties enhance the use of labour inputs, maybe because local networks help overcome labour market imperfections. They also find some evidence that family and kinship structures within the city enhance the owner's effort level and the use of capital. However, closeness to the village of origin seems to have adverse effects on both.

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For Vietnam, some papers have nevertheless stressed the efficient function of social networks: Turner (2009) shows how traders of the ancient quarters of Hanoi have managed to remain in place and to offset adverse trends caused by many upheavals (during the war and socialist periods, as well as the impact of trade liberalization). Turner and Nguyen (2005) illustrate the operation of strong social capital networks amongst immediate family and friends to help with the establishment and expansion of an enterprise. Digregorio (2006) and Fanchette and Stedman (2009) shed light on the dynamics of craft villages in the suburb of Hanoi which are organised in clusters specialised in one activity based on the guarantees of long-term and ongoing relationships. Knorringa and van Staveren (2005) show that all segments of the footwear industry performed quite well in recent years thanks to strong and hierarchically organized associations.

To our knowledge, there are however no studies that specifically addressed the potential adverse effects of social networks (social pressure) on entrepreneurship in Vietnam. The questions tackled in this paper are the following: can we find evidence of a differentiated effect of employment of members of the extended family (or unpaid workers) on HBs' performance? What are the extent, the intensity and determinants of transfers received and given in households running household businesses? Do kinship pressure and/or community level characteristics influence the distribution of technical efficiency across firms? Can we identify differentiated effects depending on the informality of firms?

We use data drawn from two rounds of the VHLSS (2004 and 2006), a nationally representative survey dedicated to monitoring systematically Vietnam's living standard. The VHLSS is a classical three-stage stratified random survey. For the first time, a sample of HBs has been matched across the 2004-2006 waves of the survey, allowing for a large panel sample of more than 1,200 formal and informal HBs. The empirical methodology consists of estimating the household business production functions, their technical efficiency using the panel structure of the data (as in Söderbom and Teal, 2004), together with equations of transfers given and received by the households and labour demand equations.

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