

Three legs to reform

Thanh Hai Nguyen, Quamrul Alam and Daniel Prajogo assess the impact of trade policy, regulatory reform and social networks on the development of SMEs in Vietnam.

Vietnamese economic development is happening in the context of a market transitional economy with interventions from the government. These interventions are not only undertaken by the government through short and long-term strategy and managerial and policy regimes but also through a gradual improvement to the legal framework by way of institutional measures.

This will help create a healthy legal and business environment to aid the sustainable development of small and medium-sized enterprise (SME). The question is not whether these interventions are too irregular but how well they can support and sustain SMEs through favorable policies and regulations.

The private sector is the main vehicle for facilitating the transfer of the transitional economy to a market economy. The development of the private sector is the most important national policy in Vietnam, just as it is in other countries, and the sustainability and development of this sector is ensured by the legal framework.

However, good business law is not enough to create a favorable business environment for the growth of SMEs. A perfect legal framework for sustaining SMEs will consist of a combination of several other laws and policy regimes as well as a supportive social cultural environment.

The purpose of this research was to examine whether the government has designed a suitable legal framework, trade policy and administrative reform which together with social regulation and the right cultural environment would create a sustainable business environment and market conditions for supporting the development of SMEs.

The findings show that there are significant gaps between the formulation, reformulation and implementation of regulatory policies. The findings also show that, in a Confucian culture and socialist market economy with high uncertainty avoidance attitudes, social regulations, culture and the availability of social network relationships are part of the successful picture for SME development. More importantly, when effective market conditions and supporting institutions are not in place, the role of the government is critical in facilitating these 'three-legged' relationships to support SMEs. The constructed 'three-legged' model could be a helpful example for other Asian transitional economies.

Research shows that both government and society don't appreciate the vital roles SMEs play in economic development. The evolving relationship between economic, social and administrative regulation and SME performance is the main weakness Vietnam faces in creating a supportive market environment for business growth. Inadequate support can render some policy initiatives ineffective.

Anecdotal evidence shows that the institutions responsible for devising and implementing policies are not fully equipped to support SMEs – no coherent coordination exists between these institutions. Furthermore, there is still strong social discrimination against SMEs. As a result, SMEs do not have adequate access to public resources and this has created significant barriers to growth.

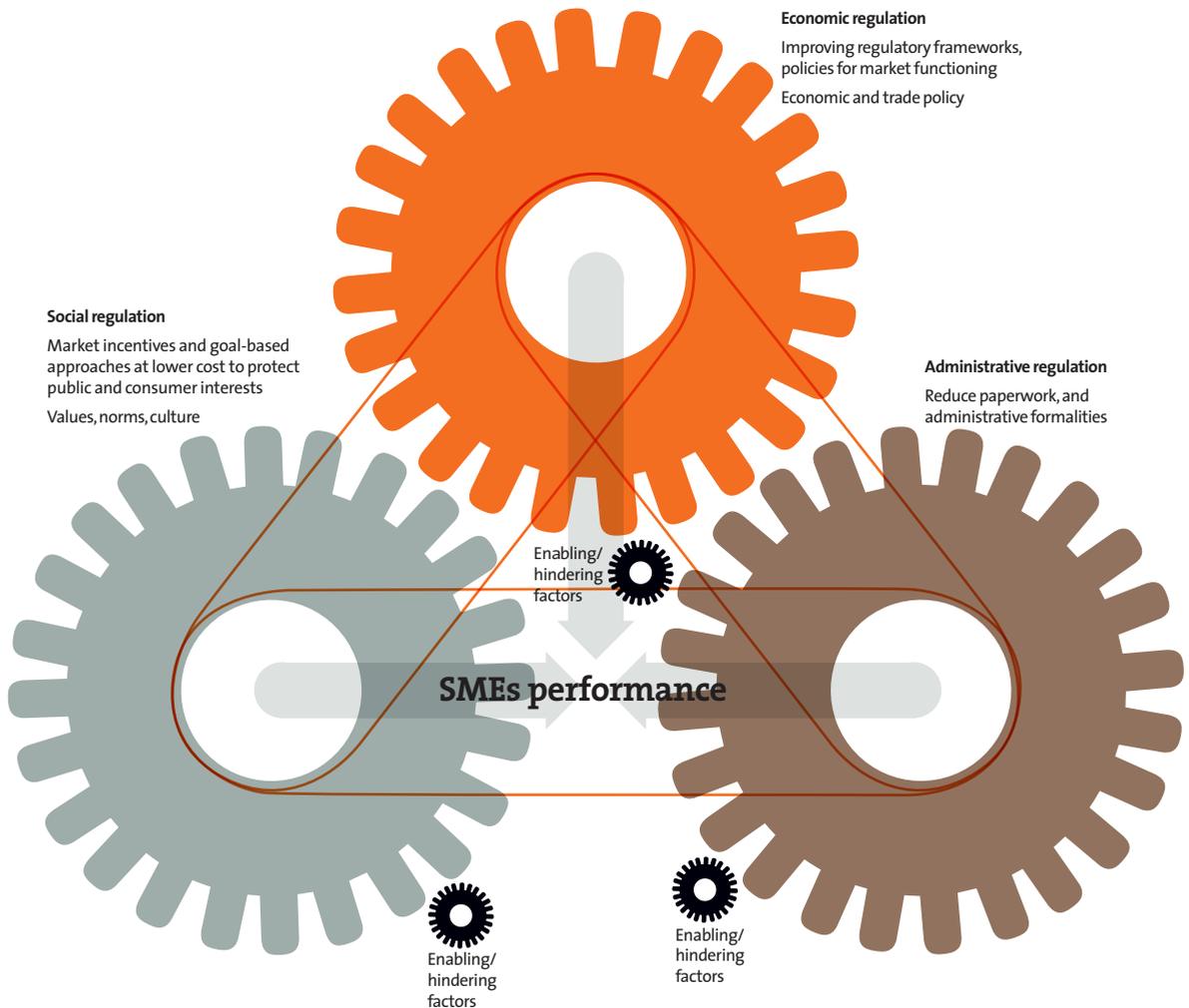


Figure 1: The evolving relationship between economic, social and administrative regulation and SME performance: A ‘three legged’ approach for business regulatory reform.

Hence, in the absence of a strong market force in a transitional economy and Confucian culture, the Vietnamese state has to play a decisive role in creating such conditions. The experience of some transitional economies suggests that, in order to attain the critical mass needed to create support infrastructure, the entrepreneurial role of the state is vital for creating support infrastructure and institutions that are adequately resourced to facilitate the development of SMEs.

ECONOMIC REGULATION REFORMS

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. Too

many laws and regulations are replicated. One respondent said: “No detailed rules are effectively conveyed. Different cities have different rules, which can be understood as ‘imperial power bends to suit rural custom’. Implementation has no strong attachment to policies.”

More confusion and uncertainty was added by a deficiency in the current business laws and the weak role of law enforcement organisations in supporting SMEs to resolve commercial disputes. Findings reveal a high tendency in SMEs not to declare themselves bankrupt. Instead, they try to solve their problems by using informal social networks. This may be because business failures can be seen by economic police as a case of inefficiency of the SMEs and may result in criminalisation and punishment.

There is strong evidence that the tariff incentive policy is not clear and does not support SMEs. For example, the tax rate on used equipment is normally based on the whim of customs officers.

PUBLIC ADMINISTRATION REFORM

Findings reveal three major issues in relation to public administrative reform and bureaucracy: corruption and red tape, business inspection problems and management overlap problems. Bureaucracy exists everywhere in supporting policies, from tax, credit, land, technology, training, trade and legal matters. It could be said that bureaucratic control over effective business operations is actually a chronic disease. This has generated significant unofficial expenses for SMEs – an undefined hidden tax on their activities. Management administration is bureaucratic and not computerised.

One respondent complained that corruption was rife in various government offices ranging from tax offices, custom houses, seaports and land management offices. The harassment that SMEs received at the hands of these officials led to an extra hidden expense for SME owners. Local authorities such as the economic police, council, market controls, tax offices, labour and social welfare services, fire departments, environmental departments and local management office of construction and public

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orders, sometimes made unannounced formal or informal visits to SMEs. These officials often expected gifts or money in order to leave the SME alone untroubled.

Business inspection is a long-time chronic disease and has been the most fearful problem for SMEs. Business inspection procedures are sometimes inconsistent and do not comply with the laws.

SOCIAL REGULATION: VALUE, NORMS AND CULTURE

Lack of social networks: Strategic links to facilitate

Entrepreneurship and land policies

China and Vietnam have seen rapid economic growth over the past few decades, despite the absence of secure private property rights.

The Vietnamese transitional economy model, although derived from China, is more flexible in terms of economic policies and government intervention. It could be a hybrid between the East European (so-called 'embezzlement' privatisation) and Chinese ('Market-Leninist' privatisation) processes, harmonising the

evolving relationship between policy measures and existing market conditions, along with the critical role of entrepreneurial cultures and less communist dictatorship from the state.

The entrepreneur-centered property regime is similar to that found in the coastal areas of South East China which is a helpful comparison in terms of explaining the dominant property

arrangements found in Ho Chi Minh City. Like China, Ho Chi Minh City has great access to overseas remittances, perhaps because its people are more emotionally attached to their native land because of their recent migration there after the Vietnam War in 1975. This is a big source of capital inflow that could catalyse economic growth and create a strong demand for land and real estate market development in Vietnam.

Multiple forms of property rights enforced by a highly decentralised state institution operate in the Vietnamese market. Defective market factors and, in particular, inadequate land resources, land allocation and distribution have been major issues in the country.

networking among SMEs and other business sectors are absent. SME and business cooperation mostly relies on developing personal relationships because of poor information. One respondent said: “We actually do not know where to find these opportunities and who can advise us. We found the information ourselves through the internet and contact with potential foreign customers.”

Uncertainty avoidance and mistrust culture:

The findings also indicate that there is evidence of high uncertainty avoidance. It seems that SMEs do not want cooperation due to their having insufficient information about strategic partners, or there is problem in relation to mutual trust. Although the current laws do ensure fairness of competition between the public and private business sectors, the so-called ‘unwritten laws’ of discrimination against SMEs still exist strongly in the society.

THE ‘THREE-LEGGED’ REGULATORY REFORM APPROACH

This conceptual model is constructed by the authors using the 1997 OECD report on regulatory reform. It incorporates three dimensions of regulatory reform: economic regulation, social regulation (which includes values, norms, codes of conduct and culture) and administrative regulation. The model is also

based on institutional theory to examine the evolving relationship between those three dimensions and their impacts on the development of SMEs.

Social regulation and cultural environment play an important role in Vietnamese SME performance and the lack of a sufficient entrepreneurial culture is a constraint on SMEs development. The OECD 2004 report, *Fostering Entrepreneurship and Firm Creation as a Driver of Growth in a Global Economy*, also emphasises that culture can determine career preferences and helps shape attitudes to both risk-taking and reward behavior. There is evidence that cultural characteristics have an impact on entrepreneurial activities. For that reason, it is important to consider these three dimensions as an external environment, because SMEs need to rely on these three important dimensions for reducing transaction and compliance costs and for growth.

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To view both of these academic papers in full, see www.buseco.monash.edu.au/industry

Vietnam has suffered hundreds of years of wars and conflicts which created many issues concerning land and property rights. The state still owns all the land. Transferable land use rights were promulgated in 1993, but as of 2001, the vast majority of private titles in urban areas have still not been distributed by the state. As the land belongs to the nation, only the land use rights can be exchanged. This means that problems concerning property rights could be resolved if the government does not arbitrarily expel the land users for public transportation improvements. This would create instability for setting up business premises and exchanging land. It has been shown in other research

that “even with legal papers, certificates will not be given if there are unresolved disputes over ownership” and such inadequacies shows that the “possession of legal papers alone is a significant form of property rights”.

This study examined how the state can play an entrepreneurial role to influence the creation of sustainable market factors and land infrastructure conditions to support the growth of small and medium-sized enterprises (SMEs). Research conducted in 2007 – 08 suggests that transitional economies such as Vietnam need to introduce some specific measures to create conditions to encourage entrepreneurial activities.

There is also a need to assist SMEs to grow in different sectors

of the economy and to form industrial clusters in order to efficiently utilise resources. The research also indicates that in the absence of strong market forces in Vietnam’s transitional economy, the state has to play a decisive role in creating those conditions. In addition, the study highlights that land accessibility is an important precondition for facilitating managed collaboration and encouraging new entrepreneurial initiatives through forming industrial clusters, linkages and networking. Access to land could create the necessary impetus for a pro-market venture enticing new business communities to be part of a production process building the economic infrastructure for SME growth.