

6-8-2013

## CAPITAL CONSTRAINTS AND THE PERFORMANCE OF ENTREPRENEURIAL FIRMS IN VIETNAM (SUMMARY)

Hien Thu Tran

*RMIT International University*

Enrico Santarelli

*University of Bologna, Department of Economics, enrico.santarelli@unibo.it*

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### Recommended Citation

Tran, Hien Thu and Santarelli, Enrico (2013) "CAPITAL CONSTRAINTS AND THE PERFORMANCE OF ENTREPRENEURIAL FIRMS IN VIETNAM (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 33 : Iss. 12 , Article 6.  
Available at: <https://digitalknowledge.babson.edu/fer/vol33/iss12/6>

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≈ SUMMARY ≈

## CAPITAL CONSTRAINTS AND THE PERFORMANCE OF ENTREPRENEURIAL FIRMS IN VIETNAM

*Hien Thu Tran, RMIT International University, Vietnam*  
*Enrico Santarelli, University of Bologna, Italy*

### Principal Topic

Entrepreneurship has been among the key driving forces of the emergence of a dynamic private sector during the recent decades in Vietnam. This paper investigates how entrepreneurial family firms can achieve and maintain success by benefiting from various sources of competitive advantage. Since Vietnam is characterized by a community culture favoring mutual trust and reciprocity among family / network members, it is obvious that family firms among the population of firms in the private sector take up a critical contribution to both their local and national economy. In particular, the paper addresses two questions “how capital constraints affect the performance of family firms” and “how entrepreneurs’ human and social capital interact with capital constraints to leverage entrepreneurial income”. Our focus is to investigate the effect of capital constraints on the subsequent performance of family businesses in Vietnam, taking into account the possibility that human capital and social capital, by boosting financial capital and easing access to credit, might also have indirect effects on family firms’ ability to create and sustain a competitive advantage.

### Method

The dataset used in our empirical investigation is a four-year panel of Vietnamese private enterprises from 2003 to 2006. It is extracted from the DANIDA (Danish International Development Agency) survey which is broadly representative of the Vietnamese population of entrepreneurs. For the purpose of the estimation in which we want to investigate the effect of initial capital constraints in the inception year as well as during years in operation on the subsequent entrepreneurial performance of family firms, we include in the sample only those firms having data at the inception year and still surviving until 2006. The final sample contains 1721 family firms in each year, which forms a balanced panel of 1721 x 4 years = 6884 observations. For the estimation method, we apply instrumental variable GMM (generalized method of moments) technique to control for endogeneity after adopting Hausman’s test confirming the endogeneity of financial capital constraints.

### Results and Implications

Our principal findings are fourfold: (i) Consistent with the resource dependency approach indicating an adverse effect of capital constraints on firm performance: firms suffering capital constraints perform substantially better, suggesting that they need more capital simply to finance newly-recognized profit opportunities; (ii) the share of the entrepreneur’s own capital is positively related to entrepreneurial performance; (iii) educational level significantly reduces the likelihood of entrepreneurs’ facing capital constraints; (iv) formal business network participation is positively related to capital constraint and does not help to enhance the entrepreneurial performance of family firms. The real benefits of networks stem from the strength and quality of network contacts, rather than shallow and formal participation.

**CONTACT:** Enrico Santarelli; [enrico.santarelli@unibo.it](mailto:enrico.santarelli@unibo.it); (T): +39 051 2098487; University of Bologna, Department of Economics; Piazza Scaravilli, 2 – 40126 Bologna, Italy.