

# Informal Institutions and Entrepreneurial Orientation: An Exploratory Investigation into Vietnamese Small and Medium Enterprises

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## **Abstract**

*This study explores the informal institutions in Vietnam and their impact on entrepreneurial orientation of Vietnamese small and medium enterprises (SMEs). A qualitative study was conducted through in-depth interviews with 21 SMEs in Hanoi<sup>2</sup>, Danang and Ho Chi Minh City. The research findings suggest the important role of informal institutions in the context of Vietnam. Specifically, two main components of informal institutions, corruption and institutional trust, are found to have effects on entrepreneurial orientation of SMEs. The research findings are discussed and implications for SME managers and policy makers are provided.*

**Keywords:** Informal institutions; entrepreneurial orientation; qualitative research; SMEs; Vietnam.

**JEL code:** M10.

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## 1. Introduction

The vital role of institutions in the economic development of each country has been recognized in previous studies, worldwide and in Vietnam as well. At the organizational level, institutional theory suggests that institutional factors affect organizations' strategies and processes (Scott, 1995). Institutions as a part of the business environment that affect the development of firms including small and medium enterprises (SMEs) have attracted significant research attention from scholars. However, the extant literature on institutions has mainly focused on formal institutions, while leaving the effects of informal institutions to remain underdeveloped (cf. Roxas and Chadee, 2012).

In the context of transitional economies (TEs), informal institutions might have stronger impact than formal institutions do (Peng and Heath, 1996; Williamson, 2009). Vietnam is in the process of transition from informal institutions to formal institutions (Chand et al., 2001), and informal institutions still play a very important role despite the gradual development of the formal institutions (Steer and Sen, 2010). However, the level of understanding of the effects of informal institutions on firms' behaviors and performance is still limited and it calls for further investigation (Chadee and Roxas, 2013).

In recent years, entrepreneurial orientation (EO) has become a popular topic in the area of business research in general and in the entrepreneurship field in particular. Vij and Bedi (2012) argued that EO was a key determinant of the success of a business. Many previous studies have examined EO in the context of SMEs (e.g., Keh et al., 2007; Wang et al., 2015). In the

context of developing countries such as Vietnam, EO and several of its antecedents have also attracted research attention in spite of their being at a still modest level (e.g., Swierczek and Thai, 2003; Nguyen, 2009; Nguyen, 2011).

In the literature, institutions have been investigated as significant antecedents of entrepreneurship (e.g., Avnimelech et al., 2014; Tonoyan et al., 2010). Institutions are critical aspects that are assumed to shape the environment in which business is conducted. Past research has suggested the important roles of institutions in fostering or blocking entrepreneurship (Muel-ler and Thomas, 2001). Specifically, institutions have effects on desirability and perceived risks and returns of entrepreneurial activities (Shane, 2003; cf. Avnimelech et al., 2014), and on the innovation capacity of firms (Chadee and Roxas, 2013). However, while a significant research effort has been given to study the effects of institutions on entrepreneurship at a country level, there seems to be a lack of studies on the relationship between institutions, especially informal ones and EO at the firm level. It has been noted that the effects of informal institutions on a firm's risk-taking propensity, innovativeness, and proactiveness remain unclear (Roxas and Chadee, 2012). This calls for more research attention to explore the relationship between informal institutions and firms' EO.

Up to December 2015, Vietnam had more than five hundred thousand SMEs. Together they accounted for 97.6% of the total number of businesses operating in Vietnam, and contributed to more than 40% of GDP and more than half of employment (GSO, 2016). However, since the world economic crisis, the number

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of dissolved and closed businesses has continued to rise. In 2016, the market witnessed an increase in the number of businesses terminating operations compared to that of 2015 (+32%). In the first half of the year 2017, for every three newly established firms, two of them dissolved their businesses (GSO, 2017). Many operating SMEs have been struggling due to low production capacity and weak competitiveness. The typical characteristics associated with Vietnamese SMEs are small scale, unskilled labor, outdated technology, lack of capital and low productivity. These are the barriers to SMEs in the process of global integration and development. Thus, it is crucial to study SMEs in Vietnam with the purpose of better understanding the factors influencing the SMEs' competitiveness and enhancing their performance. In the literature, EO has long been considered as an important predictor of firm performance (e.g., Keh et al., 2007). Past research has investigated some factors influencing a firm's EO; however, understanding EO's antecedents has still been limited, especially from an institutional perspective.

This paper seeks to explore how informal institutions, specifically corruption and institutional trust, matter at the firm level in the context of SMEs in Vietnam. This study attempts to enhance understanding of the nature and the effects of the informal institutional factors on the EO of Vietnamese SMEs. This contributes to shedding more light on the role of informal institutions in EO at the firm level in the context of a developing and transitioning country.

## **2. Literature review and theoretical background**

### ***Informal institutions***

While there are different definitions of institutions from different perspectives, those developed by North (1990) and Scott (1995) have been widely used in the literature. Specifically, institutions refer to "the rules of the game" that provide incentives and constraints to economic players (North, 1990). In line with this, according to Scott (1995), institutions consist of cognitive, normative, and regulative structures and activities which provide stability and meaning to social behavior. Hodgson (2000) has considered institutions as important elements of any economy and defined institutions as the systems of established and embedded social rules that shape social interactions. Similarly, later Helmke and Levitsky (2004) have suggested that institutions refer to "rules and procedures (both formal and informal) that structure social interaction by constraining and enabling actors' behavior" (p. 727).

There are always both formal and informal institutions in an economy (North, 1990). While formal institutions refer to state bodies (e.g., courts, legislatures, and bureaucracies), and state-enforced rules (e.g., constitutions, laws, and regulations), established through official channels, informal institutions often refer to unwritten rules that are created and enforced outside the official channels (cf., Estrin and Prevezer, 2011). In this study, we focus on informal institutions that are less emphasized in previous studies compared with the formal institutions that are considered to importantly matter in the context of developing and transitional economies (Chadee and Roxas, 2013).

Informal institutions refer to the default values in social relationships (Scott, 1995), common expectations of parties that are usually

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unwritten but recognized and followed by the society (e.g., customs, culture, standards, traditions, and acceptable behaviors). The saying “custom rules over law” implies the importance of the role of informal institutions (Tran et al., 2009). Informal institutions might boost or constrain formal institutions, and vice versa (Helmke and Levitsky, 2004). While formal institutions can change in a short period of time, informal institutions take much more time to change (Williamson, 2009).

In developing and transitional countries, or countries where formal institutions have not developed, informal institutions often supplement and support formal institutions (Peng and Heath, 1996). This research uses the definition of informal institutions by Helmke and Levitsky (2004, 2006) in which informal institutions refer to socially shared values, usually unwritten rules that are established, communicated and enforced outside the officially approved channels.

### ***Factors of informal institutions***

Even though there are different views on determining factors of informal institutions (Helmke and Levitsky, 2006; Seyoum, 2011), extant literature often suggests three groups of factors: the first group contains national culture and social standards (Busenitz et al., 2000); the second group includes social factors such as trust and fame (Wicks and Berman, 2004; Seyoum, 2011); and the last group refers to the factors created by the lack and weakness of the formal institutions, such as social capital (Aslanion, 2006), corruption and political connection (Li, 2009). All these three groups of informal institutions are employed to ensure the achievement of “acceptance” when following

the “rules of the game” in a society.

In the context of developing and transitional economies, the extant literature has suggested some typical informal institution factors including corruption (Li, 2009; Zhghenti, 2017) and trust (Nguyen et al., 2005; Seyom, 2011). Corruption refers to the abuse of entrusted power for private gain (Bardhan, 1997; Transparency International, 2010), including practices such as the abuse of government authority through bribery for private gain and embezzlement of government property (Jensen et al., 2010). This definition of corruption has been used in many previous studies, including those in the context of TEs (e.g., Avnimelech et al., 2014; Chadee and Roxas, 2013) and it is also used in this study. In practice, corruption exists in all countries. However, in TEs, it has been considered a common phenomenon and its levels are significantly higher than those in developed economies (Tonoyan et al., 2010). Albeit the government’s significant anti-corruption effort and various anti-corruption campaigns in TEs, corruption still remains a major challenge for firms’ business operations and it has been suggested as an important factor affecting firms’ behaviors (Chadee and Roxas, 2013; Le, 2017).

With regard to the effects of corruption on firm’s behaviors, the literature has suggested that corruption has an impact on resource allocation either immediately or in the future (Macrae, 1982) and it may have some positive impact in the short term but it would hinder innovation and sustainable development of a firm in the long term (Avnimelech et al., 2014; Nguyen et al., 2016). At a national level, the negative impact of corruption has been widely noted in past research, such as creating negative incen-

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tives for entrepreneurs to engage in value-creating opportunities and in business productive activities and therefore leading to reduction of entrepreneurial activities (cf. Avnimelech et al., 2014). At the firm level, some past research has suggested a negative impact of corruption on a firm's innovation (e.g., Chadee and Roxas, 2013; Nguyen et al., 2016). However, the role of corruption in all dimensions of a firm's EO (i.e. proactiveness, innovativeness, and risk-taking propensity) seems to receive very little research attention.

Trust is an important and commonly used informal institutional factor (Williamson, 1993; Dixit, 2009; Seyom, 2011), and especially is important for an organization when there is lack of a strong market institution (Nguyen et al., 2005), and development of trust that can bring better performance (Wicks and Berman, 2004; Nguyen and Rose, 2009). Trust is usually considered to be able to replace a developed market institution (Redding, 1990; Peng and Heath, 1996). There has been significant research on different types of trust and thus there are a variety of definitions of trust. In general, trust is considered as an informal institution that refers to the established systems of beliefs about the behavior of others. It is vital to identify the specific types of trust in the research for appropriate comparison. Rus and Igljč (2005) have examined SMEs' trust, including institutional trust and interpersonal trust. Interpersonal trust refers to positive expectations about others' behaviors derived from closely related interactions. Institutional trust refers to sets of shared expectations derived from formal social structures through signals such as membership of profession associations (Fuglsang and Jagd,

2015) which "generalize beyond a given transaction and beyond specific sets of exchange partners" (Zucker, 1986, 63). In this study, for our research purpose, we focus on institutional trust that is considered to be most central to the functioning of modern socio-economic systems and very important in the beginning stage of inter-firm relationships (cf. Rus and Igljč, 2005).

### ***Entrepreneurial orientations and its dimensions***

Miller and Friesen (1982) were the first to propose the term "entrepreneurial orientation" (EO) which refers to the "processes, practices, and decision-making activities that lead to new entry" (Lumpkin and Dess, 1996, 136). In the literature, EO has been proposed as a multi-dimensional construct. Miller (1983) suggested three dimensions of EO, namely: risk-taking propensity, proactiveness and innovativeness. Several studies have proposed two additional factors including competitive aggressiveness and autonomy. However, EO as a three-dimensional construct has been widely used in previous studies (e.g., Keh et al., 2007; Lisboa et al., 2016; Mason et al., 2015; Rauch et al., 2009). These three EO's dimensions are also used in this study. In addition, since each EO's dimension may vary independently and each has a different impact on the key outcome variables (cf. Chow, 2006) this study examines each EO's dimension individually.

Risk-taking propensity refers to a firm's willingness to commit significant resources to exploit business opportunities or engage in business strategies in the face of uncertainty (cf. Keh et al., 2007). Risk-taking does not

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mean taking action without considering the consequences. It is the propensity to take calculated business chances the outcome of which might be highly uncertain. The entrepreneur thus needs the ability to manage risk.

Innovativeness reflects a firms' tendency to engage in innovations and experimentation of new ideas such as introduction of a new product, new methods of production, or new processes and techniques serving existing or new markets. Finally, proactiveness refers to a firm's willingness to engage in proactive and aggressive moves, such as introducing new products or services ahead of competitors, or anticipating changes or needs in the market to actively act on them as a first-mover (cf. Keh et al., 2007).

#### ***The relationship between informal institutions and entrepreneurial orientation***

Informal institutions help to regulate the behaviors of economic actors through socially acceptable behavioral values (North, 1990, 1991; Pejovich, 1999; Dickson and Weaver, 2008). Institutions play different roles in different contexts. In the context of incomplete formal economic institutions, informal institutions play an important role for economic actors, especially in transitional economies (Peng and Heath, 1996; Pejovich, 1999; Nguyen et al., 2005; Nguyen and Rose, 2009). However, since informal institutions are often not transparent, they can only be effective for short-term development of firms, not for long-term and sustainable development (North, 1990, Nguyen et al., 2013).

Entrepreneurship has attracted much interest from scholars who have studied institutions (Busenitz et al., 2000). Past research has main-

ly focused on the relationship between institutions and entrepreneurship by studying the motivations to become entrepreneurs and the factors that motivate or hinder entrepreneurship at a national level. In addition, informal institutional factors such as corruption and institutional trust have been found to play a key role in creating an institutional context in which entrepreneurship and innovation can be reduced or flourish (e.g., Anokhin and Schulze, 2009; Ellonen et al., 2008). However, still little research attention has been given to study the relationship between institutions, especially informal institutions and EO at the firm level. Some studies suggest that the impact of informal institutions is dependent on cultural factors, but other studies confirm that the impact of informal institutions on the choice of business strategy is independent (Peng, 2002). In the context of SMEs, it has been noted that different institutional environments such as environmental uncertainty in transitional economies can promote the behavior of entrepreneurs differently (Li et al., 2008).

Some past research such as that of Roxas and Chadee (2012) has spent effort to investigate the relationships between informal institutions and firms' EO. In their study, informal institutions were measured by subnational culture. However, it has been suggested that while some informal institutions are rooted in culture, many have little to do with it (Helmke and Levitsky, 2004). Therefore, it is important to explore the relationship between the two constructs using different types of informal institutions in the context of a developing and transitioning economy such as Vietnam. This study examines the effects of two informal in-

stitutional factors – corruption and institutional trust – on a firm’s EO.

### 3. Research methodology

#### 3.1. Sample

In order to achieve the research objectives of exploring informal institutional factors (i.e. corruption and institutional trust) and the impact of informal institutions on SME’s EO, the qualitative approach was used with the main method being in-depth interviews. The interview sample included 21 enterprises all of which meet Vietnamese SME standards under the Government’s Decree number 56/2009/ND-CP dated June 30<sup>th</sup> 2009. All three types of business scale were selected, namely micro, small and medium scale. In addition, the select-

ed SMEs came from different sectors and from the three largest economic centers of the country, representing the North, Central and South regions (i.e., Hanoi/HN, Da Nang/DN and Ho Chi Minh city/HCM). All the enterprises in the sample had been in operation for at least 3 years.

For each company, a director/general director or member of the board of management (BOM) was interviewed. All the 21 interviewees had been working in the firm for years and were very knowledgeable about the firm’s operations. These entrepreneurs were our target informants because they were very likely to have high strategic influence on the firm (Keh et al., 2007). The sample characteristics are

**Table 1: Sample characteristics**

No	Location /firm	Firm type	Type of ownership	Years of operation	Field	Operating capital (bnVND)	Number of employees	Interviewee position
1	HN01	JS	Private	9	DV/TM	35	30	director
2	HN02	limited	Private	14	DV/TM	3	16	director
3	HN03	limited	Private	13	DV/TM	1	3	director
4	HN04	limited	Private	9	SX/TM	3	18	director
5	HN05	JS	SOE	9	SX/TM	22	180	general director
6	HN06	JS	Private	10	SXNN	20	50	director
7	HN07	limited	Private	15	SX/TM	5	15	director
8	HN08	limited	FDI	4	SXCN	60	120	director
9	HN09	JS	Private	3	XD	3	15	director
10	HN10	limited	Private	4	SXCN	1	6	director
11	HN11	social	Private	4	SXCN	1	20	BOM
12	DN01	JS	Private	4	DV/TM	5	70	director
13	DN02	limited	SOE	10	DV/TM	2	20	director
14	DN03	private	Private	25	SXNN	15	195	director
15	DN04	limited	Private	16	DV/TM	2	15	director
16	DN05	private	Private	21	DV/TM	1	2	director
17	HCM01	limited	Private	12	DV/TM	1	8	director
18	HCM02	JS	Private	11	XD	1	25	director
19	HCM03	limited	Private	17	DV/TM	2	10	director
20	HCM04	limited	Private	6	DV/TM	2	18	director
21	HCM05	limited	Private	15	DV/TM	3	6	director

Notes: JS: joint stock company; limited: limited company; DV/TM: service/trading; SX/TM: production/trading; SXNN: agricultural production; XD: construction.

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presented in Table 1.

### **3.2. Data collection and analysis**

Several data sources were employed in this study. In addition to the data collected from in-depth interviews, data was also collected from desk research (e.g., from brochures, websites and other publications pertaining to SMEs), and from observations performed during one of the author's visits and work with the firms.

In-depth interviews were the main source of data for analysis. The interviews with the 21 SME's entrepreneurs were conducted following the interview guidelines. The focus of the interviews was to explore the informal institutional factors and their impact on the SMEs' EO dimensions. Specifically, the informants were first asked to provide an overall picture of their firm performance over the last five years and identify the main barriers to their business operations, especially those from the institutional environment. Next, the firm's levels of proactiveness, innovativeness and risk-taking propensity (i.e. EO's three dimensions) were explored and factors influencing these EO practices were probed. During the interviews, the effects of the two informal institutional factors (i.e. corruption and institutional trust) on each EO dimension were deeply explored. Each interview lasted from 40 minutes to 60 minutes. The interviews were recorded, then transcribed into text for analysis. The main themes that emerged in each interview and across the interviews were identified and discussed by the research team.

### **4. Research findings**

This section focuses on presenting the findings pertaining to the role of informal institutions and especially the effects of institutional

trust and corruption on a firm's EO dimensions for Vietnamese SMEs. However, before doing that we briefly present the findings regarding the main institutional barriers to the operations of Vietnamese SMEs.

#### **4.1. Institutional barriers to Vietnamese SMEs**

Our informants were asked to identify the main barriers to SMEs' operations. Six institutional barriers commonly mentioned throughout the responses include corruption (i.e. unofficial costs), institutional trust (e.g., trust in state government, in state administration, and in local government), government policies and regulations (e.g., inconsistent policies, lack of concrete regulations at operational level), state-supporting systems (e.g., lack of information on markets, lack of business support services for SMEs), tax policy, and financial access (e.g., difficulty in getting bank loans and access to other sources of funding). Table 2 presents the number of responses (i.e. number of firms mentioning the barriers) regarding institutional barriers to SMEs' operations in Hanoi, Danang and Ho Chi Minh City (HCMC).

The results pertaining to formal institutional factors that are barriers to SMEs' operations are in line with the findings from previous studies in China and Vietnam (e.g., Nguyen et al., 2005; Zhu et al., 2012; VCCI, 2016): policies and regulations, supporting systems, tax policy and financial access. The FDI enterprise in the interview sample did not mention any institutional barriers while perceiving that the institutional environment was favorable. This is in line with VCCI's research findings in 2016. The informal institutional factors that emerged from the interviews were unofficial costs/cor-



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**Table 2: Interview results regarding institutional barriers***Unit: number of firms*

No	Institutional factor	Hanoi	Danang	HCMC	Total
1	Corruption/ unofficial costs	10	5	5	20
2	Institutional trust	6	1	4	11
3	Policies and regulations	9		1	10
4	Supporting systems	3		6	9
5	Tax policy	2	2	3	7
6	Financial access	3		2	5

ruption and institutional trust. The following section presents the interview findings pertaining to the role of these informal institutional factors.

#### **4.2. Informal institutions practices**

##### *Corruption*

Most enterprises in our sample stated that unofficial expenditures were used in regular business transactions (20/21 firms). An interesting finding is that the firms considered the use of unofficial costs as an unwritten rule, and these costs were already calculated costs. Some respondents noted that unofficial costs could be used as a replacement for marketing costs. The main benefits sought by firms when using unofficial costs include passing investigations of the state management agencies, effectively carrying out administrative procedures related to business operations, and gaining contracts. Our interviewees also suggested that the practice of using unofficial costs is common in all business sectors, and it may differ only in the level of popularity. This unwritten rule was considered to be most evident for firms when dealing with the clients as SOEs. These findings are in line with VCCI's Provincial Competitiveness Index Survey (PCI) report, Le (2016) and Nguyen et

al. (2016). Some examples of opinions from the interviewed firms are presented in the following.

“There are cases in which only relying on relationships may not work well. Nowadays, unofficial costs may be more powerful than relationships. In fact, in addition to making use of relationships firms still need to use unofficial costs. Unofficial costs play a crucial role in the success of a firm. I have to say that at this time it is really true.” (Director of HN02)

“...The unwritten things always exist and things that we are discussing now are things affecting firm performance, and are particularly related to... [unofficial costs]. This is not new and everyone knows that it exists alongside with exporting and importing. To import, never say you don't pay customs' officers [unofficial costs]. In short, we must pay the one who has the power to let us import goods. If we sometimes import products, the costs would be higher, but if we import regularly, the costs would be lower...From a financial aspect, to maintain the relationship [with officials] there must be costs to nurture it, no matter whether you like it or not. This can bring good conditions for your business.” (Director of HN01)

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“Generally the unofficial costs do not have much [negative] impact on our business, because everything is calculated (laugh).” (Director of HN04)

“...For example, the rules of the game include the unwritten rules – they exist obviously, but we need to choose which one is within our ability to deliver. What is not within our ability, we should not do. Of course they exist [unofficial costs], when in this country only the authorities know what they want.” (Director of DN03)

“Unofficial costs have become the rule of the game. Now in this city, it has become a rule of the game. If you want to have the contract, you need to pay. You even have to pay for ‘smoothing things’.” (Director of HCM05)

#### *Institutional trust*

Firms’ lack of trust in the institutional environment might be a significant barrier to firms’ operations. More than half of the interviewed firms expressed that they do not have much trust in the institutional environment and most of them are from Hanoi and HCMC. The following responses from the interviewees illustrate this point.

“I have the feeling that our institutions, when compared with other countries’, have not created favorable conditions for the firms which is called favorable business environment. Now there are many things [policies and regulations] overlapping and not transparent. This harms the firms’ operations.” (Director of HN07)

“Generally we can’t survive due to barriers. The government always says they would support SMEs, but I don’t really see that in practice. The barriers seem to grow bigger and

bigger. Let me tell you, tax policies are not favorable for promoting the firm’s development.” (Director of HCM01)

“I have lost my faith. SMEs must strive themselves. Firms need financial support, but getting loans in Vietnam is very risky; interest rates are high, and changes are very fast. Within the recent 5 years, the interest rate has fluctuated almost a hundred percent. For example, 5 years ago it might be as high as 18%, and now it is from 10% to 11%. That fluctuation is almost 100%. What a risk!” (Director of HCM04)

#### **4.3. The relationship between informal institutions and entrepreneurial orientation**

The results of our interviews pertaining to the relationships between informal institutions and the firms’ EO dimensions are briefly presented in Table 3. Almost all interviewees admitted the practice that their firms used unofficial costs in doing business, while a bit less than 50% of the interviewed firms expressed their trust in the institutions. With regard to the impact of corruption (i.e. unofficial costs) and institutional trust on EO’s dimensions, our findings show that in general both informal institutional factors have influences on EO’s dimensions. Specifically, two thirds (14 firms) stated that both factors or institutional trust had significant impact on the firm’s innovativeness, while only one firm mentioned that there was no impact of the informal institutional factors on their risk-taking propensity. With regard to the impact on a firm’s proactiveness, approximately 50% of the informants (10/21 interviewed firms) identified that trust has a significant driving force. In the following sections we present in more detail the interview findings regarding the impact of institutional trust and

**Table 3: Interview results regarding the effects of informal institutional factors on EO**

Name of firm	Informal Institutions		Innovativeness		Risk-taking		Proactiveness	
	Corruption*	Institutional trust**	Factor <sup>a</sup>	Level <sup>b</sup>	Factor <sup>a</sup>	Level <sup>b</sup>	Factor <sup>a</sup>	Level <sup>b</sup>
HN01	Yes	No	No	Low	Trust	High	Trust	High
HN02	Yes	Yes	Both	High	Both	High	Trust	Medium
HN03	Yes	No	No	High	Trust	Medium	No	High
HN04	Yes	Yes	Trust	High	Trust	High	Trust	High
HN05	Yes	Yes	Both	High	Both	High	No	High
HN06	Yes	No	No	Medium	Trust	Medium	No	Medium
HN07	Yes	No	Both	Low	Both	High	Trust	High
HN08	No	Yes	Trust	High	Trust	High	No	Medium
HN09	Yes	No	Both	Low	Trust	High	No	Low
HN10	Yes	No	Both	Low	Both	High	No	Low
HN11	Yes	Yes	Trust	High	Trust	High	Trust	High
DN01	Yes	Yes	No	Medium	Trust	Medium	No	Medium
DN02	Yes	Yes	Trust	High	Trust	High	Trust	High
DN03	Yes	Yes	Trust	High	Trust	High	Trust	High
DN04	Yes	Yes	Trust	High	Trust	High	Trust	High
DN05	Yes	No	No	Low	No	Weak	No	Low
HCM01	Yes	No	Both	Low	Both	Weak	No	Low
HCM02	Yes	Yes	No	High	Both	Medium	No	Medium
HCM03	Yes	No	Trust	Low	Trust	High	Trust	Medium
HCM04	Yes	No	Both	Low	Both	High	No	Medium
HCM05	Yes	No	No	Low	Both	High	Trust	High

Note: \*Yes/No: The firm uses/does not use unofficial costs

\*\*Yes/No: The firm has/does not have trust in the institution

<sup>a</sup>Both (i.e. Corruption and Trust)/Trust/No: Factors that have impact on EO

<sup>b</sup>High/Average/Low: Perceived level of each EO's dimension

corruption on the EO dimensions of the SMEs.

*Institutional trust and EO*

In general, the interviewees strongly suggested that institutional trust had positive impact on all three dimensions of EO of which the relationships between institutional trust and the firm's innovativeness and risk-taking seemed to be more salient. The following are some opinions of our interviewees regarding the effects of institutional trust on each EO's dimension.

*Institutional trust and risk-taking propensity*

Many firms in our sample expressed their concerns about the ambiguity and inconsistency of the government's policies and regulations that discourage them from making decisions to invest in business opportunities. This especially is an issue for import-export firms. We present two responses from our interviewees to illustrate this point as follows:

“The government's policies on agriculture development show some problems, of which

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there are two main concerns: first, the policy regarding agricultural land is not favorable for sustainable development of agriculture; second, the government's directions and planning regarding agricultural development are not quite clear. In addition, competition cannot be managed well leading to unfair competition... My company has been always among the top ten in this industry. However, we do not have enough confidence to launch a new factory for producing fertilizer due to the unclear policies. We are waiting for the opportunity to invest in another field." (Director of HN06)

"It's quite often the practice that the same regulation can be understood and interpreted differently by different ministries or different administrative agencies... We import things and tax policies have a strong impact on our business. We [Vietnam], unlike other countries, don't have a comprehensive system with clear and transparent product quality standards and technical specifications. Tax was imposed based on the policy interpretation, but later they [the customs office] asked for a much higher level of tax and to collect arrears from previous years. They explained that it's not a penalty but the dues were just because of misunderstanding of the regulations [in the past]. Thousands of billions of dong [VND]! It's hard for the firm to survive. So, sometimes we want to do something but... The policy risk is visible." (Director of HN01)

#### *Institutional trust and innovativeness*

There were some different opinions in our sample pertaining to the effects of institutional trust on a firm's innovativeness. It seems that the higher levels of trust in institutions were evident among SOEs and FDI firms, and

they perceived more positive impact of this on their innovation activities. In contrast, more private firms, especially in Hanoi and HCMC expressed a lack of trust and perceived more negative impact on innovation. The following presents opinions from general directors of a SOE (HN05) and a private firm (HN07).

"I myself think that at this time the government has well recognized the very important role of enterprises and the private sector in the development of the country. Therefore, there has been much support given to enterprises. From the Prime Minister to local authorities all listen to and support the enterprises that we did not see happen before. I think it is great and creates favorable conditions for enterprises to implement innovations actively for firm development." (General Director of HN05)

"...The government policies and regulations have a significant impact on the firm innovation activities because whatever you want to innovate, the innovation should be in that framework [legal framework]... There have been some policies that haven't been put into execution that have already been changed into new ones; some we haven't studied well and have not yet mastered, and they were replaced by the new ones. We know the importance of innovations in products, in technology and in processes, but how should we dare to make changes to our business?" (Director of HN07)

#### *Institutional trust and proactiveness*

Although in our interviews the impact of institutional trust on proactiveness was not emphasized as much as risk-taking and innovativeness, almost half of the firms mentioned the role of trust in the firm's activities engaging in proactive and aggressive moves in the mar-

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ket. Some expressed their concerns about the existing policies and regulations that may not provide necessary support for SMEs' development. For example, in order to be a pioneer in the market the firm needs to invest in R&D activities that often require a significant budget. However, it may be hard for SMEs to access financial sources such as bank loans. The following opinion quote illustrates that the lack of institutional trust can hinder a firm's willingness to be proactive in the market.

"...It's difficult to change [inefficient policies and regulations]. It's really weak and no one wants to be a pioneer. The more you go ahead [in the market] the faster you die. To be honest, I don't know which are the directions of development for SMEs in the future. It has been mentioned a lot about supporting SMEs but I mainly see barriers. How can we be proactive in the market?" (Director of HCM03)

#### *Unofficial costs/corruption and EO*

Many of our interviewees strongly suggested that unofficial costs had negative impact on EO, specifically on firm's innovativeness and risk-taking propensity. Firms were demotivated to engage in innovation activities and pursue high-risk business opportunities. Following are some quotes illustrating this point.

#### *Corruption and risk-taking propensity*

More than one third of our interviewees mentioned the impact of corruption on their willingness to commit to pursue promising business opportunities. Some emphasized that unofficial costs demotivated their decision to invest in promising but highly uncertain projects. Unofficial costs were perceived by some interviewees as those bearing risk. The following quotes are some examples illustrating these

points.

"Unwritten official costs are quite effective. When the risk [associated with the business opportunity] is high, we need to consider seriously these unofficial costs. Why? It's because we need to balance the unofficial costs and the level of risk. ...The unofficial costs, in fact, follow the 'rules of the market'. These costs also bear risk. Money [unofficial costs] is spent, but the possibility of success may not be certain. So, it'd be good to consider carefully before making a decision to invest in a new project, even if it's quite promising." (Director of HN07)

"Relationships [with authorities] play a very important role in doing business. We spend money to develop the relationships and we have to calculate cost-benefits. If we see it's not effective and has a low ability to succeed [for the new venture] why should we invest our money and effort in it?" (Director of HCM01).

#### *Corruption and innovativeness*

Some of our interviewees perceived the unwritten rule of paying unofficial costs in business as a significant factor that distracts the firm's attention and reduces the firm's ability and willingness to invest in innovation activities. A director of a firm with more than 10 years of operation experience said:

"There are cases in which due to that relationship costs, in order to be able to gain a contract, the firms don't get any profit. There are also times when we have to focus on short term benefits and we cannot pay attention to innovation activities...Because those kinds of costs [unofficial costs] are a must; when they are under the firm's ability to balance [ability to afford to pay and ability to gain profit] we do it [pay and pursue the opportunity], but when it

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gets too competitive and gets beyond our ability, we don't pursue that opportunity." (Director of HN02)

Based on the interview findings integrated in Table 3, several more interesting observations were drawn pertaining to the relationship between informal institutions (corruption and institutional trust) and EO as follows:

- Generally, firms with institutional trust tend to show a (perceived) high degree of all the three dimensions of EO. However the impact of institutional trust seems to be more salient to risk-taking propensity and innovativeness dimensions.

- There might be differences in institutional trust among the three regions (three cities) in Vietnam. It seems that firms in Danang have more institutional trust than firms in the other two regions.

- The practice of corruption (i.e. unofficial costs) tends to curb SMEs' innovativeness and risk-taking propensity. The impact of unofficial costs on the firm's proactiveness dimension seems to be unclear in our research sample.

## 5. Discussion

The results of this study offer some insights into the perceptions of Vietnamese SME entrepreneurs pertaining to the practice of informal institutions and how informal institutions matter to firms' risk-taking propensity, innovativeness and proactiveness. In addition to the formal institutional barriers that were previously identified, this study confirms the important effects of informal institutions on the strategic development of SMEs in the context of the developing and transitional economy of Vietnam. Specifically, the results add to our understand-

ing of how the two informal institutional factors, namely corruption and institutional trust, affect SMEs' EO dimensions.

Our qualitative findings suggest that informal institutions have significant impact on Vietnamese SMEs' EO. This is consistent with the findings from Roxas and Chadee (2012) regarding the significant role of informal institutions in EO in the Philippines. The study of Roxas and Chadee (2012), however, only focused on the impact of cultural dimensions as informal institutions. Our study sheds light on understanding the impact of the two other informal institutional factors, corruption and institutional trust, on SMEs' EO at the firm level, while many previous studies have been undertaken at the national or macro level.

The research findings suggest a significant and positive impact of institutional trust on all three EO' dimensions, especially on a firm's risk-taking propensity and innovativeness. However, the findings also indicate that the lack of trust in institutions is still a common barrier among many Vietnamese SMEs. With regard to the impact of corruption (i.e. unofficial costs) on EO, the findings seem to be less clear while the 'common rule' of paying unofficial costs in business activities is widely accepted among SMEs. While the negative effects of corruption on the firm's risk-taking propensity and innovativeness are reflected in the perceptions of a number of Vietnamese entrepreneurs, the impact of corruption on a firm's proactiveness seems to be blurred. The unclear negative role of corruption can be understood because its impact on firm behaviors may be hidden and firms may find it difficult to recognize (Nguyen et al., 2016).

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### ***Implications***

On the basis of the research findings, some policy implications are drawn with the purpose of reducing institutional barriers for SMEs and enhancing their EO. By doing that, SMEs' competitive advantage can be developed and this will contribute to the success of SMEs in the market.

First, building a comprehensive and efficient institution framework should be considered a priority by the governments in emerging economies such as Vietnam. With the development of formal institutions, they can help to reduce the barriers associated with the informal institutional factors such as corruption and they can enhance institutional trust.

In order to support firms' EO, institutional trust should be enhanced and corruption should be under control. It is necessary to spend more effort to build and promote a favorable business environment characterized by government efficiency, transparency and integrity. To reduce the negative effects of corruption on EO, the government should continue to work on the programs of reforming and simplifying administrative procedures, and reducing regulatory barriers. Also, it is crucial to accelerate the equitization process for SOEs to promote fair competition among firms.

In order to build trust in institutions among SMEs, it may be useful to organize various forums, both offline and online, where SME entrepreneurs are encouraged to share opinions

and feedback to contribute to the government's policy and regulation development. Since the negative effects of corruption on a firm's proactiveness, innovativeness and risk-taking propensity seem to be hidden, it is necessary to provide education and training programs for SME entrepreneurs, and potential ones, about this topic and about the important role of EO in firms' performance and sustainable development. Communication programs can also be used to enhance SMEs' knowledge of the effects of the informal institutional factors on their entrepreneurial activities.

### ***Limitations and future research directions***

This study employs a qualitative approach to explore the impact of two informal institutional factors (corruption and institutional trust) on Vietnamese SMEs' EO. The findings drawn from a small interview sample are exploratory by nature and may be difficult to generalize for the population of Vietnamese SMEs. Future research can develop and test a research model using quantitative method to measure the effects of the informal institutions on EO's dimensions. In addition, the future research model can integrate some formal institutional factors and some other types of informal institutions. It may also be interesting to examine the possible moderating effects of institutions on the link between EO and firm performance.

### **Note:**

1. Corresponding author.
2. The real names of the SMEs in the research sample were disguised.

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