
RESEARCH

The Contribution of Owners' Human and Social Capital to Firm Performance in Vietnamese Small and Medium Enterprises

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Abstract

Small and medium enterprises (SMEs) have held an increasingly important position in Vietnam's economy, contributing significantly to the economic growth of the country. Despite that vital role, research on this subject is very limited, scarce in quantity, and questionable in quality, particularly on owners' human and social capital as a significant input for SME performance. Therefore, this article aims at testing the relationship between owners' human and social capital resources and firms' financial performance, using the survey of 2,739 SMEs in Vietnam in 2004 conducted by Vietnam's Institute of Labor Studies and Social Affairs (ILSSA) and The Faculty of Economics - Copenhagen University. The study then shows some significant results and opens future research directions.

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1. Introduction

"What determines SME performance?" This question is not new. In fact, it has been one of the central topics of interest in SME research for many years. There are different streams in the literature to explain the performance of SMEs, for instance, the resource-based view (RBV) and social capital theory. Across the streams in the literature, the capability of business owners in terms of human and social capital is recognized to be a critical part of the survival, success, and failure of SMEs. However, while there is clear evidence on the impact of owners' human and

social capital on SME performance [1]), inadequate attention has been paid to explain this impact in developing countries and transition economies.

As a developing country in Southeast Asia, Vietnam has had an open economy since 1986 after the reform of the Communist Party which allowed the establishment of private sectors and enabled the privatization process of the state-owned sectors. Since then, SMEs in Vietnam have been increasingly demonstrating their role in the economic development of the country. The Government of Vietnam declares that, "in our country, SMEs hold an increasingly important position, contributing significantly to the economic growth of the country with an annual contribution of more than 40 per cent to GDP, creating 50 per cent of new jobs, 78 per

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cent of retail and 33 per cent industrial output value” [2]. However, research on owners’ human and social capital as a significant input for SME performance in Vietnam is very limited, scarce in quantity and questionable in quality. These research fail to recognize the impact of both human and social capital of SME owners, and to provide valuable implications and guidelines for practitioners as to what knowledge and connections should the owners attain in order to be successful. Given the lack of research in this area, this study aims to incorporate an RBV approach and social capital theory approach to answer the question: “Does the human and social capital of SME owners contribute to firm financial performance in Vietnam?” This study serves as a literature review and then opens directions for further researches to contribute to the limited literature of small business and entrepreneurship in transition economies, particularly Vietnam.

The central thesis of this study is that the human and social capital of SME owners will significantly affect firm profitability. The design of this study is quantitative in nature. Using the survey of 2,739 SMEs in Vietnam in 2004 conducted by Vietnam’s Institute of Labor Studies and Social Affairs (ILSSA) and The Faculty of Economics - Copenhagen University, this study applies regression analysis with the OLS technique to test whether a causal relationship exists between human and social capital of SME owners and firm performance in Vietnam.

2. Literature review

2.1. Resource-based capability of SME owners and firm performance

The RBV approach focuses on the role of certain firm resources as a source for sustained competitive advantage of the company, which is an advantage to achieve superior performance. Barney (1991) specifically

mentioned that the management team, which belongs to human capital resources, is a critical component to generate competitive advantage through their capability of hiring talented employees and exploiting opportunities for the company [3]. Thus, it is expected that the capabilities of owners in SMEs is critical for the survival and growth of SMEs, as it is them who mostly take responsibility for management, select the right employees with certain skills and qualifications, and identify opportunities for their companies (Ganotakis and Love, 2012 [4]).

Theoretical measurement of SME owners’ capability can be found in the work of Becker (1964) on human capital theory, which values the knowledge, skills and expertise of an individual, and posits that human capital can bring benefits to an individual, to his group, and to the organization that he is in [5]. While originally the theory generally applied to employees, it is natural to link it to the case of business owners of SMEs. SME owners/entrepreneurs with higher human capital are expected to place a higher impact on their firm performance than owners with lower human capital [6].

According to human capital theory, the capability of SME owners can be divided into general human capital and specific human capital. Specific human capital refers to the specific skills and knowledge attained through a certain position or job. It is less transferable across business settings, hard to duplicate, and has a limited range of applicability. In the case of SME owners, specific human capital is often linked to “entrepreneurial human capital” - the experience of being an entrepreneur that he or she can apply directly as a business owner and a self-employed individual [4]. The human capital of business owners plays an important part in reducing the likelihood of failure, securing firm survival, increasing firm longevity, and shortening the time to open a new business. In the case of choosing exiting strategies, owners with industry experience often choose a merge and acquisition strategy

rather than a closure strategy. As to the core performance of the company, owners with a high education level and strong experience in management, operation, entrepreneurship, and industry can indeed help their firms to achieve superior financial performance, high growth rates and high profitability [7].

While the human capital of business owners proves its importance to firm performance throughout the literature, it is expected that this impact will maintain its significance in the context of transition economies. In Vietnam, the economy was dominated by large state-owned firms for a long period of time. Private sectors were barely existent. The environment for entrepreneurship in Vietnam is not favourable as the World Bank ranked it 104 out of 175 countries on the ease of doing business scale [8], and Transparency International ranked it 111 out of 163 countries on the Corruption Perceptions Index in 2006 [9]. Additionally, the Government makes it expensive and time-consuming (nearly 6 months) for entrepreneurs to obtain business licenses. Under this unfavourable business environment, the success or failure of a transition economy in general and its private sectors in particular, heavily relies on the talents and performance of the entrepreneurs themselves.

From the argument above, it is hypothesized that the human capital of SME owners, indicated by education, age, experience, and entrepreneurship human capital, is a significant input for firm performance.

2.2. Social capital of SME owners and firm performance

Social capital theory focuses on the knowledge, information, and resources gained through social networks. Such knowledge, information, and resources from external networks can help business owners to identify opportunities and gain external resources, information, and advice. Unlike human capital, which lies in an individual mind, social capital only appears in the condition of a connection between individuals, groups, or organizations [10].

Playing in dynamic sectors of the economy, SME owners and entrepreneurs rely heavily on networks for multiple resources, information, opportunities and problem-solving [11]. The importance of social networks to entrepreneurs can be summarized in two main benefits. First, social networks help entrepreneurs to identify and exploit business opportunities. Those opportunities, in fact, often run through certain social networks. Thus, it is critical that entrepreneurs should be a part of such social networks to get access to valuable information and opportunities. Second, social networks help entrepreneurs to build up their new organizations by providing access for them to acquire three critical elements: tacit knowledge, financial capital, and human capital [12].

Although considered as one of the significant factors to explain firm performance, Hoang and Antoncic (2003), in their review of social capital research in entrepreneurship, found that there have been only about 70 research papers published on this topic within the last 15 years [13]. Despite the limited literature, extant studies provide supported evidence that social capital is magnified in its contribution to firm performance of SMEs. Entrepreneurs can recognize business opportunities in their industries given that they can establish a range of network contacts within such industries [12]. Linkages to venture capital companies and financial companies can predict the performance of start-up companies according to the findings of Lee, Lee, and Pennings (2001) [14]. Beside strong ties within the industry, weak network ties - which are unfamiliar contacts outside the industry - can also generate higher opportunities for SME owners, while the diversity of social networks can bring a positive effect on the firm performance of start-up firms [15].

In transition economies, especially Vietnam, economic transactions are operated by well-accepted social practices rather than a formal legislation system. They are embedded in social relations, which are built up by trust, information and problem-solving arrangements. Thus, the benefits of social networks are very significant for business owners. The key to overcome the unfavourable environment and the lack of institutional support for entrepreneurs in Vietnam is the creation of relationships and cooperation with their specific partners. Vietnamese SME owners are very conscious of maintaining and building up their social networks in order to succeed. Tuang and Stringer (2008) found that because social networks in Vietnam are rich and trustworthy, they allow the diffusion of information, which in turn enables SME owners to make correct decisions [16]. These networks include within industry networks, outside industry networks, and also networks with banks.

From the argument above, it is hypothesized that the social capital of SME owners, including in-line business contacts, out-line business contacts, and bank contacts, will significantly affect firm performance.

Figure 1 shows the conceptual model of this study. The literature suggests that the human capital and social capital of SME owners can significantly predict firm performance. Human capital is divided into 2 types: general human capital and entrepreneurial human capital, while social capital is measured by the sizes of different types of external networks.

3. Methodology

3.1. Measurement

Table 1 shows the list of variables used in this study and their detailed description. The time period chosen for this study is from 2004 to 2006, before the global financial crisis, in order to avoid the noise effects that might significantly affect firm financial performance rather than the variables in this model. Data of human and social capital of SME owners were collected at for 2004 while data about firm financial performance were collected for a period of three years after the former to create a time lag between independent variables and dependent variables.

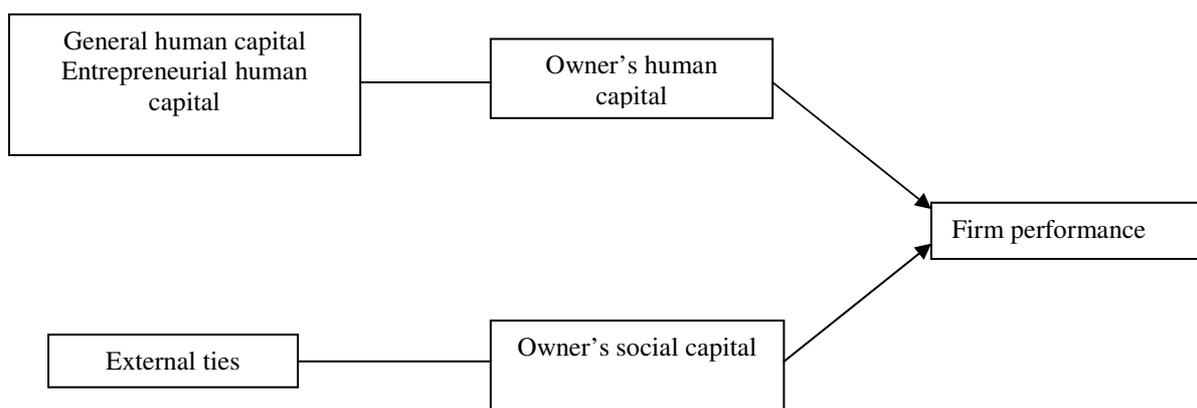


Figure 1: Research model.

Table 1: List of variables

Variables	Description
AverageROA	Average return on Asset 2004-2006
Age	Owner's age till 2004
GenEdu	Have general education (from primary to high school)
ProfEdu	Have professional education (from vocational to post graduate)
WorkExp	Prior working experience
Spinoff	Prior experience with similar products/service
StartupExp	Own other enterprises before establishing current company
SelfemployedExp	Self-employed experience (previously work as a self-employed individual)
MgmtExp	Managerial experience (previously work in manager positions)
ComMem	Member of Communist Party
Sameline	Number of connections with business people in the same line of business in 2004
Diffline	Number of connections with business people in different lines of business in 2004
Bankties	Number of connections with bank officials in 2004
Firmsize	Natural log of total employees in year-end 2004
Industry	21 industry sectors
Location	10 cities and provinces
Gender	Gender of owner

(Among them: *Dependent variable*: AverageROA; *Independent variables*: Human capital indicators: Age, GenEdu, ProfEdu, WorkExp, Spinoff, StartupExp, SelfemployedExp, MgmtExp; Social capital indicators: ComMem, Sameline, Diffline, Bankties; *Control variables*: Firmsize, Industry, Location, Gender)

3.2. Data collection

The data of this research is taken from the survey of small and medium non-state manufacturing enterprises in Vietnam, conducted in 2004 and 2006. The survey has been carried out every two years by ILSSA in collaboration with the Faculty of Economics of the University of Copenhagen. According to the Vietnamese Government's Decree No. 90/2001/CP-ND on "Supporting the Development of Small and Medium Enterprises", *SMEs are defined as enterprises that have up to 10 employees for micro-scale, up to 50 employees for small-scale, and up to 300 employees for medium-scale*. SMEs in Vietnam can fall into different types of

ownership, including household enterprise (family ownership), private enterprise (individual ownership), partnership, limited liability enterprise, or joint-stock company without state capital [17].

Based on the original survey, Table 2 and Figure 2 show the distribution of the final sample used in this study across cities and ownership types. To create a 2 year-time lag between independent variables (SME owners' human and social capital indicators) and the dependent variable (firm financial performance), only the firms who participated in both surveys in 2004 and 2006 were picked. Because the purpose of this study is to focus on SME owners, those firms whose respondents were managers were excluded. Following Rand

and Tarp (2007), who worked with the original database of the survey, values lower than the 1st and higher than the 99th percentiles of continuous variables (ROA, firm size, sameline, diffline, bankties), were also excluded to prevent the potential problem of outliers [18]. The final sample size of this study is 1,861 companies. Ho Chi Minh City remains the location with the largest number of SMEs (18.54 per cent) followed by Nghe An (17.43 per cent) and Ha Tay (16.77 per cent). The dominant type of ownership is household enterprise, which accounts for 75.98 per cent of the total sample size; while partnership, collective and joint-stock without state capital are the least representative, accounting for 3.86 per cent of the total sample collectively.

3.3. Data analysis

This study aims to test whether a causal relationship exists between independent variables - the human and social capital of SME owners, and the dependent variable (firm performance). Hence, multiple ordinary least squares (OLS) regression analysis is employed in this study using SPSS software. Mathematically, the regression equation is expressed as below:

$$\begin{aligned} \text{Average ROA} = & B_0 + B_1\text{Age} + B_2\text{DGenEdu} + B_3\text{DProfEdu} + B_4\text{DWorkExp} + \\ & B_5\text{DSelfemployedExp} + B_6\text{DStartupExp} + B_7\text{DSpinoffExp} + B_8\text{DMgmtExp} + B_9\text{DComMem} + \\ & B_{10}\text{Sameline} + B_{11}\text{Diffline} + B_{12}\text{Bankties} + B_{13}\text{Firmsize} + B_{14}\text{DGender} + B_{15}\text{DIndustry2} \\ & + \dots + B_{34}\text{DIndustry21} + B_{35}\text{DCity2} + \dots + B_{43}\text{DCity10} + u \end{aligned}$$

There are 43 independent variables in this regression model, indicating SME owners' human capital and social capital and other control variables. B_0 is the intercept term; B_1, B_2, \dots, B_{43} are partial regression coefficients; u is the error term.

Table 3 shows the correlation matrix for all variables. Results show that there is no strong linear relationship among independent variables

(correlation coefficient < 0.7). Thus, it can be said that the independent variables are not correlated with each other.

Dealing with the error term, the histogram in figure 3 shows that the residuals (error terms) follow a normal distribution with the mean value almost equal to zero and a standard deviation of 0.27.

Table 4 shows the frequency of categorical variables in the model. Male owners are dominant in the sample. Out of 1,861 respondents, only 27.1 per cent are female. The frequency distribution suggests that while most SME owners have general human capital (education and work experience: 96.6 per cent and 96.3 per cent respectively), they still lack some specific entrepreneurial human capital. Only 5.3 per cent of owners have ownership experience, 9.7 per cent of owners have managerial experience, and 29.7 per cent of them had self-employment experience before establishing their current companies. Only 9.7 per cent of owners are members of the Communist Party.

Table 5 shows the descriptive statistics for all variables. The mean value of Age is 45.46 years suggesting that on average, SME owners are quite mature. SME owners manage to have on average 12 contacts within their business line and 10 contacts outside their business lines. On average, they do not have contacts with banks as the mean value of bankties is 0.64. Most SMEs are fairly small with the average size about 11 employees.

Table 6 shows the goodness of fit of the regression model. R^2 of this regression model is 0.153, indicating that 15.3 per cent variance of average ROA can be explained by the indicators of SME owners' human capital and social capital, and other control variables in this model. This is not unexpected because owner characteristics are among many factors that can predict average ROA.

Table 2: Final sample size of this study

	Household enterprise	Private/Sole proprietorship	Partnership/ Collective/ Cooperative	Limited liability company	Joint stock w/o state capital	Total
Hai Phong	77	21	15	20	1	134
Ha Noi	80	18	9	44	7	158
Ha Tay	280	7	4	26	2	319
Khanh Hoa	46	9	1	5	2	63
Lam Dong	55	6	1	4	0	66
Long An	88	11	0	1	0	100
Nghe An	241	36	9	23	3	312
Phu Tho	203	4	3	4	3	217
Quang Nam	130	9	2	5	1	147
Ho Chi Minh	214	56	8	66	1	345
Total	1,414	177	52	198	20	1,861

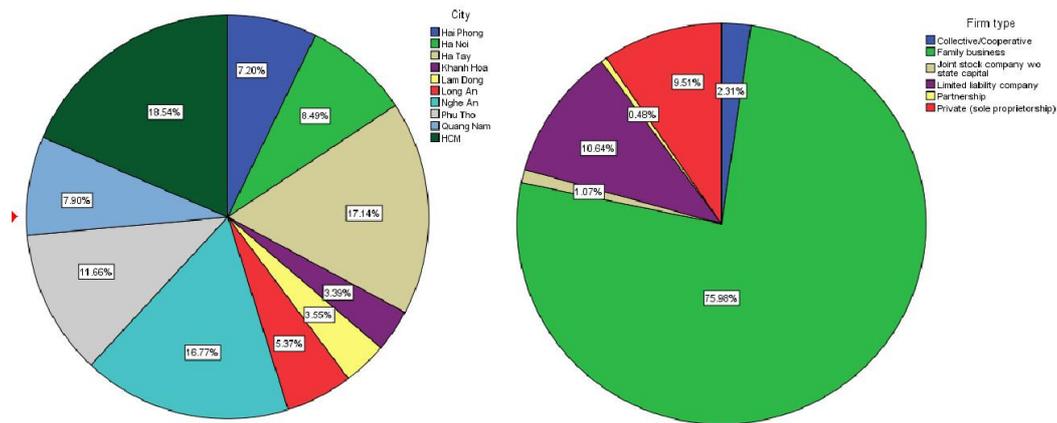


Figure 2: Distribution of SMEs based on cities and ownership types.

Table 3: Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 AverageROA	1.00														
2 Age	-0.11	1.00													
3 hvgenedu	0.02	-0.18	1.00												
4 haveprofedu	-0.15	0.03	0.12	1.00											
5 Genworkexp	0.03	0.12	0.06	0.06	1.00										
6 Selfemployedexp	-0.03	-0.02	-0.04	-0.17	0.07	1.00									
7 Startupexp	-0.01	0.06	0.00	0.04	0.05	0.18	1.00								
8 Spinoff	0.00	0.00	0.01	0.02	0.20	0.05	0.02	1.00							
9 Mgmtexp	-0.06	0.10	0.06	0.15	0.06	-0.09	0.10	-0.06	1.00						
10 Commember	-0.05	0.25	0.06	0.10	0.06	-0.09	0.00	-0.04	0.22	1.00					
11 Sameline	-0.17	0.03	0.02	0.09	-0.04	0.00	0.02	0.00	0.14	0.05	1.00				
12 Diffline	0.01	0.01	0.03	0.07	0.09	-0.08	0.03	-0.08	0.06	0.08	-0.11	1.00			
13 Bankties	-0.11	0.00	0.06	0.13	0.04	-0.01	0.08	-0.02	0.08	0.08	0.13	0.23	1.00		
14 Firmsize	-0.18	0.06	0.05	0.16	0.00	-0.02	0.09	-0.04	0.19	0.11	0.20	0.03	0.27	1.00	
15 Gender	0.03	-0.05	-0.08	-0.19	-0.09	0.11	0.00	-0.10	0.01	-0.08	0.00	-0.05	-0.01	-0.01	1.00

N = 1,861

Dummy variables for Location and Industry are omitted from the result table

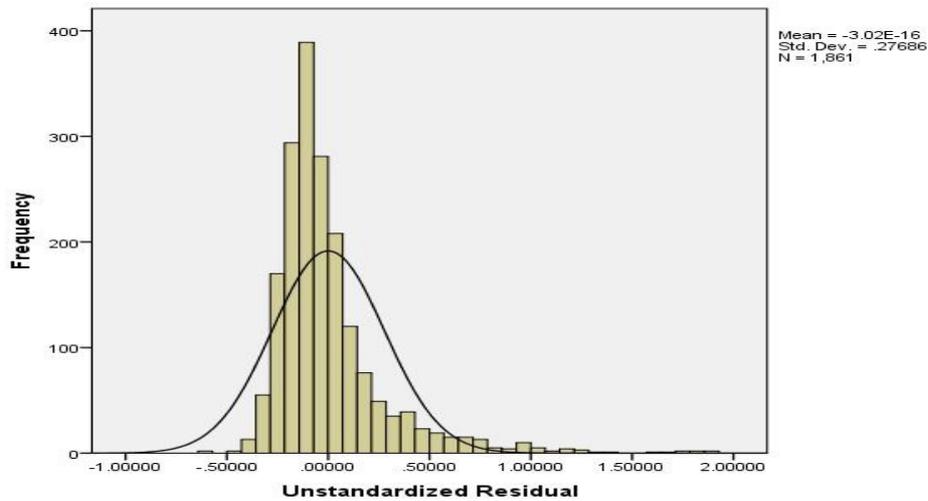


Figure 3: Normality distribution of residual.

Table 4: Frequency distribution of categorical variables

	Statistics						
	N		Median	Frequency		Percent	
	Valid	Missing		0	1	0	1
Gender	1861	0	0	1356	505	72.9	27.1
hvgenedu	1861	0	1	64	1797	3.4	96.6
haveprofedu	1861	0	1	692	1169	37.2	62.8
Genworkexp	1861	0	1	69	1792	3.7	96.3
Spinoff	1861	0	1	615	1246	33	67
Startup exp	1861	0	0	1763	98	94.7	5.3
Selfemployedexp	1861	0	0	1308	553	70.3	29.7
Mgmtexp	1861	0	0	1681	180	90.3	9.7
Com member	1861	0	0	1689	172	90.8	9.2

Table 5: Descriptive statistics of all variables

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
AverageROA	1861	-.01	2.16	.2587	.30078
Age	1861	20	88	45.46	9.950
Sameline	1861	0	100	11.94	12.118
Diffline	1861	0	55	10.29	10.824
Bankties	1861	0	10	.64	1.213
Firm size	1861	1	150	11.75	17.978
haveprofedu	1861	0	1	.63	.483
hvgenedu	1861	0	1	.97	.182
Genworkexp	1861	0	1	.96	.189
Selfemployedexp	1861	0	1	.30	.457
Mgmtexp	1861	0	1	.10	.296
Spinoff	1861	0	1	.67	.471
Startup exp	1861	0	1	.05	.223
Com member	1861	0	1	.09	.290
Gender	1861	0	1	.27	.445
Valid N (listwise)	1861				

Table 6: Goodness of fit of the regression model.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.391 ^a	.153	.133	.28011	.153	7.620	43	1817	.000

a. Predictors: (Constant), Age, Bankties, Industry14, Industry17, Industry21, Industry13, Industry8, Industry3, Industry15, Industry16, Industry18, Industry9, Industry4, Industry2, Industry10, Selfemployedexp, Industry7, Industry19, Spinoff, City7, City6, Industry11, Industry6, Gender, Mgmtexp, City10, City8, hvgenedu, City3, Industry5, Sameline, Startup exp, Genworkexp, haveprofedu, Com member, Industry20, Diffline, City5, Firm size, City2, Industry12, City4, City9

b. Dependent Variable: AverageROA

4. Hypothesis testing

4.1. Test of the overall significance of the multivariate regression model

The first hypothesis set tests the overall significance of the estimated regression to see overall, whether or not all independent variables are not insignificant to the dependent variable.

$$H_0: B_1 = B_2 = \dots B_{43} = 0$$

$$H_1: \text{any } B_i \neq 0$$

Analysis of variance technique is used to conduct this test. Table 7 shows the analysis of variance result. The computed F value is 7.62 for 43 degree of freedom in the numerator and 1817 degree of freedom in the denominator. From the F-distribution table, the critical F-value with given degrees of freedom is 1.59. Because the computed F-value is > the critical F-value in the distribution table, the null hypothesis that all explanatory variables have no effect on average ROA is rejected.

Alternatively, the p value of 0.000 in the table indicates that the probability of getting an F-value of 7.620 or higher for given degrees of freedom is almost equal to zero at a 0.05 level of confidence. Again, the null hypothesis is rejected. It can be concluded that *collectively*, all independent variables are statistically not insignificant to average ROA.

4.2. Test of individual significance

The F-test does not show us *individually* how significant each independent variable is to average ROA. Thus, the 2 tailed test for each individual variable is conducted to see whether each of them has any significant influence to average ROA. Mathematically, it can be expressed as follows:

$$H_0: B_i = 0$$

$$H_1: B_i \neq 0$$

Table 7: F-test result

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.709	43	.598	7.620	.000 ^b
	Residual	142.567	1817	.078		
	Total	168.276	1860			

a. Dependent Variable: AverageROA

b. Predictors: (Constant), Age, Bankties, Industry14, Industry17, Industry21, Industry13, Industry8, Industry3, Industry15, Industry16, Industry18, Industry9, Industry4, Industry2, Industry10, Selfemployedexp, Industry7, Industry19, Spinoff, City7, City6, Industry11, Industry6, Gender, Mgmtexp, City10, City8, hvgenedu, City3, Industry5, Sameline, Startup exp, Genworkexp, haveprofedu, Com member, Industry20, Diffline, City5, Firm size, City2, Industry12, City4, City9

Table 8: T-test result

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
3 (Constant)	0.31824***	0.07005		4.54307	0.000	0.18086	0.45563
Firm size	-0.00143***	0.00042	-0.08538	-3.39413	0.000	-0.00225	-0.00060
Gender	0.00194	0.01580	0.00287	0.12288	0.902	-0.02904	0.03292
Age	-0.00240***	0.00071	-0.07936	-3.37871	0.000	-0.00379	-0.00101
hvgenedu	0.02962	0.03748	0.01795	0.79007	0.429	-0.04390	0.10313
haveprofedu	-0.05295***	0.01484	-0.08510	-3.56838	0.000	-0.08205	-0.02385
Workexp	0.07271**	0.03680	0.04569	1.97578	0.048	0.00053	0.14489
Selfemployedexp	-0.02748*	0.01525	-0.04176	-1.80185	0.071	-0.05738	0.00243
Startup exp	0.02547	0.03089	0.01892	0.82470	0.409	-0.03511	0.08605
Spinoff	0.00296	0.01472	0.00463	0.20101	0.840	-0.02592	0.03184
Mgmtexp	-0.01111	0.02393	-0.01092	-0.46449	0.642	-0.05804	0.03581
Com member	-0.02049	0.02443	-0.01973	-0.83857	0.401	-0.06841	0.02743
Sameline	-0.00230***	0.00059	-0.09272	-3.88885	0.000	-0.00346	-0.00114
Diffline	0.00041	0.00076	0.01471	0.53855	0.590	-0.00108	0.00190
Bankties	-0.01364**	0.00602	-0.05498	-2.26671	0.023	-0.02543	-0.00184

a. Dependent Variable: AverageROA

*** p<0.01, ** p<0.05, * p<0.1

Location and industry dummies are omitted from the result table

The T-test is used to conduct this hypothesis testing. The T-test result in Table 8 shows that firm size, age, professional education, work experience, self-employed experience, same business line contacts, and bank ties are significant to average ROA. Small p-values of those variables in comparison with a 1 per cent, 5 per cent and 10 per cent level of confidence indicate that at a 1 per cent level of confidence, the null hypothesis that firm size, age, professional education, or same business line contacts is insignificant to average ROA is rejected. At a 5 per cent level of confidence, the null hypothesis that work experience or bank ties is insignificant to the average ROA is rejected. At a 10 per cent level of confidence, the null hypothesis that self-employed experience is insignificant to average ROA is rejected. Because p-values of the rest of the variables are greater than the chosen confident levels of 1 per cent, 5 per cent, or 10 per cent, the null hypotheses that their coefficients are significantly different from zero cannot be rejected. The coefficient column states that

among those variables that have significant influence on average ROA, only work experience increases the average ROA, while the rest negatively affect the average ROA.

5. Discussion and conclusion

This paper studies the influence of SME owners' human capital and social capital on firm financial performance in Vietnam. The results from the hypothesis testing reveal that age, professional education, self-employment experience, work experience, same business line contacts, and ties with banks significantly predict the average ROA of SMEs. Among those indicators of human capital, work experience is the most significant predictor of SME performance. This research found that owners who have prior work experience will increase the average ROA by 0.07. It adds in to the literature on human capital that human capital, particularly entrepreneurial human capital and industry experience, help small business owners to identify business opportunities, and build up their confidence to step in to venture emergence (Dimov, 2010 [19]). Having business experience helps

entrepreneurs improve the productivities of start-up firms in Japan (Harada, 2003 [20]). The human capital of business owners plays an important part in reducing the likelihood of failure, securing firm survival, increasing firm longevity, and shortening the time to open a new business. In the case of choosing exiting strategies, owners with industry experience often choose a merge and acquisition strategy rather than a closure strategy [21]. Surprisingly, other significant predictors, including the owner's age, professional education, and self-employment experience, hurt the performance of SMEs instead. In the case of age, it can be explained that older owners might hesitate to take risks and introduce innovation to their firms because of being familiar with the status quo of the company. Thus, this would prevent the company from earning a superior performance due to the lack of innovation and strategic changes for their firms to succeed [22]. A possible explanation related to the case of professional education and self-employment experience is that this prior knowledge and experience of owners can be a "double-edge sword" for their firm's financial performance. Owners with a high level of professional education and prior experience in self-employment might be overconfident and perceive that they have all the information, experience, and knowledge needed to be successful. This overconfident attitude might prevent them from putting more effort into seeking external resources and information for their firms. Thus, high professional education and self-employment experience of owners might hurt the financial performance of their firms [23].

Two indicators of SME owners' social capital - same business line contacts and ties with banks - are found to negatively affect financial performance, which is again, unexpected. One possible explanation is that maintaining connections with their peers in the same business line over time might cause competition constraints; prevent companies from achieving sustainable competitive advantages; and reduce the seeking of resources outside their industries by SME owners [24]. As a result, connections within the same

business line can harm the performance of SME firms. For the case of bank ties, it might be the case that having connections with banks is a signal that the company is short of financial capital and is going through financial difficulties. There is a need for deeper research to fully investigate this phenomenon, which is out of the scope of this study.

This study is not without limitations. First, there might be a bias in the selection of 10 cities in Vietnam in the original survey. There might be a city that has unique institutional characteristics and is different from the 10 cities selected in the survey. As a result, this would affect the general reliability of this study. Moreover, the time period of the study is from 2004-2006, which is 9 to 10 years ago. Some companies have closed down since then and the economic conditions have changed along with the advent of the global financial crisis. Thus, the findings of this study might not stay true in the present time. Second, the low value of Adjusted R^2 of the regression model might be caused by the lack of some variables of the research model, or other various factors which can affect a company's performance that this research has not counted. To improve this, future research should include some retained internal factors such as employee, production, innovation as well as external environment like country or regional factors or institutional factors, to increase the model's fitness. Third, the main variables used in this study are only proxies of human capital and social capital. They do not actually measure the actual knowledge that the owner has, or the actual flows of resources and information that the owner earns from his social connections. Hence, it might be the case that the variables in this study might not truly capture the whole nature of human and social capital. Take education as an example. The average age of the SME owners is around 45, which suggests that their education period was mainly in the 80s and 90s. In Vietnam, the education system back then was heavily reliant on theory with an absence of practice. Knowledge learnt from school was impractical for reality. This severe problem of the education system in Vietnam

can be found in a similar argument of Bennis and O'Toole (2005) in their paper "How business schools lost their way" [25]. According to them, business schools are losing their direction because their education is not related to what society needs; the educational model puts too much weight on theory and overlooks the enormous role of practice; and lecturers lack practical experience. These inadequacies of the education system in Vietnam have made it perhaps an inaccurate indicator of human capital. Future study should find a better measurement of human and social capital in order to get more accurate results.

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