6. Sub-national market-supporting institutions and export behaviors

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INTRODUCTION

The business environment of emerging and transition economies (EE&TE) is highly volatile and unpredictable, mainly because they lack strong formal market-supporting institutions, especially in their early phase of transition (McMillan, 1995; Peng, 2003). In this context, certain authors argue that a firm's strategy can be better explained and predicted by the institution-based view, followed by the industry-based view and the resource-based view (Hoskisson et al., 2000; Peng et al., 2008; Wright et al., 2005). Despite the fact that institutional conditions vary not only between countries but also within a country and between industries (Gao et al., 2010; Wright et al., 2005), prior studies often focus on national institutions and neglect the sub-national institutional level (Meyer and Nguyen, 2005). However, these lower institutional levels play an important role because they regulate firms' day-to-day activities (Luo and Junkunc, 2008). The current study aims to fill this gap by investigating the impact of the market-supporting institutions at the sub-national level on the export behaviors (i.e. export propensity, export mode choice, and export intensity) of firms in the context of an emerging economy in Southeast Asia, namely Vietnam (Arnold and Quelch, 1998; Ellis, 2010). By doing this, we also enlarge the scope of investigation of export studies beyond the usually studied emerging economies such as China, Brazil, Russia or other countries in Central and Eastern Europe (Aulakh et al., 2000; Gao et al., 2010; Shinkle and Kriauciunas, 2010).

EE&TE AND MARKET-SUPPORTING INSTITUTIONS

The market-supporting institutions can be defined as "the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution" (Davis and North, 1971: 6), and that bases on and guarantees (supports) the principles of market mechanism and, more generally, economic freedom (Miller and Holmes, 2011). Emerging economies, including transition economies, are defined as economies that have "a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of a free-market system" (Hoskisson et al., 2000: 63; see also Peng, 2003). Because of their transitional nature, EE&TEs often lack strong formal market-supporting institutions, which makes their business environment of EE&TE extremely volatile and unpredictable (Peng and Heath, 1996). In this context, informal market-supporting institutions play a very important role, and firms often rely on relationship-based strategies rather than resources-based or capabilities-based ones in order to gain an advantage (Peng and Heath, 1996; Peng et al., 2009).

The market-supporting institutions, both formal and informal, can have different types of impact on firms' behavior: they can be either facilitating/enabling or troubling/constraining forces of entrepreneurial behavior (Hoskisson et al., 2000; Welter and Smallbone, 2011), and their degree of impact varies between types of firms because each type—i.e. incumbent, entrepreneurial start-ups and foreign entrants—faces different degrees of institutional pressure (Peng, 2003). In developed economies, the impact of market-supporting institutions is almost invisible because the markets work smoothly; by contrast, in EE&TE, this impact is more conspicuous when the markets work poorly (McMillan, 2007).

HETEROGENEITY OF MARKET-SUPPORTING INSTITUTIONS AT SUB-NATIONAL LEVEL IN VIETNAM

Vietnam's transition from a centrally planned to a market-based economy formally started in 1986. The market-based legal framework has been incrementally built and improved for investment (Investment Law), business creation and doing business (Law of Enterprise, Law of Commerce, Competition Law, E-commerce Law, Bankruptcy Law, and Law of Audit) and property rights (Land Law, Law of Intellectual Rights). In addition, the international integration process of Vietnam became more and more intensive: in 1995, the country joined the Association of Southeast Asian Nations (ASEAN), and then Asia-Pacific Economic Cooperation (APEC) in 1998. The USA–Vietnam bilateral trade agreement (BTA) became effective in 2002, and in 2007 Vietnam officially became a member of the World Trade Organization (WTO).

Vietnam is politically homogeneous because its policy is based on a single-party regime. However, that does not mean that institutions in general and market-supporting institutions in particular are homogeneous within the country. Meyer and Nguyen (2005) argue that the heterogeneity of market-supporting institutions at the provincial level in Vietnam can be an effect of decentralizing the legal framework by giving more authority to provincial officials. For instance, the Investment Law (1996, 2005) gives provincial governments the right/responsibility to approve certain levels of foreign direct investment (FDI) projects (e.g., by capital size). On the other hand, central laws and regulations are not always clearly defined, and can thus be heterogeneously interpreted and implemented by local governments (Meyer and Nguyen, 2005). Nguyen et al. (2004) assert that southern provinces (Ho Chi Minh City and its provincial periphery) always achieved a higher economic growth rate than northern provinces (Ha Noi and its provincial periphery) because the informal market-supporting institutions (e.g., the attitude of local authorities toward the private sector and the autonomy of business associations) are more favorable in the former than in the latter. From a political science perspective, Malesky et al. (2011) argue that, contrary to China—which also has a single-party regime, but where the central authorities have total power—Vietnamese local leaders play an important role in the political selection processes of the country's Communist Party, and the Central Committee accepts local autonomy to a certain extent. In other words, the heterogeneity of the market-supporting institutions in Vietnam could also be an effect of political framework (Acemoglu et al., 2005).

SUB-NATIONAL MARKET-SUPPORTING INSTITUTIONS AND EXPORT BEHAVIORS

Exporting is the common internationalization strategy of firms, especially small- and medium-size enterprises (SMEs) and firms that come from EE&TE, because, compared to other internationalization strategies, it involves "fewer resources, lower risk, and less costs" (Leonidou et al., 2010: 78). In their study of 9,123 firms in 72 emerging economies, Luo and Junkunc (2008) focus on the negative impact of market-supporting institutions (i.e., the problem of bureaucracy that is ubiquitous in these economies) and find that firms could have two generic strategic responses: (i) a reactive strategy (engagement) in which entrepreneurs attempt to satisfy prevailing rules and regulations; and (ii) a proactive strategy (influence) in which entrepreneurs try to shape the rules and regulations. They also stress that the relationship between bureaucracy and firms' strategic responses is moderated by firms' entrepreneurial type, governance and location. In the context of China, Gao et al. (2010) focus on the positive impact of market-supporting institutions, and find that the development of free-market mechanisms and of intermediate institutions significantly and positively influences firms' export behaviors (i.e., export propensity and export intensity). However, they also find that this positive impact is not moderated by the firm's ownership, i.e., domestic private enterprises and foreign wholly owned subsidiaries. In their study on the interaction between provincial institutions and export strategy (export intensity) of Vietnamese firms, Nguyen et al. (2013) find that a province's state-owned enterprise (SOE) bias is significantly and negatively associated with the firm's export intensity: Vietnamese private manufacturing firms tend to increase their export sales when they face more province SOE bias. They also find that this negative impact of sub-national market-supporting institutions on export behavior of Vietnamese SMEs does not vary with the firm's attributes (age, size, industry).

In sum, the previous empirical studies successfully demonstrate that:

- Market-supporting institutions significantly influence a firm's behavior.
- Market-supporting institutions can be either positive or negative drivers of a firm's strategic choices in exporting.
- Sub-national market-supporting institutions matter to a firm's export behavior.

However, these studies also have some major shortcomings:

- They only focus on either positive or negative impacts of the market-supporting institutions, and fail to recognize that these institutions can be both facilitating and troubling forces of the firm's behaviors.
- They only investigate a limited number of aspects and elements of the market-supporting institutions that can have different types of impact on the firm's behaviors.
- Their findings on the moderating role of the firm's attributes (age, size, ownership, industry, etc.) are inconclusive.

The current study aims to fill these gaps by proposing that:

Hypothesis 1: The sub-national market-supporting institutions have both positive and negative impacts on the firm's export behaviors (i.e., propensity, mode choice, and intensity).

Hypothesis 2: These impacts vary with the firm's attributes (age, size, ownership, and industry).

DATA AND VARIABLES

In this study, we use the 2008 raw data of the Provincial Competitiveness Index (PCI) developed by the Vietnam Chamber of Commerce and Industry (VCCI). This dataset includes 7818 enterprises located in 64 cities/provinces of Vietnam. Among these 7818 firms are 719 that engage in exporting (about 9.2 percent of total sample population).

Dependent Variables

As in previous export studies, export propensity is measured as a dummy variable with "export" = "1" and "no export" = "0". Following Hessels and Terjesen (2010), we have classified firms that use both direct and indirect export modes in indirect export, and we measure export mode choice as a dummy variable, with "direct export" = "1" and "indirect" = "0". Following Gao et al. (2010), we measure export intensity as the percentage of export sales in the firm's total sales in the last year (2007).

Independent Variables

The PCI 2008 covers many dimensions of the sub-national market-supporting institutions that are measured by subjective methods (i.e., entrepreneurs' perception of their provincial institutional environment). A principal components analysis (PCA, varimax rotation) was performed and it reveals six institutional components with eigenvalues greater than one, explaining 58.7 percent of the variance:

- The first component contains six items concerning *provincial public services for business/private sector development (PC1)*.
- The second component also contains six items concerning *provincial attitude, bureaucracy, legal and informal charges (PC2)*.
- The third component contains four items relating to *provincial financial institutions (PC3)*.
- The fourth component contains three items concerning *provincial FDI bias (PC4)*.
- The fifth component contains three items relating to *provincial SOE bias (PC5)*.
- The sixth component contains two items concerning the *predictability of central and provincial laws and regulations (PC6)*.

The scores of these six components (factors), rather than individual variables, are used as independent variables within our models.[1]

Control Variables

Following many prior studies (e.g., Calof, 1994; Dosoglu-Guner, 2001), we use the firm's size (measured as an ordinal variable of its total number of employees in the last year, 2007);[2] its age (number of established years); its legal form (measured as a nominal variable with "Sole Proprietorship = 1", "Partnership = 2", "Limited Liability = 3", "Joint-Stock = 4", "Other = 5"); and its industry (a dummy variable with "manufacturing" = "1", "other sectors" = "0") as control variables.[3] In addition, in order to establish whether the impact of sub-national market-supporting institutions on the firm's export behaviors varies with different firm attributes, we created additional dummy variables in order to divide our sample into sub-groups by firm size ("SMEs < 250 workers" = "1" and "larger firms ≥ 250" = "0");[4] age ("younger firms ≤ 5 years" = "1" and "older firms > 5 years" = "0");[5] ownership ("with SOEs' or government agency shares" = "1" and "without SOEs' or government agency shares" = "0");[6] and industry (the same as control variable that is excluded in sub-group analysis).

RESULTS AND DISCUSSION

Because of their binary nature, following Hessels and Terjesen (2010), we use binominal or binary logistic regressions for export propensity and export mode choice. Export intensity varies within an interval of 0–100 and is skewed to the right (skewness = 4.02 and kurtosis = 15.08). Thus, following Gao et al. (2010), we use a tobit regression for export intensity. We tested for multicollinearity between the predictor variables by using variance inflation factors (VIFs). For all three models, the results show that all VIFs are well below 10: from 1.000 to 1.386 in model 1 (export propensity); from 1.011 to 1.397 in model 2 (export mode choice); and from 1.000 to 1.386 in model 3 (export intensity). The main results of regression analyses are presented in Table 6.1.

Our first major finding is that, among elements of the provincial market-supporting institutions, the firm's decision to export or not (export propensity) is mainly and negatively influenced by provincial financial conditions. Interestingly, unfavorable financial institutions, rather than favorable ones, will stimulate Vietnamese firms to internationalize (i.e., export). We also find that firms that often face financial difficulties in their domestic market (i.e., private, smaller, and younger firms rather than state-owned, larger and older firms) are more likely to choose exporting as a strategic response. But, as operating in overseas markets (i.e., exporting) theoretically requires more financial resources than operating in the

Table 6.1 Regression estimates

	Export propensity	Export mode choice	Export intensity
Control			
Firm age	−0.02	0.03	−1.06*
	(0.98)	(1.03)	(0.48)
Firm size	0.75***	0.12*	8.15***
	(2.11)	(1.13)	(1.33)
Firm legal form	−0.03	0.06	−1.64
	(0.97)	(1.06)	(1.85)
Firm industry	1.41***	−0.37*	−7.35
	(4.09)	(0.69)	(4.14)
Institutions			
PC1	0.07	0.19*	1.43
	(1.08)	(1.21)	(1.86)
PC2	−0.02	0.05	4.89*
	(0.98)	(1.05)	(1.95)
PC3	−0.13**	0.12	−3.14
	(0.88)	(1.13)	(1.75)
PC4	−0.08	0.01	0.00
	(0.92)	(1.01)	(1.81)
PC5	−0.03	0.02	1.52
	(0.97)	(1.02)	(1.76)
PC6	0.01	−0.07	−5.68**
	(1.01)	(0.93)	(1.89)
Constant	−5.26***	−0.66*	46.69***
Observation	6806	636	636
LR chi2	933.06	22.47	53.55
Prob > chi2	0.00	0.01	0.00
Pseudo R2	0.22	0.03	0.01
Log likelihood	−1646.33	−429.40	−2648.78

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$. The values in parentheses are odds. The subgroup analyses can be requested from the authors.

domestic market, how can exporting become a strategic response to the difficult financial conditions in the domestic market?

Firstly, as several previous export studies have demonstrated (e.g., Leonidou, 1995), unsolicited orders from foreign customers are firms' most important export stimulus. We can suppose that this type of export stimulus is even more important for firms in EE&TE, especially SMEs, because they lack resources and capabilities that enable them to proactively identify their export clients. In this context, it seems that exporting is a *reactive* strategic response, but that its transaction costs could be lower than the ones doing business in domestic market. This is due to some external stimuli such as the pre-payment or on time-payment of foreign customers who *proactively* search and identify their supply sources. Thus, exporting can become a strategic choice of firms in order to respond to the difficult financial conditions in their domestic market.[7]

Secondly, among elements of the provincial market-supporting institutions, there is only little evidence about the positive impact of sub-national market-supporting institutions (i.e. the provincial public services for business/private sector development) on the export mode choice of Vietnamese firms. The statistical results do not allow us to conclude that this positive impact varies with the firm's attributes. This is in line with the findings of other studies such as Hessels and Terjesen (2010), who argue that, in the Dutch context, the institutional theory perspectives are more appropriate to explain SMEs' decision to export rather than their export mode choice.

However, our results are also somewhat different from those of Hessels and Terjesen, who find no significant relationship between the firm's age, size, industry, or ownership and its export mode choice. In our study, the firm's size and industry do matter for its export mode choice. Nevertheless, Hessels and Terjesen's work was in the context of DE (the Netherlands), while the current study focuses on firms in EE&TE (Vietnam). We also tried to understand whether our finding is influenced by the measurement of the dependent variable (export mode choice): we performed an additional multinomial logistic regression in which firms that use both direct and indirect export are not grouped into a single group of indirect export. However, the statistical results do not significantly change. This allows us to question two things:

1. Is the institution-based view really appropriate to explain and predict the firm's export mode choice or do we need another theoretical perspective, as Hessels and Terjesen (2010) suggested?
2. Is the current measurement of export mode choice, either as a binary or multinomial variable, appropriate to capture the firm's export mode choice in reality?

Thirdly, among elements of the provincial market-supporting institutions, the export intensity of Vietnamese firms is mainly influenced by: (i) provincial attitude, bureaucracy, legal and informal charges (positive impact); and (ii) the degree of predictability of domestic laws and regulations (negative impact). While the positive impact of provincial attitude, bureaucracy, legal and informal charges is straightforward to understand—firms tend to export more when they face less burden of attitudinal discrimination, bureaucracy, legal, and informal charges (i.e. bribes)—the negative impact of the predictability of domestic laws and regulations is more complicated: the more likely firms are to predict the changes and implementation of domestic (national and provincial) laws and regulations, the less likely they are to increase their export intensity. Once again, logic is the same as for the first finding.

In the context of Vietnam, as well as in other EE&TE, the rules and regulations are rarely as well constructed as needed because of several reasons—mostly the lack of an efficient administrative system, of capable leadership, and of qualified government officials (Ohno, 2009). Laws and regulations often "can only be regarded as general guidelines, establishing the rough ambit of bureaucratic discretion" (Gillespie, 1993, cited in McMillan, 1995: 226). In this context, we can hypothesize that even if local entrepreneurs can predict the changes and implementation of domestic laws and regulations, this "knowledge" could incite the firm to use the "wait and see" strategy rather than immediately integrate this information into its export strategy (export intensity). In the best case, firms that can predict the changes and implementation of rules and regulations will profit from this by increasing their domestic sales while keeping their export sales stable or even decreasing these in order to avoid risk and uncertainty in overseas markets. By contrast, firms that cannot predict changes and implementation of rules and regulations—especially private, smaller, and younger firms that operate in manufacturing sectors, as our sub-groups analyses showed—will choose to increase export sales as a strategic response to the unpredictable rules and regulations in the domestic market.

CONCLUSION

This study demonstrates that sub-national (i.e. provincial) market-supporting institutions explain the export behaviors of Vietnamese firms to a certain extent. However, not all aspects and elements of these institutions have a similar impact on the firms' decisions in exporting, and not all types of firms behave in the same manner in responding to these institutional constraints. There are two major directions that future research could take to develop existing knowledge. Firstly, because exporting involves two markets, research on the influence of market-supporting institutions in both the home and the host market would bring more insightful results about the firm's export behaviors. Secondly, longitudinal and comparative future studies would be very helpful to conclude whether international entrepreneurship (i.e. export) can be considered as a last resort (Braunerhjelm, 2011) of entrepreneurs in EE&TE because of the institutional constraints in their domestic market.

NOTES

1. The items, their measurement, and the results of the principal components analysis can be requested from the authors.
2. 1 = fewer than 5 people, 2 = between 5 and 9 people, 3 = between 10 and 49 people, 4 = between 50 and 199 people, 5 = between 200 and 299 people, 6 = between 300 and 499 people, 7 = between 500 and 1000 people and 8 = more than 1000 people.
3. Manufacturing firms are defined as firms that have manufacturing revenue greater than 10 percent of their total revenue (Nguyen et al., 2013).
4. European Commission (EC) definition: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm.
5. Five years is a critical threshold of a firm's business life (Storey, 1997: 93).
6. PCI 2008 only includes Vietnamese firms, i.e., private and state-owned domestic firms.
7. A similar idea was proposed by Yamakawa et al. (2008), who argue that a regulative environment that favors large established firms (e.g., SOEs) and that discriminates against new ventures will motivate new ventures to internationalize from EE to developed economies, DE (proposition 7a).

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