

Effects of Business Ties on the Export Performance of Small-and Medium-Sized Enterprises in Vietnam

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Abstract

This study aims to investigate the effects of business ties on the export performance of small- and medium-sized enterprises (SMEs) in Vietnam. The study uses data from the European Research Organization surveying 2.628 SMEs operating in 18 manufacturing and services sectors across 10 provinces in Vietnam. The ordinary least square (OLS) method was used to test the effects of business ties on SME export performance. Both OLS and Tobit regressions show that firms, contacting many other enterprises in different fields, as well as financial firms, decrease export performance. In addition, other factors such as firm size, RandD investment, political ties, and outsourcing also have affected SME export performance.

Keywords: Business ties, Export performance, SMEs, Vietnam

Introduction

For many years, exporting has been considered one of the topics that have received a lot of attention from scholars in the field of International Business (Greenaway *et al*, 2004). Previously, there have been various studies, proving the importance of business ties to the export performance of enterprises in general, SMEs in particular in different countries such as China, Thailand, Malaysia, Madagascar, etc. Network-oriented firm governance has been a prevalent strategy in these emerging economies (Gao, 2008). The reason is that executives' networks can be regarded as managerial ties or external ties (such as business ties) related to firm performance (Park and Luo, 2001).

Past research has paid attention to the utilization of business ties at the firm level, however, empirical studies report mixed findings on the association between business ties and firm export performance. Some studies indicate that ties are beneficial to firm performance because they help a firm develop a strong network. According to Peng and Luo (2000), business ties are always diverse and have both positive and negative sides. Meanwhile, Buzz (1992) argues that these relationships do not exert many effects on the export performance of SMEs, but at the same time affirm the importance of businesses being better informed than competitors through interacting with different contacts.

Although business ties play an important role with respect the performance of firm. The issue of whether business ties can promote superior SME export performance in Vietnam remains an open question in the literature. Thus, this study aims to study the effects of business ties on SME export performance and also provides policy implications to help Vietnamese SMEs take advantage of them to increase export performance in the future. Notably, this study attempts to contribute to the literature twofold. First, we develop a model to assess the effects of business ties on SME export performance. In doing so, the study provides theoretical arguments about this relationship in the context of a transition economy. Second, we offer empirical shreds of evidence about the role of business ties in the success of SMEs in exporting activities. By doing so, the study enhances this link in the transition economy.

The reminder of the study is organized as follows. Section 1 presents theoretical background and hypothesis development. Section 2 discusses research methodology, while Section 3 discloses empirical results and discussion. Main implications and conclusion of the study are presented in the last section.

1. Theoretical background and theoretical model

Social theory is used as a template for analyzing phenomena in society. The relationship between people and people, specifically the relationship between senior managers and managers of competitors, customers, partners or employees is also mentioned in micro social theory. The society theory supposes that a firm's relationships contribute greatly to the performance of that firm's activities (Leenders and Gabbay, 1999). Management relationships cross the boundaries

between owners and employees, or the personal relationships of senior managers, have special signification affecting the activities of corporations (Burt, 1992; Uzzi, 1996), can become sources of competitive advantage (Mizruchi, 1996; Tsang, 1998) and superior performance (Batjargal, 2003; Park and Luo, 2001). Top managers dedicate themselves to developing and maintaining relationships with different fields partners to get outside resources to help them continuously innovate and produce products and services at competitive prices and high quality (Burt, 1992; Kraatz, 1998; Pennings and Lee, 1999; Pennings, Lee, and van Witteloostuijn, 1998; Uzzi, 1996). Accordingly, this theory shows that if taking advantage of business ties effectively it helps enterprises increase competitive advantages, reduce risk costs, and receive outside help.

Management theory includes many different relationships including business relations¹, political relations, and internal employee relations in the company. Adopting the study of Peng and Luo (2000); Li (2005) identified two relationships in the management. Firstly, the relationship of top management with business partners, such as relationships with buyers, suppliers, and competitors. Secondly, the connection with government officials. The cooperation between suppliers and customers, the entry of economic organizations, the interaction of competitors in the same field is considered the most common form of interaction between corporations, enterprises and companies. The supplier-customer relationship plays an important role in knowledge transfer and exploitation, and resource mobilization and coordination (Takeishi, 2001). Suppliers can contribute specialized information, new technology or important knowledge in producing a new product for customers. As the management relationship between supplier and customer is largely based on personal trust, this partnership will improve innovation steadily, but taking a long time. Firms can establish relationships with competitors to reduce uncertainty from competitive interactions (Palmer, Jennings, and Zhou, 1993; Pfeffer and Salancik, 1978). The exchange of knowledge between competitors can create effective methods for rapidly improving production capacity, quality control and product innovation, with easy access to knowledge, new technology (Luo, 2007). However, by contacting rival companies too much, over time, businesses can reduce competition in the industry, reducing the search for resources outside the industry.

In a recent study by Nguyen Thi Quy (2019), inheriting previous studies of Nguyen Ha Lien Chi (2016) showed that business relationships include same field ties and other business relationships. industries and financial relationships that affect the business performance of Vietnamese SMEs (including export activities). In this research model, the prior relationships exert a negative impact on business performance, while the latter one has a positive impact on business performance.

1.1. Same fields ties

There are many theories about the competition among enterprises in the same field. According to Porter, M. (1998) in *Competitive Strategy*, the more intense the competition between

firms, the lower the profit potential for firms in the same industry. More competition in the industry relationship will lead to low export results because customers have more choices among suppliers. If the business has too special, friendly relationships with businesses in the same industry is also not a good thing because this will make our business less competitive and look for resources outside the industry (Nguyen Thi Quy, 2019).

Hypothesis 1 (H1): Same field ties have a negative impact on the export performance of SMEs.

1.2. Different fields ties

The majority of firms have a certain relationship with each other in the business environment. A manufacturing enterprise also needs support from businesses in the fields of marketing, logistics, telecommunications, etc. Business relationships in other industries are considered outside resources and are not competitive like same field ties. The connection between businesses in different fields seems to be the production line at the company. These firms can help cooperate with each other, each can complete a specialized field to shorten the time to create material value and bring profits and benefits for them. Regarding enterprises involved in export activities, especially small-scale ones. Most of the research of the previous scholars suggest that the different business tie is a positive relationship. According to Nguyen Ha Lien Chi (2016), this relationship will help enterprises increase export performance and Nguyen Thi Quy (2019) also assumes that they help increase the international business efficiency of companies.

Hypothesis 2 (H2): Different field ties have a positive impact on the export results of SMEs.

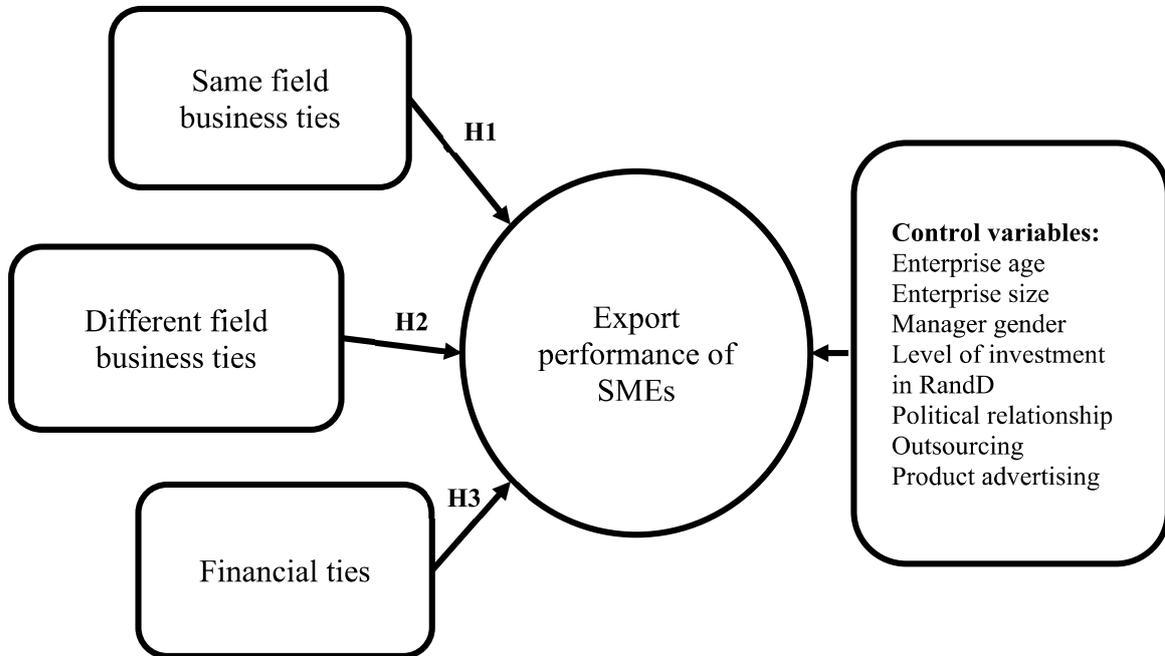
1.3. Financial ties

Corporate finance is an integral part of running a business. The research paper of Fafchamps and Minten (2002) mentioned that the relationship between enterprises and bank staff affects export results. This relationship is considered a symbiosis, mutually beneficial. For banks, the longer the relationship the more customer information the bank will have, which will reduce the risk in credit activities due to asymmetric information (Diamond, 1984; Berger and Udell, 1995). For businesses, strong relationships with banks are seen as valuable assets because they can reduce the cost of accessing credit and increase the availability of credit sources (Boot and Thaker, 1994; Von Thadden, 1995; Petersen and Rajan, 1994). Enterprises that have fewer financial relations with many banks show relatively weak cohesion and easily leave. This means that businesses will face many difficulties in rotating capital, affecting production and business activities.

Hypothesis 3 (H3): Financial relationships have a negative effect on the export performance of SMEs.

Based on literature review and the aforementioned arguments, the conceptual framework of the study is shown in Figure 1.

Figure 1: Conceptual framework of the study



2. Research method

2.1. Data sources

This study uses European Research Organization data collected through a survey conducted in 10 provinces of Vietnam: Hanoi, Ha Tay, Hai Phong, Ho Chi Minh City, Phu Tho, Nghe An, Quang Nam, Khanh Hoa, Lam Dong and Long An. The data is based on face-to-face interviews with the company's owners, managers and employees in June 2015. The surveyed businesses are distributed across about 18 manufacturing and service sectors. The total number of surveyed enterprises of the dataset is 2,628 enterprises. After being selecting and omitting, there are 2,613 enterprises having sufficient data for analysis and research. This dataset is unprocessed primary data.

2.2. Define and measure variables in the research model

2.2.1. Dependent variable (Y)

The export performance of SMEs in Vietnam is measured by the ratio of export revenue and total revenue (Vo *et al*, 2015), the specific formula is as follows:

$$\text{Export performance} = \frac{\text{Export revenue}}{\text{Total revenue}}$$

The value of the dependent variable will range from 0% to 100%.

2.2.2. Independent variable (X1): Same business ties

Same business ties are measured by the number of businesses in the same industry, which regularly communicate together (Nguyen Ha Lien Chi, 2016) which will reduce their competitiveness in the same industry, leading to reduce export results.

2.2.3. Independent variable (X2): Different business ties

Different business ties in the model are measured by the quantity of enterprises in different sectors, which regularly communicate (Nguyen Ha Lien Chi, 2016). According to previous studies, the more business relationships an enterprise has in different industries, the better its business results and export results it has.

2.2.4. Independent variable (X3): Financial relationship

Financial relationship is measured by the number of banks associated with the enterprise (Nguyen Ha Lien Chi, 2016). If they associate with many banks, it will be difficult to build a deep relationship, leading to difficulty in utilizing capital, negatively affecting the export results of enterprises.

2.2.5. Control variables

- *Firm age (X4)* is measured by the number of years the business has operated since established to 2014 (Westhead, 1995). The value of this variable ranges from 3 to 59 years. Enterprises with longer operating time will have better reliability, experience, list of customers and export results than that of opposite ones.

- *Firm size (X5)* is measured by the number of natural logarithms of the quantity of full-time employees at the enterprise (Ettlie and Rubenstein, 1987). The value of the variable fluctuates between 1,1 and 6,55. The larger the value, the larger the size of the business.

- *Manager gender (X6)* is measured by a dummy variable: 1 if the manager is male, 0 is female. According to Felson and Gottfredson (1984), men will have more outside relationships than women. The manager's gender is male will contribute to the expansion of business relations, which is also expected to increase the quantity of export contracts of enterprises.

- *Level of investment in RandD (X7)* is measured as the ratio between the amount of money the enterprise has invested in research and development and the total revenue as of 2014 (Zhang *et al.*, 2015). The higher the investment rate, the more innovation increases, increasing the competitiveness of enterprises' products.

- *Political relationship (X8)* is measured as a percentage of monthly management time spent dealing with government and officials' regulations (including taxes, permits, business regulations and commerce) (Macher and Mayo, 2015; Luo and Bu, 2016). Immersing too much time in solving problems on export procedures which will exert negative effects on export results of enterprises.

- *Outsourcing business (X9)* is measured by the number of outsourcing contracts in 2014, the value is 0 if not outsourcing. The more outsourcing contracts companies have, the more orders they fulfill, leading to rise their export results (Busi and McIvor, 2008).

- *Product advertising (X10)* is measured by a dummy variable, value 1 if the business has product advertising, 0 is none. Firms that advertise their products are expected to have the better export performance (Vaughn, R., 1980).

Table 1: Summary of factors affecting export performance of SMEs in Vietnam

Variables	Sign	Measurement Method	Measurement Base	Expectation
Same field business ties	X ₁	Number of businesses in the same field that business regularly contacts	Nguyen Ha Lien Chi, 2016; M. S. Mizruchi, 1996	-
Different field business ties	X ₂	Number of businesses in other fields that business regularly communicates.	Nguyen Ha Lien Chi, 2016	+
Financial relations	X ₃	Number of banks associated with the business.	Nguyen Ha Lien Chi, 2016	-
Enterprise age	X ₄	Calculated by the number of years the business has been in operation since its establishment to 2014.	Westhead, 1995	+
Enterprise size	X ₅	Measured by the number of natural logarithms of the number of full-time employees at the enterprise.	Ettlie and Rubenstein, 1987	+
Manager gender	X ₆	Measure by dummy variable: 1 if the manager is male, 0 is female.	Felson and Gottfredson, 1984	+
Level of investment in RandD	X ₇	Measure the proportion of money invested in research and development and revenue of the business to 2014.	Zhang <i>et al.</i> , 2015	+
Political relationship	X ₈	Measured as % of monthly management time spent dealing with government and official regulations (including taxes, permits, business and commercial regulations).	Macher and Mayo, 2015; Luo and Bu, 2016	-

Outsourcing	X ₉	Measured by the number of outsourced contracts in 2014, if not outsourced the value is zero.	Busi and McIvor, 2008	+
Product advertising	X ₁₀	Measured by dummy variable, value 1 if the business has product advertising, 0 is none.	Vaughn, R., 1980	+

Source: Compiled by the authors.

2.3. Estimation method

This study also uses the OLS linear regression model to analyze the results. The estimated equation is expressed as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \ln\beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \beta_{10}X_{10} + \varepsilon$$

In there:

Y is the dependent variable: export performance of Vietnamese SMEs.

β_0 is the intercept of the model: the value of Y when all X values are zero.

$\beta_1, \beta_2, \beta_3$ are the estimated coefficients of the same field business ties, the different field business ties and financial relationships, respectively.

X_1, X_2, X_3 are the values of the independent variables.

β_4 to β_{10} are the coefficients to estimate the control variables, respectively.

X_4 to X_{10} are the values of control factors, respectively.

ε is the error of the regression model.

3. Results and discussion

3.1. Descriptive statistics

Table 2 shows the lowest, highest, mean, standard deviation, and variance inflation factor (VIF). All the VIF values of the elements in the table are less than 10, showing that the model does not have multicollinearity.

Table 3 shows that the highest coefficient in the table is 0.501 (correlation between product advertising and business size). This result reaffirms that there is no multicollinearity when estimating the variables in the model.

Tables 4 and 5 show the results of the OLS and Tobit regression model respectively.

Table 2: Statistical description and variance inflation factor (n=2.613)

	Min	Max	Mean	S.D.	VIF
1 Export result of SMEs (%)	0	100	2.237	13.074	1.34
2 Same field business ties	0	580	7.401	18.971	1.31
3 Different field business ties	0	800	21.942	29.196	1.05
4 Financial relations	0	200	1.207	4.324	1.04
5 Enterprise age	2	61	16.501	10.161	1.49
6 Enterprise size	0	6.55	1.856	1.175	1.04
7 Manager gender	0	1	0.590	0.492	1.01
8 Level of investment in RandD	0	0.179	0.002	0.012	1.14
9 Political relationship	0	15	1.798	1.994	1.01
10 Outsourcing	0	1	0.046	0.209	1.36
11 Product advertising	0	1	0.178	0.382	1.34

Source: Results derived from analyzing the survey data.

Table 3: Correlation matrix (n=2,613)

	1	2	3	4	5	6	7	8	9	10
1. Y										
2. X ₁	0.065 ***									
3. X ₂	-0.001	0.475 **								
4. X ₃	0.020	0.129 **	0.093 **							
5. X ₄	-0.048 **	-0.029	0.007	0.017						
6. X ₅	0.351 ***	0.144 **	0.085 **	0.171 **	-0.159 **					
7. X ₆	-0.040 **	-0.032	-0.087 **	-0.019	0.042 *	-0.128 **				
8. X ₇	0.050 **	0.051 **	0.023	0.008	0.000	0.021	-0.018			

9. X ₈	0.168 ***	0.149 **	0.026	0.091 **	-0.136 **	0.308 **	-0.097 **	0.011		
10. X ₉	0.077 ***	-0.010	-0.026	0.019	-0.032	0.101 **	0.012	-0.003	0.059 **	
11. X ₁₀	0.178 ***	0.078 **	0.079 **	0.099 **	-0.125 **	0.501 **	-0.162 **	0.05 8**	0.144 **	0.075 **

Notes: ** and *** indicate significance levels at the 5% and 1% levels, respectively.

Source: Results derived from analyzing the survey data.

3.2. Results and Discussion

3.2.1. Same field business ties

The results of OLS regression model 1 in Table 4 show that the business relationship in the same industry has a positive correlation with the export results of Vietnamese SMEs, contrary to the hypothesis that has been proposed. However, model 3 (3) shows that this independent variable does not have statistical significance. This is similar to Buzz's study (1992), which shows that these relationships do not have too much influence on the export performance of SMEs, however, businesses that have frequent connections with other businesses will provide better market information, which proves and rejects Hypothesis 1. This result is not in line with Nguyen Thi Quy (2019). In conclusion, business relationships in the same industry do not affect the export results of SMEs. The reason is that the relationship in the same field may not help SMEs to expand their network. Consequently, SMEs do not have opportunities to connect with new partners in other countries, thereby being likely to reduce the export performance.

3.2.2. Different field business ties

Model 1 shows that different field business ties are not statistically significant. However, model 3 shows that these relationships have a negative correlation with the export results of SMEs. This result is in line with the finding of Nguyen Thi Quy (2019). With a significance level of 0.05% ($p < 0.05$), if an enterprise increases one contact with other enterprises in the field, the export result will decrease by 0.019% ($\beta_2 = -0.019$). This means that maintaining connections with their colleagues and partners in other fields can cause overlaps in the work of two businesses in different fields leading to the sharing of customers and the dispersion of concentration in the field of the enterprise. Therefore, connections to other lines of business can harm the export results of enterprises. Rejecting hypothesis 2, concludes that business relationships in different industries have a negative impact on the export performance of SMEs in Vietnam.

3.2.3. Financial relations

Model 1 in Table 4 shows that the financial relationship is not statistically significant. In contrast, model 3 in Table 4 shows that the financial relationship has a negative correlation with

export results of Vietnamese SMEs with the estimated coefficient $\beta_3 = -0.136$, statistically significant at 5% ($p < 0.05$) which coincides with the research results of Boot and Thaker (1994); Petersen and Rajan (1994) and Von Thadden (1995). This relationship is considered a symbiosis, mutually beneficial. For banks, the longer the cooperation relationship, the more information the bank will have on customers, which will reduce the risk in credit activities due to asymmetric information. For businesses, strong relationships with banks can reduce the cost of accessing credit and increase the availability of credit sources. Enterprises that have financial relations with many banks show relatively weak cohesion and easily withdraw. This means that businesses will face many difficulties in rotating capital, affecting production and business activities. This result confirms that Hypothesis 3 is accepted. This means that the financial relationships have a negative impact on the export performance of Vietnamese SMEs.

Table 4: Results of linear regression model OLS factors affecting export performance of SMEs in Vietnam (n=2,613)

	Model 1		Model 2		Model 3	
	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.
Constant	2.176***	0.324	-5,978***	0.736	-5.713***	0.756
Independent variables						
X ₁	0.057	0.035			0.022	0.015
X ₂	-0.019	0.010			-0.019**	0.010
X ₃	0.039	0.060			-0.136**	0.068
Control variables						
X ₄			0.019	0.024	0.023	0.024
X ₅			3.649***	0.091	3.718***	0.088
X ₆			0.229	0.494	0.161	0.495
X ₇			45.813**	19.857	45.183**	19.852
X ₈			0.436***	0.127	0.426***	0.128
X ₉			2.505*	1.317	2.474*	1.303
X ₁₀			0.057	0.729	0.142	0.729
N	2,613		2,613		2,613	
Adjusted R ²	0.045		0.1284		0.1308	
P_value	0.002		0.000		0.000	

Notes: *, ** and *** indicate significance levels at the 10%, 5% and 1% levels, respectively.

Source: Results derived from analyzing the survey data).

3.2.4. Control variables

The control variable for firm size and export performance of SMEs has a positive correlation. Model 3 shows that firm size has a statistical significance of 1% ($\beta_5=3.718$; $p<0.01$). The results imply that the larger the firm size, the higher the firm's export performance. This is completely consistent with the study of Ettlé and Rubenstein (1987).

The level of investment and RandD of the enterprise also shows a positive correlation, having statistical significance at the 5% level of significance ($\beta_7=45.183$; $p<0.05$). The level of investment in RandD is measured by the amount invested in RandD of the enterprise-to-the revenue ratio, when this ratio increases by 1%, the export results will increase by 45.813%. This means that the more enterprises invest in the research and improvement process, the better product quality will be, increasing competitiveness, leading to more and more export contracts, contributing to an increase in export results of enterprises (Zhang *et al.*, 2015). Political relationship has a positive correlation with the dependent variable and significance at the 1% level in model 3 ($\beta_8=0.426$; $p<0.01$). It means that the businesses that spend a lot of time working for the board will have more regular export revenue.

The outsourcing control variable has a positive correlation with export results ($\beta_9=2.474$; $p<0.1$), which proves that firms with outsourcing contracts will have more international orders because of a quick production process that can meet the needs of large quantities of goods. If the enterprise uses an outsourcing contract, its export performance is likely to be higher than 2.474 percent one with no outsourcing contract. This finding is in the line with the study of Busi and McIvor (2008).

3.3. Robustness check

The study also used the Tobit nonlinear regression model to verify our estimated results from OLS regression in Table 5.

Like the estimated results of the OLS regression, the independent variable has a negative effect on the dependent variable at the 10% significance level. Meanwhile, the independent variables of same field business ties and different field business ties are not significant and do not affect the export results of SMEs.

Moreover, the control variables for firm size, level of investment in RandD, and political relationship also have correlations like the analyzed OLS model. While the control variable for product advertising is statistically significant and has a positive impact on the export results of the enterprise in the Tobit model. Thus, some factors such as financial ties, firm size, level of RandD investment, political ties, and outsourcing are favored in both models.

Table 5: Estimated results of Tobit nonlinear regression model (n=2,613)

	Model 1		Model 2		Marginal impact	
	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.
Constant	-336.938***	33.038	-330.383***	32.726		
Independent variables						
X ₁			0.013	0.005	0.005	0.007
X ₂			-0.212***	0.002	-0.108***	0.009
X ₃			-4.744*	2.660	-0.190*	0.107
Control variables						
X ₄	-0.454	0.626	-0.274	0.614	-0.011	0.025
X ₅	57.570**	5.998	59.135**	6.119	2.370**	0.286
X ₆	3.456	10.137	2.190	10.068	0.088	0.404
X ₇	530.357**	232.750	501.96**	231.919	20.121**	9.372
X ₈	6.300***	1.980	6.275***	1.972	0.252***	0.081
X ₉	28.382*	16.352	27.140*	16.203	1.088*	0.653
X ₁₀	21.710**	10.963	22.109**	10.892	0.886*	0.438
Log likelihood	-774.272		-770.818			
Pseudo R ²	0.1900		0.1936			
Observations	2,613		2,613			
P_value	0.000		0.000			

Notes: *, ** and *** indicate significance level at the 10%, 5% and 1% level, respectively.

Source: Results derived from analyzing the survey data.

4. Main implications and conclusions

According to the results of this study, in the Vietnamese context, SMEs could design and operate the necessary mechanisms for establishing business ties and using them to enhance their export performance. In doing so, SMEs' managers should adapt their network building and utilization strategies to local institutional environments, which vary significantly across fields. Since business relationships in the different field and financial relationships have significant effects on their export performance.

The study also implies that managers can take advantage of business relationships to increase export performance. To doing so, they should control the relationships in any connection. In terms of same field business ties, enterprises should build a friendly, independent relationship to be provided with more market information. For different field business ties and financial relationships, they need to establish a close and strong relationship rather than a short-term one. In addition, as the scholars have suggested, the cultivation of business ties can be viewed as a useful strategy.

Our study offers some limitations for future research. First, the cross-sectional nature of our study limits tests of causal linkages in our model. Because the role of ties may change during economic transitions, further research should undertake a longitudinal study to examine intriguing questions about their evolving roles. Our quantitative approach also offers only limited insights into complex organizational processes in a dramatically changing environment. Qualitative and interpretative approaches are necessary to gain a deeper understanding of how firms use their social ties in different market and institutional conditions. Second, our measure of ties is holistic and may not capture the relationships of all business partners; a network analysis with name and position generator approaches could help address this concern (Li, 2020). Because the concept of business relationship is quite well known in Vietnam, our tie measures do not focus on the content of these relationships. However, the content and nature may vary for ties with different business partners or government officials in different administrative agencies and positions. Additional research might conceptualize and measure social ties with different market players and government officials and examine their varying impacts on SME export performance.

Second, our sample is narrowed to SMEs in Vietnam. Although emerging economies share some common features in their market and institutional environments, they vary remarkably in the stages of their economic and institutional development. Moreover, business ties may comprise different cultural constituents across regions and countries, and their impact may depend on regional and national cultural contexts, respectively. Therefore, we advise caution before generalizing the results of this study to other economies.

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Article history

Received on 15 January 2022.

Revised on 20 March 2022.

Accepted on 14 April 2022.

Notes

¹In this study, business ties and business relations have the same meaning.

Acknowledgement

This research is funded by the Ministry of Science and Technology of Vietnam (MOST) under grant number B2022-TCT-09. The first author thanks MOST for their financial support. The authors thank the Editorial Board for their helpful comments.