

THE IMPACT OF SOCIO-ECONOMIC FACTORS AND REGIONAL DIFFERENCES ON ENTREPRENEURIAL ACTIVITIES IN VIETNAM

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ABSTRACT

To date there are limited studies on how special contextual factors in the external environment and how regional variety may trigger firms' entrepreneurial activities in emerging economies. Vietnam is an emerging economy and the Swiss Development Cooperation in Vietnam 2017-2020 reports that further research is required to underpin and improve county specific issues in handling entrepreneurial activities in Vietnam. To address this gap this paper aims to theoretically address the question of how socio-economic factors and regional differences may impact innovation and entrepreneurial activities in Vietnam. Referring to the German School of Thought and partly, the dynamic capabilities theory, this paper develops propositions that could be foundations for further studies in the development of region-specific entrepreneurial policy and programs, as well as future entrepreneurship studies.

INTRODUCTION

Previous studies have stressed the importance of studying the role of context variety (Wright and Hitt, 2017), and regional differences in entrepreneurship, as there is a link between regional performance, new firm formation, and entrepreneurial activities (Komlosi et al., 2015; Acs et al., 2012; Giannetti and Simanov, 2009). The extent and the magnitude of regional disparities such as the availability and accessibility of crucial infrastructure, the strength of socio-economic institutions, and the availability of quality human capital influence firms' entrepreneurial activities (Komlosi et al., 2015; Acs, et al., 2012). Previous research suggests to study the key contextual characteristics in the external environment, especially in emerging economies, to better underpin the nature of entrepreneurial activities (Giannetti and Simanov, 2009; Bruton, Ahlstrom and Obloj, 2008).

To date, there still are limited studies on how special contextual factors in the external environment and regional variety may trigger firms' pursuing entrepreneurial activities in emerging economies (Giannetti and Simanov, 2009; Bruton, Ahlstrom and Obloj, 2008). To address this gap, this paper aims to theoretically address the question of how socio-economic factors and regional variety may impact innovation and entrepreneurial activities in an emerging country. An emerging country, Vietnam, and the country's two contrasting regions (i.e. Lower South and Northern Mountainous regions) are provided as an example. Referring to the German School of Thought and partly, the

dynamic capabilities theory, this paper develops propositions on the impact of socio-economic factors in entrepreneurial activities in Vietnam with an aim to increase understanding on the nature of entrepreneurial activities and contribute to future entrepreneurship studies.

THEORETICAL FRAMEWORK

The framework of this paper is based mainly on the German School of Thought and partly the dynamic capabilities perspective. The German School of Thought associated with the work of Schumpeter is an economic thought that ties entrepreneurial activities to “innovation” requiring the entrepreneur to innovate in a number of areas such as new service, quality, process market, technologies, source of supplies and industry (Schumpeter, 1934). Therefore innovation involves seizing opportunities, adding new wealth-producing capacity and new value to existing resources, responding to process needs, to changes in industry structure, and to outside events. (Drucker, 1985; Gartner, 1990; Kuratko and Hodgetts, 1998; Bruyat and Julien, 2001). Through this innovative approach entrepreneurs introduce new goods, services and processes into the market that will compete with the existing goods, services and processes. As innovators, entrepreneurs engage in creative destruction, which disturbs market equilibrium, destroys existing demand and supply, and creates new demand and supply (Schumpeter, 1934). Therefore, entrepreneurs as innovators stimulate economic growth and wealth (Baumol, 1993). In sum, the German School of thought stresses the importance of innovation in entrepreneurial activities and the economic growth process (Schumpeter, 1934). The German School of Thought considers entrepreneurial activities as radical socioeconomic innovations that lead to new possibilities and opportunities. Searching for information about the external environment, industry, and the marketplace helps entrepreneurs to seize a need for improvement, to be aware of new possibilities and leads them to recognize more entrepreneurial opportunities in their industry, and thereby, increase entrepreneurial activities.

Dynamic capabilities refer to the ability of a firm’s competencies and resources to keep up with the changing business environment. (Helfat *et al.*, 2007). Dynamic capabilities emphasize adapting and integrating behaviors. Dynamic capabilities involve a company’s sensing opportunities and threats in the environment and then mobilizing and combining company resources to adapt certain capabilities to fit to their surroundings (Teece, 2007). Although it is difficult to fully measure the impact of dynamic capabilities and its relationship with many other factors in the external environment, (Li and Liu, 2014; Giniuniene and Jurksiene, 2015) this theory is still referenced as a framework in some studies for understanding companies’ competitive advantages and firms’ performance (Arend and Bromiley, 2009; Foss *et al.*, 2011; Frank, Güttel, Kessler, 2017), family businesses (Chirico and Nordqvist, 2010; Wang, 2016) and entrepreneurial capability (Wilson and Martin, 2015) in changing environments. In order to build a longer-time competitive advantage companies engage in entrepreneurial activity through various renewing or transformation actions such as reformulation of existing resources, capabilities; development of new product functions, manufacturing, and new methods of distribution channels. Previous studies found a significant correlation between external environment dynamism and firms’ dynamic capabilities in innovation and entrepreneurial activity (Frank *et al.*, 2017; Wang, 2016; Teece, 2014; Lidija and Hisrich, 2014).

Dynamic capabilities develop in response to changing conditions in the external environment (Zahra, Sapienza, and Davidsson, 2006) and relate to the managerial perception of the situation of the changing environmental conditions (Ambrosini, Bowman, and Collier, 2009). Changing environmental conditions trigger firms into increased renewal activities and towards reconfiguring and adapting new dynamic capabilities. In sum, firm competencies are renewed to respond to shifts in the business environment and to cope with the market environment.

In this paper, based on these two theories, we intend to develop propositions that relate to entrepreneurial activities of firms in two contrasting regions in Vietnam and highlight potential opportunities and challenges in local entrepreneurial firms' embracing entrepreneurial innovation.

WHY VIETNAM?

Vietnam is an emerging economy. Recent research on the strategic planning of Vietnamese companies pointed out that companies in Vietnam rely more on traditional thinking than forecasting external environment (Hai, 2016). The Global Entrepreneurship Monitor Report (GEM) 2013 stated that focusing on innovation will be crucial for the future development path of Vietnamese companies (Amoros and Bosma, 2013). The GEM Report 2014 pointed out that the entrepreneurial activities in Vietnam have low orientations for innovation (Singer, Amoros, and Arreola, 2014). The 2014-2015 Global Competitiveness Report ranked Vietnamese companies' innovation as 142 out of 144 (where 1 is the best) (Schwab and Martin, 2014). The 2015-2016 Global Competitiveness Report ranked Vietnamese innovation environment as 3.2 out of 7 (where 7 is the best) (Schwab and Martin, 2015). The 2013-2016 Swiss Economic Cooperation and Development on Vietnam Country Strategy reported that further research is required to underpin and improve county specific issues in handling entrepreneurial activities in Vietnam. Previous research found that there are also socio-cultural variations between Northern and Southern regions of Vietnam (Nguyen and Mujtaba, 2013). In fact external environment plays an important role in firms' entrepreneurial activities (Komlosi *et al.*, 2015).

Therefore, based on the previous research and studies, this paper aims to address the possible influence of a few socio-economic factors in the external environment to highlight the innovative entrepreneurial activities in two regions of Vietnam.

Based on the Vietnam Provincial Competitiveness Index (2016) Vietnam has 63 provinces and is divided into several regions. Vietnam Provincial Competitiveness Index (2015) reports a significant difference between the Northern Mountainous region and the Lower South (Southeast and Mekong River Delta) regions with regard to ranking and provincial competitiveness index. According to the Vietnam Provincial Competitiveness Index (PCI) 2016, most provinces in the Northern Mountainous region have a lower ranking and provincial competitiveness index than most provinces in the Lower South (Southeast and Mekong River Delta) regions.

TABLE 1. PROVINCAL COMPETITIVENESS INDEX, RANK AND RATING FOR NORTHERN MOUNTAINOUS AND LOWER SOUTH REGIONS (VIETNAM COMPETITIVENESS INDEX, 2016)

		NORTHERN	Mountainous	RegionLower	South	Regions
PCI	Rating	Province	PCI	Rank	Province	PCI	Rank
70-62.79	Excellent				<u>Đông</u>	64.96	3
					<u>Tháp</u>	63.57	4
					<u>Bình</u>	62.76	6
					<u>Dương</u>	61.72	8
					<u>Vĩnh Long</u>	61.14	11
61.82-60.07	High				TP HCM		
					<u>Cần Thơ</u>		
					<u>Bến Tre</u>	60.91	12
					<u>Kiên</u>	60.81	13
					<u>Giang</u>	60.65	15
					<u>Long An</u>	60.5	16
					BRVT	60.14	20
<u>Tây Ninh</u>	60.07	22					
59.68-56.93	Mid-High				<u>Sóc Trăng</u>		
					<u>Bình</u>	58.2	32
					<u>Thuận</u>	58.32	34
					<u>Đông Nai</u>	57.82	37
					<u>Hậu Giang</u>	57.79	38
					<u>An Giang</u>	57.66	41
					<u>Bạc Liêu</u>	57.64	42
56.80-56.21	Mid-Low	<u>Trà Vinh</u>					
		Hao Binh	56.8	52			
		Dien Bien	56.48	53			
55.49-53.63	Low	<u>Lang Son</u>	56.29	55			
		Son La	55.49	58			
		<u>Hà Giang</u>	55.4	59			
53.46-52.99	Very Low	<u>Bắc Kan</u>	54.6	60			
		Lai Chau	53.46	62			
		<u>Cao Bằng</u>	52.99	63			

Because of the sharp contrast in terms of ranking and competitiveness index, in this paper we will review the socio-economic setting of the Lower South and Northern Mountainous regions of Vietnam to comment whether the socio-economic differences between these two regions relate to innovative entrepreneurial ventures. The difference of economic and social growth between South and North regions has created many benefits and challenges in terms of infrastructure development, government spending on infrastructure development, and socio-cultural differences in these regions (Nguyen and Mujtaba, 2013).

In sum, based on these specific report findings on Vietnam and the call to study the nature of entrepreneurial activities in emerging economies, we intend to highlight the role of socio-economic factors and regional variety on the nature of innovative entrepreneurial activities in Vietnam and possibly assist future entrepreneurship studies on the initiation and advancement of region specific policy and programs.

NORTHERN MOUNTAINOUS AND LOWER SOUTH REGIONS OF VIETNAM

A significant difference between the Northern Mountainous region and the Lower South (Southeast and Mekong River Delta) region of Vietnam is reported with regard to socio-cultural variations, economic condition, and the provincial competitiveness index (Tran, 2014; Tran, 2015). The Lower South region has the highest firm density: on average 6 firms/1000 persons, whereas the Northern Mountainous provinces with mountainous and rural areas have generally not been the location choice for entrepreneurs (Santarelli and Tran, 2013).

Northern Mountainous Region

This region has large areas of mountainous land and is located in the Northern Mountainous part of the country. The region has a high poverty rate (Tran, 2014; Tran, 2015). A reported 26% poverty rate is three times higher than the national average (Viet Nam News, 2015). The poverty rate of Dien Bien province is 38.6 percent and Son La province is 29.4 percent, compared to the national average at 9.8 percent (Tu, 2015). Northern Mountainous Vietnam includes Northwest and Northeast. Northwest has four provinces and the region's 17 districts are included in the extreme poor districts list of the Government's support program for sustainable poverty reduction (Tu, 2015). It is estimated that roughly 80 percent of the population's livelihoods are based on agriculture. The number of poor accounts for nearly 70% of the whole country (Viet Nam News, 2014). It was reported that harsh natural conditions, remote villages, cultivation, poor and limited access to infrastructure, transportation and resources, such as credit, play a role in the region's poverty rate (Viet Nam News, 2015; World Bank, 2012). The Northern Mountainous region also has difficulty in all aspects of economic and social dimensions (World Bank, 2012) including the lack of a quality workforce, a poor economic infrastructure, natural disasters, and reported to be the most difficult region of Vietnam in terms of attracting foreign investments (Tran, 2014; Tran, 2015; Viet Nam News, 2014).

The region has a low number of entrepreneurial firms (about 13 businesses per 1000 people) and has a high ratio of ethnic minorities compared to the rest of the county. Ethnic minority groups live mainly in rural areas. About 71 percent of ethnic minority groups live in the mainly mountainous regions of the country (Dang, 2010). About 73 percent of poor ethnic minorities who have limited access to education and substantial living services and infrastructure live in this region (Cuong, 2012; World Bank, 2012). The World Bank Report (2016) indicates ethnic minorities are one of the greatest challenges in the socioeconomic development of the country.

Ethnic minorities constitute half of the poor in the country and represent 15 percent of the population (World Bank, 2016). According to the Analysis of the 2014 Vietnam Household Living Standards Survey and UNICEF's 2014 Multiple Indicator Cluster Survey, ethnic minorities have a higher mortality rate (45% to 10%); lower sanitary conditions (50% to 90%), and lower rates of education (40% to 75%) compared to the ethnic majority (World Bank, 2016). Analysis of the National Institute of Nutrition Surveys and UNICEF's Multiple Indicator Cluster Survey 2014 indicate large gaps between the ethnic minority and the ethnic majority in child health and nutrition (World Bank, 2016). World Bank 2016 reports poor education (low ethnic minority enrollment at tertiary and upper-secondary levels), malnutrition, and low access to sanitation as major challenges for ethnic minorities.

The determinants of accessibility to formal credit and its effects on living standards from 2010 to 2012 were investigated in Northern Mountainous Vietnam and it was found that the level of education, owned farm land, residential area and poverty play a role in accessing credit (Tu, Viet and Loi, 2015). Especially high poverty and low economic growth rate constrain access to credit as residents in poor Northern Mountainous region usually lack collateral due to low assets value or production land (UNDP, 2012).

Lower South Region of Vietnam

For the purpose of this paper we will consider both Southeast and Mekong River Delta regions as the Lower South region. We believe zooming in on both regions provides a better overview on the situation of the Lower South region as a whole in terms of entrepreneurial companies' innovative attempts.

Southeast Vietnam

This region is in lowland southern Vietnam. It is the most developed region in Vietnam with a strong and stable economy, foreign direct investment, high GDP and advantageous natural conditions (Viet Nam News, 2014). With many production facilities of major multinational companies and many large industrial zones for both domestic and international enterprises, the region shows great potential for scientific and technological activities. The industrial production of the region is about 20% of the total value of Vietnam's industrial output (Viet Nam News, 2014). The country's biggest commercial city, Ho Chi Min City (HCMC), is in this region. HCMC has an estimated population of 6.2 million. Increasing urbanization and migration in the city generate the highest population density in the country with an average of 9,294 people per km². Ho Chi Minh City is one fastest growing highly-urbanized cities in Vietnam largely contributing to the economic development of the country (Murayama et al., 2017). Economic activities are heavily concentrated in the Southeast region as HCMC is considered an important business hub and attracts the bulk of investments (Dang, 2012; Geertman, 2007). The city has high-tech enterprise and supporting services and attract lots of infrastructure development projects (Murayama *et al.*, 2017); it also has 20 industrial parks and export-processing zones and plays a

crucial role in the national economy (Shira, D. 2013). The city's economy contributes about 20 percent to Vietnam's overall GDP, and also about 25 percent of its total industrial production (Shira, 2013).

Mekong Delta River region

The region has a population of over 17 million people, an advantageous geographical position, highly productive land, and a very strong socio-economic development (22% GDP) (Viet Nam News, 2014). The region produces about 45 percent of Vietnam's agricultural products and has a growing tourism industry (Wise and Pichel, 2013). It is reported that the growth of new start-ups and private enterprise initiations helped the growth of the economy and the GDP of the region and created employment opportunities (Lensink and Nam, 2008).

SOCIO-ECONOMIC FACTORS

The Global Entrepreneurship Monitor (GEM) 2014 Global Report introduced the term “national entrepreneurial framework” conditions. The GEM 2014 Report indicates that the economic structure of the different regions impact the quality of the entrepreneurial framework conditions and therefore directly affect the extent and quality of the entrepreneurial activity in that region (Singer, Amoros, and Arreola, 2014). The drivers of entrepreneurial activity differ from region to region and among countries due to the differences of national entrepreneurial framework conditions such as socio-economic factors among countries (GEM, 2014, Li and Zahra, 2012). National entrepreneurial framework conditions are positively related with the rate of entrepreneurial activity of that region (Zacharakis, Meyer, and DeCastro, 1999). Socio-economic factors are crucial parts of the national entrepreneurial framework conditions and largely impact the extent of inventive entrepreneurial activities of a society (Li and Zahra, 2012). In this paper we focus on a few select socio-economic factors that relate to the national entrepreneurial framework conditions such as government spending, economic freedom and financial freedom in Northern Mountainous and Lower South Vietnam.

Government Spending

Government spending, as a socio-economic indicator, includes government spending on infrastructure and human capital provisions. For the purpose of the paper we will mainly focus on the “government spending on infrastructure”. The strength of infrastructure plays a crucial role in the extent of the entrepreneurial activities in countries as a well-developed infrastructure system could facilitate companies' entrepreneurial pursuits. Infrastructure development includes access to electricity, transportation, infrastructure projects, and a good communications network. The 2012 Global Competitiveness Report shows a poor rating for Vietnam's infrastructure (World Economic Forum, 2012). The World Economic Forum (2014-2015) indicated that inadequate infrastructure

is a major problem in the country's competitiveness. Global Competitiveness Report 2014-2015 ranked Vietnam's infrastructure 139 out of 144 (i.e. 1 is the best) and innovation as 142 out of 144 (i.e. 1 is the best). Due to the challenges in Vietnam's infrastructure, the government provides increasing efforts to sustain infrastructure projects and investment (Thanh and Dapice, 2015). Limited access or constraints to adequate and quality infrastructure hinders firms' entrepreneurial activities. Based on the 2009 World Bank Investment Climate Survey Vietnamese firms stated "transportation infrastructure" as one of the top three obstacles in the business sector (Triodos Facet, 2013). The World Economic Forum's Global Competitiveness Report 2010-2011 reported that access to financing and the inadequate infrastructure supply are amongst the top five constraints in doing business in Vietnam.

Infrastructure development is crucial for the enterprise development in a region. Yet compared to the Northern Mountainous region, the Lower South region has more infrastructure development projects planned and underway. For example, the Mekong Delta River region's development is revitalized by important infrastructure projects such as the six-plus years of Mekong Delta Transport Infrastructure Development Project, which commenced in 2010. The project is co-funded by the World Bank and Australia and aims to strengthen economic development, reduce poverty, and increase multimodal transport in the region. (Wise and Pichel, 2013). The Transport Development and Strategy Institute, under the Ministry of Transport, proposed 4 billion USD that includes numerous infrastructure development projects in the Mekong Delta region during the 2016-2020 period (Nhi, 2016).

Private sector investment in the Northern Mountainous region is still very small (less than 5%) due to "high risk and low economic efficiency", especially in agriculture (ILRI, 2014). It is stated that many enterprises have decreased production in agriculture (ILRI, 2014). Although through various projects on rural infrastructure development in the Northern Mountainous region and increased government efforts, the mountainous terrains, remote locations and low number of population still pose challenges in investment on infrastructure development projects (ILRI, 2014).

The dynamic capabilities theory states that dynamic capabilities develop in response to changing conditions in the external environment. In the Lower South and Northern Mountainous regions the difference of the supply of infrastructure creates new demand and supply curves. This in turn impacts the extent of dynamic capabilities of the entrepreneurial companies in those regions. Dynamic capabilities are required for new ideas and resources for entrepreneurial innovations. Yet the limited access to a quality infrastructure of the firms in the Northern Mountainous region may pose challenges for entrepreneurial firms' dynamic capabilities in accessing markets and coming up with innovative entrepreneurial ideas. Also regions with high population density and vast infrastructure projects, such as the Lower South region, may have higher rates of entrepreneurial start-ups than rural areas such as the Northern Mountainous region due to better access to large and differentiated markets for production factors such as capital, labor and services (Santarelli and Tran, 2013). The Lower South region has a unique start-up culture, great value, and a solid entrepreneur community due to easier access to well-developed infrastructure and credit. Moreover, agglomeration economies may favor firms' access to the knowledge spillovers of both academic institutions and other firms located in the region. The concentration of firms in agglomerated locations may increase due to the pooled market for high-skilled labors; non-

pecuniary transactions, or production of non-tradable specialized inputs; and informational spillovers (Santarelli and Tran, 2013).

On the other hand, inadequate supply of infrastructure in the Northern Mountainous region may create an obstacle in firms' dynamic capabilities, such as access to input and technology, access to markets, capacity building, and thereby hinder Vietnamese firms' entrepreneurial attempts for innovation. In sum, Northern Mountainous Vietnamese firms' perceived difficulty accessing an adequate infrastructure may hinder firms' handling ambiguous and adverse circumstances in their entrepreneurial attempts. Therefore, firms may incline towards embracing entrepreneurial innovations in the Lower South region more than that of the Northern Mountainous region.

Proposition 1A.

Government spending on infrastructure, a socio-economic factor, plays a role in the difference of Vietnamese companies' entrepreneurial attempts in Lower South and Northern Mountainous regions.

Proposition 1B.

Government spending on infrastructure, a socio-economic factor, plays a role in the difference of Vietnamese companies' inclination for embracing innovations in Lower South and Northern Mountainous regions.

Economic Freedom

Economic freedom refers to the freedom to participate in markets, secure and protect individual's property rights and voluntary exchange in markets. The Global Economy Index includes four broad categories for the economic freedom: Rule of Law refers to property right and freedom of corruption; Government size refers to fiscal freedom and government spending; Regulatory Efficiency refers to business freedom, labor freedom, monetary freedom; Open Markets refers to trade, investment and financial freedom (Index of Economic Freedom, 2015). Economic freedom is highly correlated with the level of the entrepreneurial activities in a country (Wiseman and Young, 2013) as the extent of economic freedom promotes and facilitates the growth of entrepreneurial dynamism in a country (Miller and Kim, 2015).

The 2015 Global Index of Economic Freedom reports Vietnam's economic freedom score as 51.7 out of 100 and ranks its economy as 32nd out of 42 countries in the Asia-Pacific region (Global Economy Index, 2015; Index of Economic Freedom, 2015). According to the 2015 Economic Freedom Index the overall score of Vietnamese economic freedom (that includes government and monetary spending) is 60.4 out of 100 with a regional average (58.5 out of 100). Global Property

Right Index 2015 ranks Vietnamese economic freedom in “mostly unfree” category addressing the rank as the great level of government interference in the economy and less economic freedom.

The Vietnam Provincial Competitiveness Index (PCI) 2016 ranked the Northern Mountainous region districts “very low” (Lai Chau and Cao Bằng); “low” (Son La, Hà Giang and Bắc Kạn) and “mid low” (Hoa Binh, Dien Bien and Lạng Sơn) while in the Lower South regions it ranked the provinces Dong Thap, Binh Duong, Vĩnh Long, TP HCM and Cần Thơ “excellent”, Bến Tre, Kiên Giang, Long An, BRVT, Tây Ninh and Sóc Trăng “high”, Bình Thuận, Đồng Nai, Hậu Giang, An Giang, Bạc Liêu and Trà Vinh “midhigh”. PCI 2014 Report indicates that the business competitiveness index in the lower south region outperformed that of the northern mountainous region. PCI (2014) competitiveness index reports that socio-economic development in the lower south region, such as in Dong Thap, creates favorable investment conditions for the innovative and dynamic businesses and is much valued by local enterprises. The PCI 2014 report also highlights HCMC in the Southeast region as a lucrative business hub for the local and foreign investors due to the operational efficiency in government operations and developments in the city. The districts that are ranked “high” are also listed among the areas that have the best governance and the places that attract foreign investment.

Based on the previous reports on the economic condition of the Northern Mountainous and Lower South regions of Vietnam, the perceived difficulty in accessing economic freedom regarding trade, monetary, labor, etc. may hinder firms’ handling entrepreneurial attempts in Northern Mountainous region compared to the Lower South region.

Proposition 2A.

Economic freedom, a socio-economic factor, plays a role in the difference of Vietnamese companies’ inclination for embracing innovations in Lower South and Northern Mountainous regions.

Proposition#2B.

Economic freedom, a socio-economic factor, plays a role in the difference of Vietnamese companies’ inclination for embracing innovations in Lower South and Northern Mountainous regions.

Financial Freedom

Financial freedom is defined as access to an unrestricted banking environment. The Global Entrepreneurship Monitor (2013) focused on the need for financial resources to sustain entrepreneurial activities. Access to finance is a crucial factor for an entrepreneurial venture (Drori,

Honig, and Wright, 2009). Heavily regulated banks or the lack of adequate credit or access to credit or could pose an obstacle for entrepreneurial activities. Strong socio-economic institutional structure and access to credit and necessary financial resources are highly correlated to the level of innovation in that country (Huang and Xu, 1999). According to the Swiss Economic Cooperation and Development on Vietnam Country Strategy 2013-2016 “insufficient investments, the lack of sustainable financing of critical urban infrastructure” (p.10) and “maintaining a stable macroeconomic environment, building up strong institutions and promoting sound economic framework conditions for private sector development” (p. 14) are reported as some of the challenges for Vietnamese companies. Limited access to credit is among the major constraints that could hinder entrepreneurial activities in Vietnam (GEM 2013 Report, Triodos Facet, 2013).

Although the Vietnamese business sector considers regulations, accessing credit, bureaucracy and cost of doing business as among the major obstacles in their entrepreneurial activities (Tran and Santarelli, 2013) based on the Vietnam Provincial Competitiveness Index (PCI) 2015, provinces in the Northern Mountainous region have a lower ranking than provinces in Lower South region in business support; transparency and access to information; and land access to security and tenure.

TABLE 2. PROVINCE; LAND ACCESS TO SECURITY AND TENURE, TRANSPERENCY AND ACCESS TO INFORMATION, BUSINESS SUPPORT AND PCI INDEX (VIETNAM COMPETITIVENESS INDEX, 2016)

REGION	Province	Land Access to security and tenure	Transparency and access to information	Business support	PCI
Lower South	<u>Đồng Tháp</u>	6.57	6.92	5.49	64.96
Lower South	<u>Bình Dương</u>	6.52	6.99	5.57	63.57
Lower South	<u>Vĩnh Long</u>	6.99	6.57	5.79	62.76
Lower South	TP HCM	5.45	6.5	6.82	61.72
Lower South	<u>Cần Thơ</u>	6.22	6.02	5.76	61.14
Northern Mountainous	Lai Chau	5.22	6.13	4.55	53.46
Northern Mountainous	<u>Cao Bằng</u>	4.78	5.52	5.36	52.99

(Transparency is defined as a “business environment contributes to increased confidence in the effectiveness of administration by the state’s management agencies, improving the efficiency of resource allocation by businesses while increasing their equality of opportunity” in the Vietnam Provincial Competitiveness Index (PCI) Full Report 2014 (pp. 49).

The perceived difficulty in accessing credit and financial freedom in the external environment may hamper firms’ dynamic capabilities in stimulating entrepreneurial initiatives. Entrepreneurial innovations usually require high and risky transaction costs. The perceived difficulty in accessing to financial credit may hinder some firms’ handling unpredicted changes or ambiguous and adverse

circumstances in their entrepreneurial attempts in the Northern Mountainous region compared to the Lower South region.

Proposition 3A

Financial freedom, a socio-economic factor, plays a role in the difference of Vietnamese companies' inclination for embracing innovations in the Lower South and Northern Mountainous regions.

Proposition 3B

Financial freedom, a socio-economic factor, plays a role in the difference of Vietnamese companies' inclination for embracing innovations in the Lower South and Northern Mountainous regions.

CONCLUSIONS

In this study we provided an overview of the Lower South and Northern Mountainous regions of Vietnam and highlighted some possible unique challenges in these regions that could play a role in firms' entrepreneurial pursuits. We also developed propositions that could be foundations for further studies in the development of region specific entrepreneurial policy and programs. We think that as Vietnam integrates into the global economy, region specific entrepreneurial studies could assist Vietnamese firms' entrepreneurial attempts in accessing to necessary resources and help reducing the obstacles arising from international economic integration.

The development of infrastructure in the rural areas of Vietnam has been slow and this is one reason rural areas are less attractive for investment. Income diversification activities are also limited with the majority of rural households relying on agriculture. Social services (such as education, medical treatment, and insurance), although available, are still poorly provided in rural areas. As noted above, low incomes, low quality of social services (such as healthcare and education) and a lack of access to markets contribute to a reduction in the welfare of the rural population in Vietnam, and this is more evident in the Northern Mountainous region.

There are other region specific suggestions that might encourage entrepreneurship entrepreneurial innovation in the Northern Mountainous region (Nguyen and Mujtaba, 2013; Ozgen and Minsky, 2007). Previous research (e.g., Iakovleva *et al.*, 2014) pointed out that the most important perceived barriers to starting one's own business were lack of funds and lack of skills. For example, the government might want to support education and business training, technical assistance, and strategic planning strategies to increase the level and growth of human capital in the rural regions. Another idea is to promote the formation of small business development centers to support

entrepreneurship and innovation. It might also be worthwhile to address capital financing, access to venture capital, access to debt and equity capital. Another initiative could include offering incentives for starting entrepreneurial ventures in the Northern Mountainous region.

Also in responding to changing demands and market opportunities and thereby increasing firms' innovative activities firms' external networking with various stakeholders such as customers, suppliers ect. (Asmawi and Mohan, 2011; Duygulu *et al.*, 2015) and collaboration with external entities such as universities and public support mechanisms (Duygulu *et al.*, 2015) could play an important role. The extent of companies' cooperation from different institutions in the external environment or their access to social networks could vary in Northern Mountainous and lower south regions. Therefore another future research path could be to explore the relationship between the innovative entrepreneurial activities of firms and their access to external support mechanisms and collaboration opportunities in these two regions.

In a future entrepreneurial research we also suggest looking at other socio-economic indicators such as the extent of regulation and legislations, investment and trade freedom, labor freedom, fiscal freedom, the literacy rate, etc. that could each play a crucial role in Vietnamese firms' entrepreneurial attempts.

In conclusion we suggest that regional differences and context variety could play an important role in firms' entrepreneurial activities. Thus, concurring with previous studies (Wright and Hitt, 2017; Komlosi, *et al.*, 2015) we suggest that it could be worthwhile to research various contexts and regional differences in emerging countries and thereby assist region specific entrepreneurial programs and the development and strengthening of new theories in entrepreneurship studies.

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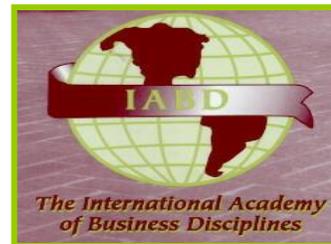
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