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# The role of Social Networks on Household Business Performance in Vietnam: A qualitative assessment

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## Abstract

Household business owners mainly rely on their social networks of strong ties to acquire resources in Vietnam. However, no consensus is found in the literature on the influence of strong ties on the performance of small firms in developing countries. Using an original set of qualitative data, this paper provides new evidence on the influence of social networks on household businesses by following a relational approach of the networks. It contributes to the literature by distinguishing the effects of social networks at different phases of the business cycle. It shows that, in the business creation process, strong ties are by far the preferred source of the initial capital as well as information supports. They shape the business at a small size and make it not adapted to rapid changes in the market demand and the technologies in the latter phase of business development. Weak ties are much less mobilized at the start of the business, but they provide a source of valuable information to create innovative businesses. The more the business grows, the higher is the strength of the weak ties. The study illustrates that the use of social networks, including the weak ties, should be understood to be embedded in family structures and local community contexts, with a set of duties and rights embedded in reciprocal relationships beyond not only the business interactions.

*Keyword: Social network, strength of ties, informal sector, Vietnam*

**JEL: L14, L26, O17**

## Résumé

Les entreprises informelles comptent principalement sur leurs réseaux familiaux pour acquérir des ressources au Vietnam. Cependant, aucun consensus ne se dégage de la littérature sur l'influence des liens forts sur la performance des petites entreprises dans le contexte des pays en développement. À l'aide d'un corpus d'entretiens original, cet article fournit un nouvel éclairage sur l'influence des réseaux sociaux dans le fonctionnement des petites entreprises. En suivant une approche relationnelle des réseaux, il contribue à la littérature en distinguant les effets des réseaux sociaux à des phases différentes du cycle de vie de l'entreprise. Il montre que les liens forts sont la source privilégiée pour obtenir le capital initial et les informations nécessaires dans le processus de création d'entreprise. L'usage des liens forts façonne l'entreprise en la

conditionnant à une petite taille et la rendant inadaptée aux changements rapides de la demande et des technologies. Les liens faibles sont beaucoup moins mobilisés au début de l'entreprise, mais ils constituent une source d'informations précieuses pour créer des entreprises innovantes. Plus l'entreprise se développe, plus les liens faibles deviennent cruciaux. L'étude montre que l'utilisation des réseaux sociaux, y compris des liens faibles, est fortement incluse dans les structures familiales et les contextes communautaires locaux, qui supposent un ensemble de droits et de devoirs, notamment une réciprocité qui va au-delà des relations commerciales.

Mots clefs: Réseaux sociaux, force des liens, secteur informel, Vietnam

## 1. Introduction

There is strong evidence demonstrating the importance of social networks for small businesses in developing countries (Hoang and Antoncic, 2003). In Vietnam, the personal network is a general strategy that household businesses use to acquire resources, as shown by Pasquier-Doumer and Nguyen P. (2017). Additionally, the family network is the primary provider of information and skills when starting a business. Family members are by far the people most often asked to support the business, especially financial support. As an illustration, they account for 89 percent of the contacts mobilized for funding.

While strong ties are the main common source of support in business functioning, recent literature has demonstrated the negative effect of family and kinship ties on small business performance. As an illustration, Grimm et al. (2013) report the "adverse incentive effects" of the redistributive pressure of family networks. Burt (1992, and 2001) and Bartolini and Bonatti (2004) provide evidence that the "gossip effect" may eliminate the possible role of social networks in reducing transaction costs.

This draws attention to the need to understand the reasons why the family network is preferably mobilized, and to scrutinize whether the dominance of strong ties in the informal sector in Vietnam hinders the household business growth. Therefore, this paper aims to fill that knowledge gap by providing a qualitative picture of the role of one's social network in the performance of household businesses in Vietnam. It relies on an original set of qualitative data collected based on the representative 2014 HBIS survey.

This paper has two contributions. First, it looks at the mechanisms and channels through which different social networks transfer different resources and affect household business design and performance. Differences in social networks are analysed through the lens of the strength of the ties. Information, financial capital, and labour are the resources under consideration. The prevalence and the cost and benefit related to the use of different networks in order to reach these different kinds of resources are examined.

Second, this paper analyses the social network's influence by distinguishing the start-up process from the scale-up process. In fact, a social network may influence the success of business differently at different times as the business grows (MacMillan, 1983; Birley, 1995; and Johannisson, 1996).

Findings illustrated that, in the business creation process, strong ties are by far the most preferred source of the initial capital, and information supports as well. In a context where the formal financial market is not well developed, the support from strong ties is a necessary condition to start a business. However, the financial capacity of close relatives and the status of the owner within the family usually shape the size of the business at low level. Information support from the family networks plays an essential role in the choice of the business activities. However, it often goes against innovation and makes the business ill-adapted to rapid changes in the market demand and the technologies. Weak ties are much

less mobilized at the start of the business, but they are a source of valuable information to create innovative businesses. The more the business grows, the more important the weak ties. The study illustrates the use of social networks should be understood to be embedded in family structures and local community contexts, supposing a set of rights and obligations embedded in reciprocal relationships beyond the business interactions only.

This paper has five sections. Following the introduction, Section 2 is a review of the literature. Section 3 is an introduction to the methodology of the qualitative research. Section 4 is a discussion of the findings and Section 5 concludes.

## **2. Literature review**

There is wide agreement that personal networks are critical for the performance of small businesses (MacMillan, 1983; Hoang and Antoncic, 2003). An idea for a new business pushes an entrepreneur to ask for resources, including equipment, premises, capital, advice, information, and reassurance from some contacts in his or her networks. By providing resources to business, personal contacts may influence an entrepreneur's goals, strategy and business planning. On the one hand, social networks help entrepreneurs to overcome constraints, e.g., market entry barriers, market information asymmetry, skill shortage, and credit barriers. Relying on social networks can improve business efficiency thanks to business advice, lower transaction costs, and flexible commitments. On the other hand, receiving support from a network can create constraints or add costs to a business due to social obligations that then arise (Portes and Landolt, 2000). As shown by the literature linking social network and small business performance, the value of different networking strategies depends on the properties of the network, but on the specific phase of the business life cycle as well (Stam et al., 2014). Yet, despite a growing interest in the influence of social networks on small business performance, little consensus exists regarding these two issues.

### **2.1. Strength of ties and business performance**

Based on theories of influences of social networks on small businesses, properties of a network are evaluated along with its three dimensions, which are the relational, structural and resource ones. Our approach mostly aims at contributing to the understanding of the role of the relational dimension.

Researchers examining the relational dimension of social networks consider the nature and quality of interactions between partners, highlighting a trade-off between weak and strong ties. On the one hand, researchers have employed Granovetter's (1973) weak tie theory to argue that entrepreneurs can access more valuable information through weak ties. Weak ties serve essential functions such as providing new and non-redundant market information, advice and problem-solving suggestions. Also, they leave more opportunities to connect to other social networks by bridging between disconnected networks, and thus they provide access to more diverse resources.

On the other hand, the benefit of strong ties has been stressed by various studies. Emotional support is often transferred through strong ties, thanks to the trust and intimacy inherent in those relationships (Marsden and Campbell, 1984; Granovetter, 1993). Durable and reliable relationships can provide many benefits, including information and financial support (Uzzi, 1997; Bygrave et al., 2003; and Ruef, 2010). First, the benefits of strong ties are explained by the principle of reciprocal exchange, which is essential to avoid opportunism and uncertainty between the entrepreneur and business contacts. Kranton (1996) demonstrates that reciprocal exchange between people who know each other very well reinforces mutual trust and belief in future reciprocal commitments. According to Kranton, having a reciprocal relationship is an informal way to enforce contracts and lower transaction costs. Penalties for lack of reciprocity in the future keep the relationship stable. Second, the benefit of strong ties may be driven by altruism. When loved ones commit an act of altruism such as providing financial support without charging interest, they feel good. When close relationships trust the business owner, they provide the emotional support needed to take risks or persevere in business (Gimeno et al., 1997). Third, since they are more likely to share similar characteristics and the same values and interests (McPherson et al., 2001), strong ties place great trust in the business owner, particularly in his or her ability to run a business (Falck et al., 2010; Bosma et al., 2012; and Anderson and Larsson, 2016). Putnam (2000) states that "thick trust" is embedded in strong ties. They also improve mutual understanding in case of a difficult situation. Hirschman (1972) explains that this benefit stems from the predictability of other parties' behaviour when the situation changes.

Conversely, strong ties are not always associated with positive influences on the business. Support from strong ties often comes with social obligations, which may limit the freedom of the entrepreneur to exploit new opportunities (Uzzi, 1997). Reciprocity can take the form of pressure to redistribution of the benefit of the business to family members, hindering the capacity of the business to grow (Meagher, 2006; Whitehouse, 2011; Grimm et al., 2013). Strong ties may give poor advice or false information, and they may express overconfidence in an entrepreneur's abilities (Sorenson, 2018). Burt (1992, and 2001) and Bartolini and Bonatti (2004) provide evidence that the "gossip effect" may eliminate the possible role of social networks in reducing transaction costs.

The debate between these two conflicting perspectives remains unresolved, although it has gone on for decades. The lack of evidence, especially in developing countries, partially explains this. One exception is the research by Berrou and Combarnous (2012), which tests the global influence of strong ties on the performance of small urban enterprises in Burkina Faso. It finds that relying on strong ties is associated with better performance of the business in this context. Thus, this paper aims at contributing to this debate by providing an in-depth analysis of the costs and benefits of relying on strong versus weak ties for small entrepreneurs in another developing country.

## **2.2. Influences in different phases of a business**

Literature finds different influence process wherein the entrepreneur interacts with the networks in his local environment at different phases of development of a business. Strong ties are more important than weak ties at the early stage (Witt, 2004; Ruef, 2010; and Hancock, 2013 among many others). The benefits from strong ties are valuable when they provide available and less expensive resources for the start, or even resources would not be available in the market (e.g., reputation, customer contacts). The explanation is the nature of frequent interaction and intimacy, which built up the belief and trust to provide the support among close contacts. Ruef (2010) emphasizes that, at the beginning, the business always goes with high uncertainty about the business owner's ability to deal with the risks. In such circumstance, only strong ties, with whom have confidence on the business owner's capacity, and are the best to evaluate the business owner, can transfer resources with the belief that he or she would succeed. In part, the support from strong ties is straightforward to show the altruism towards the business owner at the start, as social encouragement (Bygrave and Reynolds, 2006; Sorenson, 2018). Ruef (2010) also agrees that without any support from strong ties, those best to be able to consider the business owner's ability, it would be a signal of weak success to others. Starting a new business plan, the business owner may consult only strong contacts, when he or she has not any other contacts. The business owner often accepts advice or information from strong ties in the starting phase, because he or she desires to satisfy his or her close contacts. Ruef explains that strong contacts would be insulted if their advice were not taken into consideration.

Also in the starting phase, the business owner also relies on weak ties, especially to acquire innovative information. Shane and Venkataraman (2000) argue that new information, which is obtained through weak ties with casual acquaintances, is the most important thing to identify a business opportunity. Ruef (2010) also confirms the stronger importance of weak ties, regards to the innovation at the beginning, even when he does not deny the essential roles of strong ties in the business start. He discusses that weak ties do not request social conformity or selection of information to show the respect or trust on the understanding of circumstance. Then, the business owner is freer to modify the advice from available weak ties. The stronger influence of weak ties in the starting period often involves in a more innovative business plan.

Weak ties become more and more important during the operating phase (Hite and Hesterly, 2001; Hoang and Antoncic, 2003; Elfring and Hulsink, 2004). According to Hoang and Antoncic (2003), when a business grows, the owner's reputation may improve, which helps to build up a more extensive professional network gradually. In that process, the business owner explores more contacts to manage their business at best. New connections are built up to grow the business, to find potential markets, search for innovations and best practices.

However, empirical evidence supporting these theoretical patterns is scarce and even inexistent in the context of developing countries. This paper seeks to provide evidence on the evolution of small business networks in a developing

country where there is a lack of formal institutions, and where the businesses are embedded in a cohesive local community.

### 2.3. Case study of Vietnam

Vietnam is well known for having a developed culture of “close networks” based on strong family and community relationships. That explains why some literature shows the dominant role of strong ties over weak ties in supporting businesses in this country. Turner (2009) describes how traders mainly rely on supports from close contacts from the previous work, where they worked before the Resolution<sup>1</sup> (the country’s economic transformation), to start the same type of business in the urban part of Hanoi, the central city in the Red River Delta. Also, Tuner and Nguyen P.A. (2009) observe that almost all entrepreneurs rely on close networks of family members and friends, in their starting period, in a qualitative study in Vietnam. However, they show a cost of lower business efficiency in the later phase, when they face a social obligation to employ family members regardless of their ability.

In a study on the characteristics of the rural Red River Delta, Nguyen D.T. (2003) explains the cultural principles of supports among strong ties of rural businesses. The husband and wife in a nuclear household tend to have close connections with extended members in their parents’ families.<sup>2</sup> Some have reciprocal financial supports arrangements with each other, which is key to maintaining intimacy among siblings. Family contacts often give out supports, regardless of immediate returns, because of a hope that a reciprocal exchange tradition will be established in the clan in order to support other members in the future.<sup>3</sup> However, Nguyen D.T. also reveals how strong ties cannot work for all the cases. Siblings often act in their own best interest in order to show economic independence. *"I come first"*<sup>4</sup> is an often-heard expression about no support among family contacts. Non-reciprocal economic support among relatives, e.g., siblings, after they got married is also sometimes provided, but only exceptionally, because doing so may upset an in-law. This study shows some evidence of the strength of strong ties in providing support for businesses in the rural area. However, it does not analyse the influences throughout the business lifetime.

Clearly, these qualitative studies on the influences of social networks in Vietnam so far have not considered the strength of the ties in each phase of a business cycle. Given that the literature on the role of social network on businesses was last updated with the 2014 HBIS survey, there is a need to conduct an original qualitative survey and a following analysis on the mechanisms through which different social networks, i.e., strong versus weak ties, may affect household business performance in each business phase of its development in Vietnam.

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<sup>1</sup> "Đổi Mới" in Vietnamese, which began in 1985, is a political and economic change from a centrally-controlled economy to a market economy.

<sup>2</sup> "Gia đình gốc" in Vietnamese.

<sup>3</sup> "Quan hệ ứng trước trả sau qua thế hệ" in Vietnamese.

<sup>4</sup> "Anh em kiến giả nhất phận", "Ai có thân nấy lo" in Vietnamese.

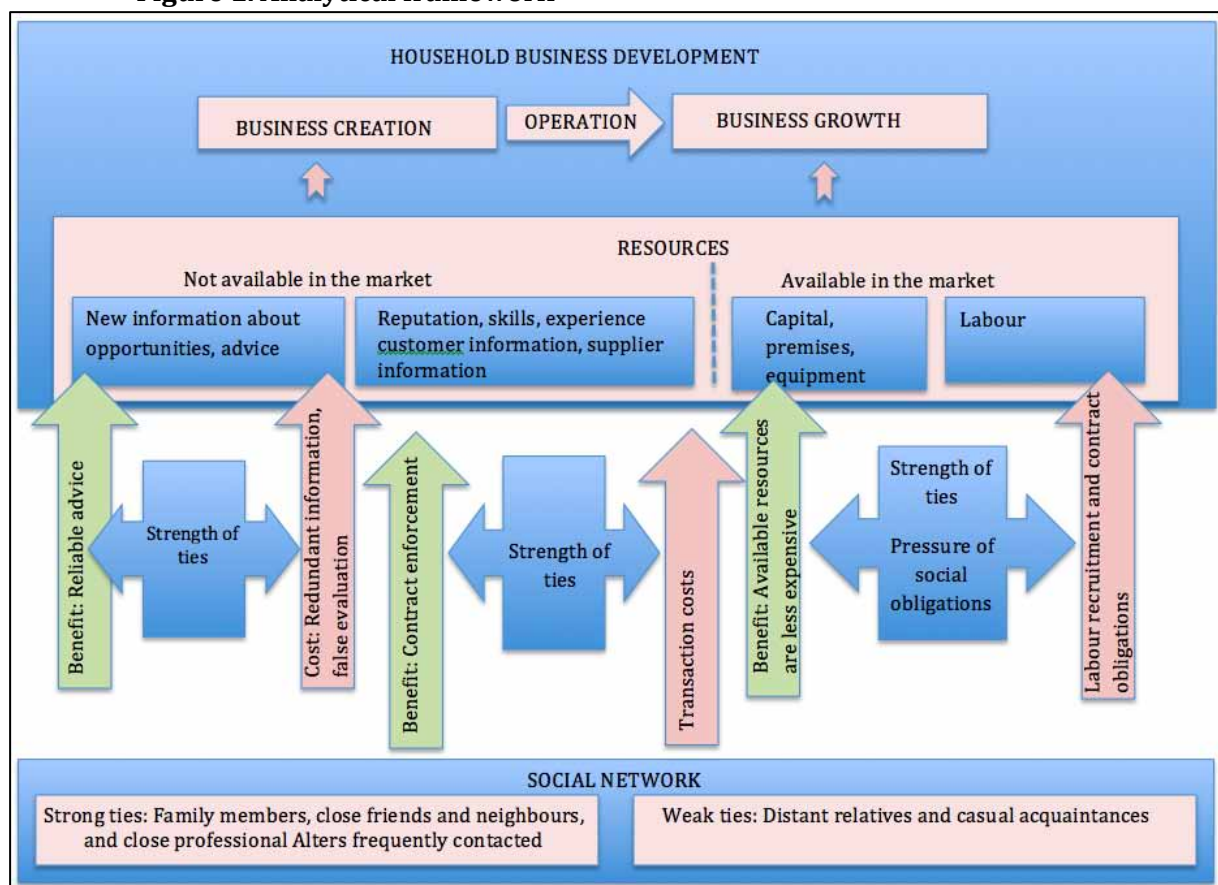


### 3. Methodology

#### 3.1. Conceptual background

This qualitative study explores business owners' perceptions of the process of using contacts in their social networks to perform their business. Figure 1 describes the different possible mechanisms through which different social networks may affect the trajectory of a business's performance by providing benefits and resources that are less expensive than those available in the market or are not available in the market, e.g., a reputation or a customer network. As explained in the literature review, these influences vary according to the strength of the ties between *Ego* (the business owner) and an *Alter* (a network contact), and the pressure for reciprocity in the exchange (social obligations).

**Figure 1. Analytical framework**



Source: by Authors

The cost and benefit analysis focuses on business owners' perceptions of why a social network is used to access a particular resource in a specific market context. Regarding growth, this study analysis uses a business cycle approach. It distinguishes two phases, namely the creation of the business, and the development phase later. According to the literature, social networks are critical to the creation of business because they provide information, business opportunities and resources that a new business has difficulties in accessing in the market (or for which no market is available given the business failure risks). During the development phase, social obligations may force business owners to hire family members and accept relatives as trainees, with the possible negative consequences on the labour efficiency. Following the framework suggested by Shane and Venkataraman (2000), the analysis looks at the two types of support needed at the time of creation: identifying a business opportunity and raising resources to create the business. The study explores how a social network provides new and useful information, and then how it provides access to additional resources to start a business.<sup>5</sup> Following Witt (2004), the study observes how social networks provide resources for business upgrading, in the development phase, including both factors available (i.e., labour, and capital), and not available in the market (contacts with customers and suppliers, and professional contacts for a cooperation and strategic operations).

A focus is given to mechanisms through which social networks may affect the trajectory of the business performance. The literature informs that the strength of strong ties may bring more available resources or premises, and capital, which have no interest or any cost. Strong ties include close, intimate and frequent contacts. They involve emotional intensity and reciprocal exchange. They may be granted (family clan's members) or built over time through repeated demonstration of trust, mutual supports, based on same values and interests. However, the benefit of strong ties may be questioned as far as they provide repeated information or a wrong evaluation of the business owner's ability, or when they involve costly social obligations.

Detecting the strength of ties, the study investigates the reason why social interactions with strong ties to get particular support are preferred to those with weak ties or vice versa. Raising benefits and costs from social interactions, the interviewee shares nuances of personal thinking, specific contexts, and traditions. In addition, other factors, e.g., gender, risk aversion, social background, may drive these benefits and costs from the social networks.

A limitation of the study is that it focuses only on the consideration of *Ego* about the benefits and costs from interaction, but it does not take into consideration the decision-making process of the *Alters* to interact. For example, when *Ego* receives technical support from a friend within a day to fix a machine, the study takes as given situation that the friend is willing to support him. It ignores other options of employment or activity that the friend could have on that day. To

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<sup>5</sup> Tangible and intangible resources for the business are both considered. Information, advice and problem-solving suggestions are defined as intangible resources.

some extent, the network is considered as given. The central topic is the influence process from that given networks related to the business performance.

### **3.2. Sample design**

The qualitative survey covers 41 household businesses purposively sampled from 625 household businesses in Hanoi interviewed during Household Business and Informal Sector survey in Vietnam (HBIS) in 2014. The 2014 HBIS survey is the first representative survey of the household businesses and informal sector in Vietnam. It collects information about the characteristics of the entrepreneurs, their businesses production and performance, including the characteristics of workers and the social network of the entrepreneurs (see Pasquier-Doumer, Oudin and Nguyen, 2017). The qualitative survey focuses on the province of Hanoi because it is one of the two provinces where household businesses are the most concentrated in Vietnam,<sup>6</sup> and because the 2014 HBIS survey is representative at the Hanoi province level.

The qualitative survey has been conducted in the last two months of 2017. Based on the HBIS sample, the interviewees have been selected in order to cover the wide range of situations for the following information collected in the HBIS survey: the network type of the business owner,<sup>7</sup> the size of the business (a self-account worker or a business with at least two workers), the sector of activity (manufacture, trade, or service), the business performance (in the top decile of the value added, or not), the location (rural or urban area), and the sex of the owner. This selection has two phases (see Appendix 2). In the first phase, 41 groups are selected by targeted characteristics of household businesses. In the second phase, one household business is randomly selected in each group. Some descriptive statistics about the business selected in the sample are presented in Appendix 1. The geographical localisation of the interview sites is in Appendix 3.

### **3.3. Interview implementation**

#### **3.3.1. Interview methods**

The interview uses two qualitative tools, including (1) the history life of the business to explore the influence of social networks over time, and (2) the social network map to explore influences (benefits and costs) from specific supports from *Alters*. The interview was scheduled to last about two hours. An open-structured interview guideline was developed with interview topics to gain an in-depth understanding of the influences of the social network on household businesses (see Appendix 4).

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<sup>6</sup> The data of Labour Force Survey in 2017 by GSO shows that the two provinces having the largest number of non-farm household businesses are Hanoi and Ho Chi Minh City, accounting for 6.9 and 7.4 percent of the national business population, respectively. Meanwhile, each other province has that figure no more than 2.2 percent of all businesses.

<sup>7</sup> The type has been defined from a reasoned typology of social network in six categories (see Appendix 2). This typology has been built according to the type of support received from the network, and the strength of the ties.

There might be possible discomfort by the interviewee when speaking about his or her social network, i.e., talking about the third persons. Box 1 shows two examples when the ice between the authors and the respondent was not broken yet.

**Box 1. Self-restriction of the respondent in a discussion about a third person**

**Interview 31, making chopsticks, female, 38 years old**

*My sister often comes to visit me. She wants to see me because we are very close sisters. Nothing to say about her here. It is just her kindness to help me in her free time. For the business, it does not matter. I would like that you don't take her name, and go to her with questions later.*

**Interview 41, a truck driver, male, 46 years old**

*You should write that he is just a regular friend. You also have friends, so you should understand me. It would take too much time to enter into the details about our friendship. Anyway, why would you like to know that he is a family member or a friend?*

Then, two strategies were used to minimize the self-censorship of the respondents when they discuss their social networks. The first one is the observation method on business site, which is to conduct the interview at the workplace during business hours and to spend longer time on site (about three hours) to observe the business operations and environment (interactions with their neighbours, family members, suppliers, partners, and customers, etc.). However, not all interviews were conducted at the workplace during business operation, especially when the workplace is mobile (e.g., taxi motor driver), or when the interviewee requested to be interviewed at home. The second one is the pre-interview approach, which is to make dialogues with neighbours and local authorities before the interview with the business owner. These pre-interview conversations were conducive to formulate more accurate and relevant open-ended questions. The two strategies are helpful to break the ice with the interviewee, as the authors express some relevant knowledge of the business or the neighbourhood. Besides, they build up the respondent's confidence in the authors' ability to understand the issues when the authors express some information about the context and constraints on the network, which the business might face.

### **3.3.2. Interview interpretation**

A challenge in interview interpretation is found when *Ego* has a complex network, especially a sophisticated family clan, and identifies one person by several roles. The business owner may address a third person as a family member, but in fact, he is a non-family member (see Box 2). Therefore, the interview pays attention not to rely only on how the interviewee addresses the third person, but also explore the real tie.

## **Box 2. A contact presented as a family member when it is not the case**

### **Interview 1, lacquer painter, male, 43 years old**

*I borrow small amounts of money from family members. When I have not sold my product yet, but I run out of money for paints and living expenses. So I borrowed between a few hundred up to a few million VND. I ask first to my parents if I am not in debt with them already, because they receive a pension every month. Otherwise, I come to my younger brother and my close friends. All of them are family members.*

After a further chat, the authors understood that the respondent had one younger brother but also named a very close friend who works in the same sector as "my younger brother". For both of them, the respondent used the term "my younger brother"<sup>8</sup>, but he also addressed his close friend as "my friend"<sup>9</sup> or "a brotherhood friend"<sup>10</sup>.

Another challenge is to reconcile saying that seems to be contradictory, as illustrated in Box 3. This calls for an in-depth discussion about *Ego's* perception of the support, and about the context the support has been given. In some cases, the business owners have been interviewed twice to clarify the interpretation of some of his or her saying.

## **Box 3. Wording interpretation difficulty**

### **Interview 33, small grocery store, female, 35 years old**

*[The first interview]*

*I borrowed only once from her [my close friend; above seven million VND]. It would be very embarrassing to borrow again from her. Now, when I need more, I have to borrow elsewhere. When the bank does not give me a loan, I have to go to the moneylender. (...) I also ask money from people around, including friends, because now they trust me. I can ask five million, or three million VND. I can collect small amounts from each one and raise a large amount of fund to repay the debt I have to the Women Union (a grass-root organization).*

*[The second interview]*

*It is true that I received the support of a close friend only once, at the start. I think that my friend gave the maximum that she could. Because of that, I did not ask for any additional amount. When I start the business, with no business experience, and yet no capacity to repay the debt, a few million was a huge amount for me. I won't ask her for a second loan, because she would give it to me free of interests and I don't want to take advantage of my friend. Now I have to work harder and get regular loans from professional lenders, not from my friend (or not from friends). I have asked friends for a short-term shortfall of cash in the business, between one and five million VND. People trust me, and repaying small amounts is not a problem.*

*To me, asking for a loan to start a business, to buy things for the shop, is a different thing than asking for support because of a short-term shortfall of cash in the business. There may be no apparent difference between five and seven million VND. But to me, there is a difference: seven million VND when I had nothing, is much more valuable than five million VND now when I have a business and a house. My friend gave me seven million VND, just because of her caring for me. It is entirely different from five million VND today, when lenders see how my shop operates, they expect that I will be able to pay back the debt very shortly. Of course, inflation makes a difference as well. But to me, I will not rely on my close*

<sup>8</sup> "Chú em" in Vietnamese

<sup>9</sup> "Bạn của anh" in Vietnamese

<sup>10</sup> "Anh em bạn bè của anh" in Vietnamese

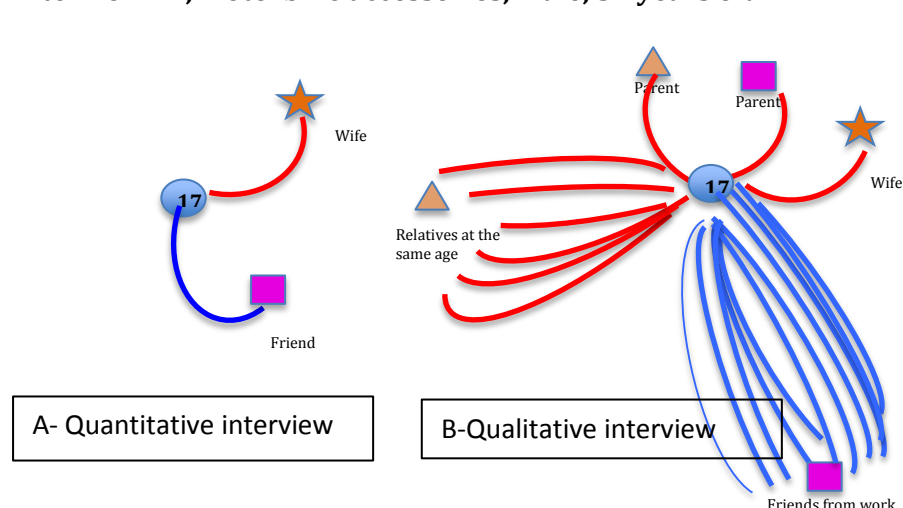
*friends for any loan, in order not to take advantage of their friendship. If I need to make a significant investment in order to remain active (or to keep my business active), I would prefer to get a loan with interests from a single professional lender (bank/money lender). I feel free from thinking of taking advantages from friends. I would work hard, to repay the debt. Only in case of short-term running out of cash for repayment, as sometimes it happened already, I could ask friends around small amounts of some millions, one to five million VND. Currently, people trust me, and repaying the small amounts is just a short-term problem of cash.*

### 3.3.3. Differences with the 2014 HBIS survey

Those above challenges in interview interpretation explain the gap between information on the network collected during the quantitative 2014 HBIS survey and the one from the qualitative survey. Generally, information is much complete and precise with the qualitative survey (see Box 4). As pointed out in the literature, the name-generators methodology used in the HBIS survey leads to an underestimation of the ties, especially the weak ties (Lin et al., 2001).

#### Box 4. Social network maps from the quantitative and qualitative surveys

##### Interview 17, motorbike accessories, male, 37 years old



*Note: Business owner in blue circle with the interviewee code; Resources presented in triangle (finance), star (managerial support), or square (information); Frequency with intimacy of contact presented by the thickness of line; Membership of family versus non-family presented by the colour of line (red line for a family relationship and blue line for non-family one).*

The 2014 HBIS survey informs the owner of a motorbike accessory factory received three non-financial supports from his wife and a close friend (Figure A). The wife handled the cash and other small accounting, and managed stuff while he was busy or away from the business. One friend provided him with information on suppliers or customers. High intimacy with this friend is reported.

Meanwhile, the qualitative survey depicts a more extensive network of friends and relatives, including the parents, six relatives providing financial support at the start of the business, and about ten friends from previous works (ten friendly professional acquaintances) (Figure B). He received advice from his parents to learn about motor fixing, and later, was granted the premise for production from them. The respondent

was also well connected to a large group of professional friendly acquaintances (about ten senior mechanic workers). They helped him with labour and technical issues, and supported his specialization in the production of tailpipes. Six relatives (cousins) provide him loans of around one million VND each at the start of the business. Because of the small amounts and the multiplicity of the contacts, the interview did not mention them during the HBIS survey. In this example, the network between the two interviews evolved from a simple one to a complex one.

## **4. Influence mechanisms of social networks on household business performance**

### **4.1. Business creation process**

This section scrutinizes the use of social networks for the creation process of household businesses, in order to gather information to design business activities and to raise the initial capital.

#### **4.1.1. Getting information from the personal network**

The initial choice of what kind of business should be significantly undertaken influences the trajectory of the business. This decision could be made according to one's observation of the market opportunities, and by considering one's constraints, skills, and preferences. But this decision is often embedded in a social process where social relationships play a crucial role in shaping what the business will be like. By providing advice, transmitting skills, transferring a business or exerting pressure on a business plan, a social network could be a cornerstone of the decision-making process.

In the 2014 HBIS survey, owners were asked whether they had received advice when they started their business and from whom. They also declared whether their business was a family tradition.<sup>11</sup> By combining both kinds of information,<sup>12</sup> we find that more than one-third of all business owners (35 percent) relied on their social network to get information to build their business. One's family network was by far the main provider of such information: 80 percent of *Alters* who provided information at the start of the business belonged to the family sphere, 13 percent were friends or neighbours, and only seven percent were professional contacts.

This representative picture highlights the social embeddedness of the decision making process and the importance of family networks at this phase of the business, but it does not show the diversity concealed behind these broad categories or the mechanisms through which the different uses of the social network may affect the future trajectory of the business. The process of choosing the activity and designing the business is an essential part of the qualitative survey with the objective of understanding how social interactions take part in

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<sup>11</sup> Family tradition corresponds here to cases where the owner had learned his or her activity with a family member or when he or she stated that he or she has become self-employed to follow a family tradition or whose business was created by a family member.

<sup>12</sup> In the case of family tradition, the source of information is defined as the family.

this process. Interactions with family members are scrutinised first because the family sphere is where information circulates the most at that starting phase of the business. Interactions with friends and neighbours, and the mobilisation of a professional network are then examined. The last category under study is owners who did not rely on any personal relationships to develop their business idea. This category is different than the others in that the reasons for and the consequences of not using one's social network in that starting phase are questioned.

#### **a. Apples do not fall far from the tree: Influence of one's family network**

Family members can affect the business choice in several ways. The most influential is when a family member creates a business and then transfers it to *Ego*, the owner of the business. This is the case for around four percent of all business owners, according to the 2014 HBIS survey, and it generally happens among very close family members: Parents transfer business to their children, parents-in-law to their daughter-in-law, and even children to their parents. In such cases, *Ego* benefits from a brand name or a reputation, a network of suppliers and customers, a savoir-faire and capital.

However, in this situation, he or she has very little room to manoeuvre and adapt the business to market opportunities. The business is often a reproduction of what was successful some years or even decades earlier. In a context of extremely fast structural changes, and without the huge investment required to adapt the business to a new environment, the business is very likely to experience very poor performance. Interview 9 in Box 5 illustrates such cases. Although the printer family has built a very strong professional network and has a reputation for high-quality service, they can no longer compete in a market where capital has become the main input, and where investment counts more than skills, reputation, and professional relationships. In addition, they have not updated their skills. In some other sectors of activity, the investment needed to adapt a business to new technologies and demands is lower. Đậu (see Interview 13 in Box 5) has succeeded in adapting the business of his father to technological changes while benefiting from the good reputation of and the strong business relationships created by his father.

This finding goes hand in hand with the result presented by Nguyen H.C. and Nordman (2018). Using a nationally representative survey, they find that business inheritance is detrimental to the technical efficiency of businesses. They interpret this result as evidence of the family pressure to recruit relatives in the business as a counterpart of the inheritance of the business. Although not exclusive, our interpretation is different: the benefits of inheriting a family business are many, but a halt to innovation may result since the new owner of the business is not forced to question the suitability of the business when he or she starts to manage it.



### **Box 5. Inheritance of a family business: a real opportunity or a heavy legacy?**

#### **Interview 9, Family printing business and spice seller, female, 52 years old**

*My eldest brother-in-law transferred this printing business to us. He trained my husband first, and now the whole family works here. He trained my family, and now my husband and all our children work here. My husband still works, but not as much as before. For the most part, my children run the business. The majority of my family's income is from this printing business. (...) It is manual work, and we can't earn lots of money. (...) We are typographers who are hired by big printing houses. They massively invest in shops and are in charge of materials, so we don't worry about capital. The wage earned doing manual labour is enough to cover the cost of living, but it won't make us rich. If we want to make a profit, we need to be in charge from A to Z, from the placement of the order to the final product. There are six or seven printing houses that usually place orders with us. The most important thing is trust, which takes time to build. We have known each other for two or three generations. (...) We are like brothers in a family, and we always gather at a New Year's party or a special event. It would be good if our children can maintain these relationships. But now business is more competitive, and we don't receive many orders. Many new printing houses use advanced technology and modern equipment, which allows them to offer very competitive prices. We earn barely enough to cover the cost of living. In the past, the machine was simple, and the quality of printing depended mainly on our skills. In the past, we earned a good wage by working hard. Now, advanced printing technology does not require skilled workers to do many processes like before, so it is easier for those who invest in advanced machinery to start a business.*

#### **Interview 13, Motorbike repair, male, 39 years old**

*After being discharged from the army, my father opened a bicycle repair shop and ran it from 1985 to 1995. In 1997, my father changed over to motorbike repair, so he built this house. He let me study motorbike repair so that I could work with him. We only sell decent quality parts, and our workers are highly skilled and have a lot of experience. We pay attention to details, so our store is well-known in the area as the best motorbike repair shop. (...) I have been working in this shop since 1997. (...) I have observed and learned from his experience. My father also traded second-hand motorbikes, and I followed in his footsteps. I already work with two motorbike stores. They are stores that focus on selling motorbikes and do not provide repair services. I buy old bikes, spend around 12 million fixing each one up, and then sell each one for 14 million VND. In the past, I repaired motorbikes with a manual transmission, and now, I fix modern automatic motorbikes that have the new generation engines and advanced electronic technology. Therefore, I use advanced equipment to check the motorbikes. The equipment will identify damage that I can't find by myself.*

Family members can influence the choice of a business in another way: the transmission of specific skills. *Ego* chooses an occupation because it is what he or she learned in childhood. The practice of a traditional handicraft is one of these skills. In contrast to inheriting a family business, only skills are passed down, no brand name, reputation, capital or professional network, and strong family ties are still in play. These cases are quite frequent: 16 percent of all family business owners learned their skills from a family member, and an additional four percent of those who get familiar with the family member's occupation and chose to go into it, according to the 2014 HBIS survey. As illustrated in Box 6, the choice of occupation seems obvious for these business owners given the constraints they face. It is considered to be “the easiest way” and “the best choice” (see Interviews 20 and 14).

They use a savoir-faire passed down from generation to generation to their advantage, and they choose this occupation even when the working conditions are difficult (see Interview 20), or the opportunities to make money are few (see Interview 32). In addition, these activities generally require very little investment. The only barrier to entry is the lack of the requisite skills. The family business is the best option for business owners who join the labour market and do not have any vocational training in another field. At least they feel confident that they can run the business, they are aware of the difficulties in conducting the business, and they have often developed a taste for it (see Interview 1). As with the transmission of a family business, the adequacy of the occupation and the current economic context are not taken into account, and neither is the potential demand.

#### **Box 6. Taking advantage of the transmission of skills among the family**

##### **Interview 1, Lacquer painter, male, 43 years old**

*I have been around painting since my childhood. I like it very much. My father often took me to the theatre where he painted the backdrop. When I finished school, I decided to learn lacquer painting and follow in my father's footsteps. My brother did not complete secondary school, so he started to work for me, to learn the lacquer painting from me. But he did not like it. When one does not like something, the determination to improve one's skills is lacking. So even though I showed him a technic a thousand times, it was new to him each time.*

##### **Interview 14, Sidewalk soup restaurant, female, 39 years old**

*With no experience, you can't start any business. As I need to earn money, I thought the easiest way would be to run the family business. I've been involved in the family business since I was young, so I know how it works.*

##### **Interview 20, Tofu maker, female, 45 years old**

*I've been making tofu for 28 years, which is what my mother and my mother-in-law used to do in the past. I thought it would be best to continue my family's business, which I have been involved in since I was young, even though this job is strenuous.*

##### **Interview 32, Clock and watch repair, male, 54 years old**

*I've been doing this job for quite a while, since 1985. Before then I worked as a reporter for the Vietnam News Agency. I quit that job because I was discontent with the organisation. Then I got involved with the family business, which had already existed for a while. It was my father who started repairing watches and clocks. When I was a young boy, I wanted to learn how to fix watches and clocks, so my father taught me. (...) I'm very skilful with my hands, so I decided to take over my father's business. I thought that was the best choice because no investment was needed. For me, fixing watches is easy. People always come to me when their watches don't work, or the battery dies, and those things are simple to fix. I don't have to invest in any expensive equipment either. I just need some screws, a magnifying glass, and a desk lamp. I can use some parts from old watches as well. (...) In short, my business is tiny. I can earn some money to cover daily family expenses, but I don't make enough to save money, because I have fewer and fewer clients nowadays. People tend to buy new watches rather than fix broken ones nowadays as the economy is going up.*

The family is also a sphere where information circulates. Family events provide opportunities to meet relatives and to exchange information and advice. Contrary to the transmission of a family business or specific skills, the ties are generally weak. Only four percent of all business owners receive information

from distant relatives. However, this information can be decisive in some cases, as it was for Yến.<sup>13</sup> When she was a wage worker in the garment industry at an industrial park, she complained to her relatives that she did not earn enough money. Cousins said that she could make more money if she were self-employed. One cousin told her that she could earn four million VND in one day renting out wedding props, which was higher than the monthly wage of three million VND Yến received. Yến decided to open her own business in order to be able to accumulate some savings. The idea to rent out props for weddings combined with her observation of the growing market for wedding services, the lack of a wedding props rental business in her rural neighbourhood, and her belief in her ability to create beautiful wedding decorations made her decide to start this kind of business. Because she was the first person to open this kind of business in her area, her business is very successful. Her company became large and established a brand name, so she had an advantage over competitors who started their business later.

In the case of Dung<sup>14</sup> and two of her distant nephews, innovative information was effectively transferred through distant relatives. Dung's uncle suggested that she migrated to Hanoi and provided her with an introduction to a hairdressing shop owned by a distant niece. Dung emphasised the importance of learning important skills and finding a successful shop in which to work as an apprentice, a shop that uses modern techniques and is not located near a similar shop. Later, after building up her own business, Dung advised her nephew to do the same thing. That advice played a key role in his later success.

## **b. Role of friends and neighbours in conveying information**

Friends can play a substantial role in the decision-making process of a business by providing advice on how to conduct a business (see Interview 21 in Box 7) or even by suggesting what kind of business could be promising (see Interview 19 in Box 7). In the case of Bái (see Interview 21), the connection she has with her friend is very strong. She has known him since childhood. They are neighbours, meet regularly and consider each other as intimate friends. It is on because of this friendship that her friend was willing to help her by sharing his knowledge in the retail business. In the second example, Vàng (see Interview 19), the tie between Vàng and his friend is weak. Even though they live in the same city, they meet once or twice a year and are not intimate. The friend plays an important role as a model, inspiring Vàng, but not because he wants to help him. It should be noted that Vàng met his friend through the family sphere, and this relationship, therefore, falls into the category of weak family ties providing advice. While in the first case the interaction with a close friend (strong ties) helps *Ego* feel more confident and improve the design of her business, in the second case the interaction with a not-so-close friend (weak ties) provides information of much greater value, contributing to the creation of an innovative business.

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<sup>13</sup> Interview 18, wedding logistics, female, 41 years old

<sup>14</sup> Interview 36, hairdresser, female, 39 years old

### **Box 7. With a little help from my friends**

#### **Interview 19, Demolition contractor, male, 50 years old**

*I've been working as a demolition contractor for 20 years since 1997. I started off working with some fellow villagers installing concrete floors at construction sites. Later on, a friend of my brother-in-law introduced me to this job. He had been doing the job for quite some time by then. If it had not been for him, I wouldn't have known about the job.*

#### **Interview 21, Grocery store, female, 47 years old**

*I have some friends from high school, and they are very supportive. They recommended that I sell more items in my store. They also suggested what kind of goods I should sell and how to sell them. They said that I didn't need to pay cash on delivery. I could pay after selling everything.*

### **c. Professional network**

Receiving advice from members of one's professional network seems to occur rarely according to the representative 2014 HBIS survey (2.5 percent of all business owners). However, we can see from the qualitative survey that this percentage is undoubtedly underestimated. Of the eight interviews (20 percent of our qualitative sample) in which the owner mentioned having relied on his or her professional network to build the idea of his or her business, no one said they had received advice or information from a professional contact in the 2014 HBIS survey. Interestingly, it shows that one's professional network is not considered to be an external source of help. The owners built their professional networks by themselves. So the way they see it, they conceived their project by themselves without receiving advice. Their interactions with professional contacts were part of the path they designed to create their business.

A business owner's professional network is usually formed through repeated interactions with colleagues, customers, and suppliers during previous professional experiences. Khoát started a wood furniture manufacturing business, thanks to a friend who was a supplier to Khoát's previous business (see Interview 30 in Box 8). Regular transactions, trade credit and repaying debts on time built trust and then a friendship. During these interactions, they realised that they shared a vision for a business, so they learned their respective skills, honed their abilities and came up with the idea of doing business together since they had complementary skills. Khoát described his friend as a very close brother with whom he has a "spiritual connection". He said, "*We share the same views, so it's easy to discuss things. It has never occurred to me to stop doing business with him. We are not just working together to make money; we are like family, and it is as though we were related by blood. Money can be lost, but I cannot lose this brother*". In the same way, Dũng (see Interview 17) started a new business in 2003 thanks to the advice of one of his suppliers. As highlighted by Dũng, this contact played a crucial role in his decision to switch from servicing to manufacturing motorbike tailpipes, and his decision to scale up his business. According to Dũng, "*He played the biggest role in that plan*" and "*I never thought about going into the manufacturing business*". The supplier provided Dũng with an idea for a business in a promising market, fostered confidence in his abilities, and proposed a long-term business plan that included taking orders in advance so as to limit the risk of this new business. The ties between Dũng and his

supplier used to be weak. However, he is now part of a large professional network that Dũng started to form when he was an apprentice. This professional network is an essential part of his business. *“I must maintain a relationship with many people as part of this job. I couldn’t do everything well”,* he said. Dũng actively maintains relationships by exchanging information and advice and by dedicating part of his time to social interactions. Trust and reciprocity cement those relationships. *“They needed someone like me. They also helped me in my business”,* he said.

Repeated contacts with her supplier allowed Uyên to get essential information about the business she planned to create: renting costumes for artistic events (see Interview 11). What is interesting about Uyên’s case is that she did not succeed in getting reliable information from a choreographer she knew. Only frequent contact with a member of his staff enabled Uyên to build trust and get reliable information.

The experiences of business owners who relied on their professional network for advice or even the idea for their business during the start-up process, including the three cases presented here, show that professional ties are essential for getting innovative information. Most of these business owners reported an upward trajectory, and it was the use of professional connections that put them on the road to success. This finding is confirmed by the data collected during the 2014 HBIS survey. Most of them are among the 25 percent of the businesses with the highest performance (as measured by the value added). They are more likely than the others to have additional workers and professional premises (see Appendix 1). Although it is difficult to establish a causal link between the use of a professional network and high performance, it appears that use of this network is a way to get non-redundant information, and it plays the role of a structural hole (Burt, 1992). As found by Granovetter (1973), these ties are weak at the beginning of the relationship. They are not inherited from the familial sphere, and they do not induce intimacy. However, they should be actively maintained through frequent interactions and sometimes reciprocity to make possible the flow of innovative and reliable information.

#### **Box 8. Key role of professional network**

##### **Interview 11, Artistic costume rental, female, 27 years old**

*First, I spoke with a well-known choreographer to get some ideas for the business. He also rents out costumes to performers. I am a choreographer, so I knew him. I asked him how much it would cost to make a particular costume, what it would cost to make dozens of them and so on. He said it depends, and it could cost up to a billion. However, he said that first I had to have 500 million to open a store, order a certain amount of costumes and have money to operate the store. At first, he convinced me that he was telling me the truth because he wanted to be a good friend, someone who had gone through this process before me and wanted to share the good lessons he had learned with me. But in my heart, I knew it was not true. Who is good enough to be honest when telling me everything about the business? I needed to learn by myself, so I went to his store to rent costumes. Then I made the acquaintance of an employee at the store who happened to be a manager. At first, we were not close. I was just an ordinary customer. But day-by-day we got to know each other, and she really liked me, so she told me everything she knew. She closely monitored the workflow at the store so I could ask about details. After talking to her, I realised that the*

owner had greatly exaggerated the cost. I think that he doesn't want me to invest in that business.

### **Interview 17, Motorbike accessories, 37 years old**

*I opened a motorbike accessories shop in 2003. Previously, in 1998, I began a small motorbike repair shop, which mostly served the villagers nearby. I went into this business because around here many people use a motorbike. In addition, the demand for fixing motorbikes was high. However, I didn't think about developing the business because the people here were not well educated and the economy was still tough. This area is a suburb of Hanoi. Many people gather here to sell wholesale at markets in Hanoi. (...) My mother suggested that I learn how to repair motorbikes. At the time, my friends mostly worked as bricklayers. I didn't work with my friends because I wanted to receive money immediately, while bricklayers need to wait for a long time before they receive their wages. I thought I should go to the city centre, where there were many modern motorbikes, so that I could learn how to repair new motorbikes, because the workshops near my house mostly repaired old motorbikes. By myself, I found a workshop where I could learn. (...) When I was good at this job, I went to other places to work. At the age of 20, I was earning money. In 1998, when I was 21 years old, I opened my repair shop in my village.*

*The number of motorbikes that were in need of repair was increasing. Within a week, I removed nearly 100 broken motorbike tailpipes and replaced them with new ones supplied by a welder. He told me that I should make tailpipes myself when I had a lot of orders. Bending and welding the tailpipes was difficult, so he helped me by discussing many aspects related to materials and manufacture. Initially, I produced stainless steel tailpipes, but it was hard to weld them well. Then I tried different materials and selected one that was easier to weld. I just repaired my customers' motorbikes. After a while, a friend who specialises in motorbike accessories suggested that I set up a factory that specialises in the manufacture of tailpipes. He played the most significant role in that plan. A box of tailpipes imported from the South costs three million VND. He said that if I could produce the same amount of tailpipes and sell them for two million VND, he would buy all of them. At the time, nobody in the North was producing tailpipes. I never thought about going into the manufacturing business. Who dares to invest money and hire workers when they are not sure whether the product can be sold or not? However, he promised to buy the tailpipes I made, so I decided to follow his advice because there was no risk. (...) I didn't know him well. I only knew that he had many orders for motorbike accessories. (...)*

*My friends come from other villages, so I did not know them well in the beginning. I used to work in several repair shops on Hue Street and in Van Dien. When I found it difficult to repair a motorbike, I brought it to a bigger shop nearby, sometimes up to 10 or 15 km from here, to ask for help. I talked with the repairmen in those shops, and gradually we became close. We sometimes meet each other, about once a month. Everyone specialises in a specific area related to motorbike repair and accessories. They need someone like me. They also help me with my business. What I can't do by myself, I ask them to do and vice versa. I must maintain relationships with many people as part of this job. I can't do everything well. We often discuss repairing and purchasing new motorbikes as well as the problems they have and how to fix them. (...) We all run small businesses. We also support each other at work. Although we are friends, we don't offer preferential treatment to each other when doing business. We have been friends for many years, so we are straightforward and trust each other very much. (...) We only go to each other's homes on special occasions. When I am not in a hurry, I chat with them. For many years, we have met on the occasion of the New Year holiday or a wedding to eat and drink together. (...) I still maintain my relationships with previous employers. Now that I make accessories for motorbikes, I ask them if they want to buy my goods. My prices are based on the market prices. Our relationship does not affect the prices; it is business.*

**Interview 30, Wood furniture manufacture, male, 39 years old**

*When I was 28, I started a clothing business through which I befriended an older guy. I bought clothes from his shop, sometimes on credit, and I always managed to pay him back immediately. He sold clothes for two years and then went to Korea for ten years to learn carpentry. When he came back to Vietnam to get married, we teamed up to start a business. My friend said that each of us was good at doing particular tasks and that together we could run a business. He said that he would take care of production at the workshop and I could do the marketing. After listening to his proposal, I wanted to try. My younger brother also started a wood furniture manufacturing business, but he did not use traditional designs. He used modern designs. He runs a shop that is four times bigger than mine. He employs nearly 50 people. He likes to take enormous risks, unlike me. I don't want to take risks. Since we do not work the same way, we cannot work together.*

**d. Choosing alone: from survival to entrepreneurship**

The other side of the coin has to be examined to understand the role one's professional network plays in conveying information at the start of business: why are some business owners not influenced by their acquaintances when making decisions at the start of their business, and who are they? According to the 2014 HBIS survey, they constitute the majority of business owners (65 percent), although this percentage is probably overestimated. They are most likely to have an informal business, to be involved in trade and to have few workers. The sex and the level of education of the owner is not a determining factor at the starting phase of the business. However, the manner, in which the skills to run the business are acquired, is significantly associated with the use of a network: Business owners who do not rely on their professional network are most likely to gain the skills and knowledge needed for the job by doing the job, meaning that they have not been trained by someone else. They are also older on average than other business owners. Interestingly, performance, as measured by the value added, is not associated with the use of their professional network (Pasquier-Doumer and Nguyen P., 2017). A possible explanation for this is that this category masks a large diversity of situations, as shown by the qualitative survey. At the bottom of the spectrum are business owners who are barely surviving and do not face any entry barriers. At the top are entrepreneurs who jump at any chance in a context of rapid structural changes.

**\* *Survival activity: no use of a network because there is no entry barrier***

Many household business owners who do not rely on a network are self-employed and face high constraints. Low qualifications and no capital are the main constraints. Poor health, old age and having to do household chores are the usual additional constraints. Negative events, like doing time in prison or losing a job, and regulations<sup>15</sup> can also negatively affect the choice of business. Given these constraints, people in such situations choose to start a small-scale business with no entry barriers, which means only a very low level of investment and no particular skills are required. They have a limited perception of opportunities.

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<sup>15</sup> In interview 7, Phúc lost the right to drive a small truck he had invested in because a city regulation prohibits this kind of vehicle in order to limit pollution. He became a motorcycle taxi driver instead, which is a less lucrative business.

Their choice of businesses is mostly driven by their appreciation of the businesses, which are prevalent in their immediate environment and whether or not their constraints limit their ability to start and run such businesses. They expressed their views in the following ways: “*I do what is easy*”, “*I do what is easiest*” and “*I do what is quite easy and simple*” (see Box 9). Compared to people who rely on a network, they did not inherit specific skills, a business or even a taste for a business from their family. Their previous experience as farmers, being unemployed, or as unskilled labourers did not provide them with a professional network. In addition, the lack of an entry barrier and the absence of innovativeness related to their business do not foster the need to collect information from acquaintances and friends. Market information about input supply, prices and quantity are public information.

#### **Box 9. The easiest option when facing high constraints**

##### **Interview 2, Selling cheap drink, female, 44 years old**

*Selling something else would be hard work. I am alone. I don't have much strength. I do things that are easy. I don't want to take any risks or do any calculations.*

##### **Interview 8, Motorcycle taxi, male, 45 years old**

*Being a motorcycle-taxi driver<sup>16</sup> is the easiest option when one is self-employed. That's the reason why I chose this job. I had just been released from prison. Before going to prison, I did not have a job. In jail, they didn't teach me anything. I had no qualifications, and I had done time in prison, so it was tough to get a job — even as a guard. Therefore, I started working as a motorbike taxi driver.*

##### **Interview 16, Sewing sockliner, female, 60 years old**

*Previously, I was a farmer. My extra work was carrying bricks near the Red River. I did that for five years. I quit because of my health. I find this sewing job quite easy and straightforward. I mostly press the pedal of a sewing machine. Nobody tells me what to do. I have seen a few people in the village doing this job. (...) This work is the traditional work of Ha Thao Village, and it began to flourish 10 years ago. Villagers make bags, shoes and many other things.*

##### **Interview 31, Making chopstick, female, 38 years old**

*Making chopsticks is just a part-time job I do whenever I have free time. Women around here find these kinds of jobs on their own to earn some extra money. They are truly hard workers. My main duties include doing the housework, farming and helping my husband when he goes fishing. In order to save a bit of money, I make chopsticks. That's what we do in this village.*

#### **\* From apprenticeship to self-employment**

Another common trajectory is becoming self-employed doing the kind of business one learned as an apprentice in other household businesses. Entry barriers to these activities are weak, but they include having specific skills. The choice of the skills one learns may be driven by one's professional network (the father in Interview 3, the classmates in Interview 25, in Box 10), but the decision to create a business comes as a natural outcome of one's training experience. Business owners start as apprentice in one or several household businesses, and

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<sup>16</sup> "Xe ôm" in Vietnamese.



then they become an employee. As soon as they feel qualified enough, they open their own business in the same sector. What distinguishes them from owners who rely on a professional network is often the distance between the place where they have been trained and their hometown, which is where they go back to live and start their business. They usually do not have enough capital to rent premises or even a place to live. Thus, they have to live with their parents or their parents-in-law. As explained by Hung (see Interview 25), they do not stay in touch with the people they meet during their apprenticeship and employment. Maintaining contact supposes frequent interaction, as shown in Box 8, which is prevented by distance. It is a typical trajectory for young males from rural areas who go to a city to learn specific skills and young women from peri-urban areas who go to the centre of a city to become a hairdresser or tailor. In the case of Trang (see Interview 3), she learned some skills at her successful uncle's tailor shop, but she did not foster the relationship enough to make it a strong one. The performance of such businesses depends on the demand in their local area, the level of skills they have acquired and the capital they can invest.

**Box 10. Starting a household business after completing an apprenticeship**

**Interview 3, Tailor, female, 33 years old**

*When I dropped out of school, my father told me to make clothes. He thought of only that job for me. He didn't want me to work as a hairdresser. My father worked as a mechanic, and he has already passed away. He forced me to learn how to make clothes, and he paid for me to learn how. I didn't like it at first, but after I got married, I had to work to support my family. I have to work hard, but I enjoy it. I only have a low level of education, so I have to do this kind of job. When I got married, I didn't have any job experience, so my uncle (a famous tailor on the same street) invited me to come to his big tailor shop and learn by doing. I went to his shop to learn techniques, but I only worked there for two months, because he was too strict. I don't like asking my uncle to do me any favours, so I tried to learn by myself sometimes. I did not ask him for help, not because I am his niece, or because I felt embarrassed, or because I didn't want to take advantage of my relatives. It was just because I didn't like that he was so strict. He was too hard to be around, so I left. I preferred to learn at other shops — even when I had to pay fees. Each person has different personal characteristics. I don't like to ask for help from anyone, especially when that person is too hard to be around. I like to interact with easy-going people. My uncle is a good person, but he is too strict. At least that's how I feel. When I learned by doing in his shop, I sometimes did not understand how to do some of the techniques, but I was too afraid to ask him to show me again.*

**Interview 25, Welder, male, 30 years old**

*All my peers in the village had vocational training in an industrial zone, and then they began working as workers in factories. Many jobs are taught here, for example, electrician and car and motorbike repair. However, I didn't want to work as a labourer after completing my training. I don't like the discipline in a workshop. I only like to work in a flexible environment. At the time, I hadn't yet finished secondary school. I went to Đê La Thành Street to look for a job when I was not 17 yet. I went by myself. I heard from friends who worked in the city and had come back home for a funeral that that street specialised in welding and iron and that there were many jobs available there. I saw that a shop was hiring, so I went inside to ask for a job. I was young and had no skills or experience. At first, I just helped them do chores. After working for them for two years, they paid me a wage that covered all my living expenses. I also learned how to weld, repair and make water appliances. (...) Early in 2007, I quit and returned to my hometown. (...) After coming back*

*here, I didn't stay in touch with friends or peers at my previous workshop. A few others like me travelled to many places looking for a job, so I haven't kept in touch with them.*

### **\* Opportunistic approach**

For others, structural changes like rapid urbanisation or an increase in the standard of living raise the idea of starting a business. Although these cases seem rare,<sup>17</sup> it is interesting to scrutinise them. Starting with their analysis of emerging markets in the area in which they are living, business owners build a promising business, taking advantage of the emergence of demands for new services and trading in their local area, due to urbanisation and economic development. Examples are the case with Dương (see Interview 12 in Box 11), who jumped at a chance when there was a boom in demand for student housing in a nearby area, and Thiệu (see Interview 26), who transposed the concept of a city centre restaurant to his peri-urban location. In addition to conducting market studies to identify opportunities, such projects usually require significant investment, which constitutes an entry barrier for some people. However, they do not necessarily have to rely on an acquaintance to get information about these types of business. For Dương, the cost of enlarging his house was easy to evaluate, as the cost of renting is public information. Thiệu went to the centre of his commune to observe how these businesses functioned and get the necessary information. He strongly believed in his plan, and he was very persistent, despite a lack of support from his family. His case shows evidence of bad influences from strong ties: members of his family told him about risks in order to discourage him from starting a new business. That is the reason why he had to come up with ideas for the business on his own, without using any social network.

#### **Box 11. Taking advantage of structural changes**

##### **Interview 12, Renting out room, male, 41 years old**

*In 2007, I started renting out rooms to university students. At the time, the agricultural university had just expanded; so many more students began to attend the university. There was not enough space in the university dorm, so I built a house on some unused land I had next to my own house, and then I had three rooms I could rent out.*

##### **Interview 26, Noodle restaurant, male, 36 years old**

*Ten years ago, in 2008, people, even members of my family, laughed at my seemingly horrible idea to rent this place in the middle of nowhere. Everyone tried to convince me not to open a shop here. My parents and my brothers all thought it was a bad idea. They said that it would not be successful and that there would be no demand because there were no other shops here. There was absolutely nothing in the neighbourhood. Only a small barbershop with a tiny mirror. No one believed that I could do it, and they laughed at me. I had to tell my parents to stop commenting on my plan. I said to my parents that by introducing this new type of eatery that is common in the town to residents, and then altering the recipe based on their feedback, I would eventually be successful.*

<sup>17</sup> This cannot be determined from the 2014 HBIS survey, but we only encountered four such cases in our sample of 41 interviews.

#### **4.1.2. Important role of social networks for the initial investment**

Although the use of savings is the main way to finance the initial investment,<sup>18</sup> the role of personal relationships or a social network to access capital is far from being negligible. 17 percent of the HBs used loans or gifts from their relatives or friends as the main source of financing when starting their business, and only nine percent took out formal loans. Within one's social network, family members are those who are most frequently asked to contribute: 89 percent of the contacts mobilised to raise funds were family members, meaning that 15 percent of the businesses were started using family funds as the main source of financing.<sup>19</sup> This percentage does not account premises and other physical capital contributed by families. Parents are by far the family members the most often solicited.

Beyond this representative picture demonstrating the importance of social networks — in particular, one's family network — to get capital, it is important to understand the reasons why this source of funding is favoured, or, in other words, what its implicit costs and benefits are compared to other sources of financing. Another critical question is the strategy used to select people within the network to ask for support. Answering this question supposes understanding the process by which the family decides to allocate its capital among family members. These questions are addressed in this section.

##### ***a. Asking one's family is the most common way to get initial capital***

The interviews confirm the dominant use of family members to get the required capital to start a business. Most of the interviewees relied on close relatives to obtain the initial capital for their business (32 out of 41 businesses).<sup>20</sup> Business owners who use only their savings are the exception, suggesting an underestimation of the use of one's social network to get capital in the 2014 HBIS survey. In addition, savings can be from past family support: many business owners said that most of their savings was money they received at their wedding. A wedding is an important event where the social networks of the bride and groom's families give money to help pay for the event, to support the couple as they begin their life together, and to maintain their relationships with the bride and groom's families. In total, the capital accumulated through these gifts can be substantial (Pannier, 2012). Reciprocity is expected, and thus these gifts are either future debts or the repayment of past debts (Pannier and Pulliat, 2017). Some of these gifts were offered to repay the parents for similar gifts they made in the past. The parents generally cover wedding expenses, and then the use of these gifts is considered a form of support provided by one's family.

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<sup>18</sup> For more than half of the household businesses, personal resources were the main source of the financial capital used to start the business (59 percent).

<sup>19</sup> This percentage corresponds to 89 percent of the 17 percent of the HB owners who relied on personal contacts as their main source of financing when they started their business.

<sup>20</sup> 9 out of 41 business owners did not have a demand for initial capital, because most of them decided to start a small-scale (i.e. survival) business, and they mainly relied on their skills and labour (because they had no education and no professional network).

Borrowing money from family members is by far the cheapest way to get money. Parents and siblings, who are the main providers, usually do not ask for any interest. Distant relatives with whom the ties are not strong might charge interests for loans. But again, asking a distant relative for money is the second best option, and people only resort to that when close family members are too constrained financially to lend money. In addition to being the cheapest way to get funds, a family loan offers other advantages.

First, no guarantee is needed when asking for a loan from one's family. Bank loans often involve a mortgage and a complicated procedure to show the profitability of the business. As an illustration, Dương (see Interview 12) went twice to a bank to borrow 200 million VND to build the three-store house he planned to rent out to students. He complained about the cumbersome procedure, during which numerous details about the building plan and profitability were asked. He said that he was too busy to fill out all the forms and then be denied a loan. Like Hương (see Interview 20), many people are discouraged from asking for bank loans. They are afraid of loan refusals when they do not have land certificates or already existing and profitable businesses. *"You cannot get a loan if you do not have any assets and you live in poverty. Only people who are well-off can borrow money"*, said Hương. A good relationship with a bank employee and a bribe to shorten the process are often an additional condition for getting a loan.

Second, the repayment schedule for a family loan is very flexible. In most cases, family members do not impose any penalties for late payment. The implicit contract is that the business owner reimburses the amount bit by bit whenever he or she can. According to the interviews, repayment can take from a couple of weeks to a decade. However, in cases where the family lender urgently needs money, the loan has to be repaid right away. Although this flexibility is generally highly appreciated, some owners perceive it to be a constraint. Having to repay a loan immediately can destabilize a business by forcing the owner to sell productive assets or take out a costly loan from an informal lender in order to repay their relative rapidly. For the most entrepreneurial of the business owners, this flexibility is not worth the risk and is not part of a good business plan. They prefer bank loans, which even though are more costly than those from social networks. As a result, they have an incentive to be more efficient in business operation for repayments to the bank.

The widespread practice of taking out a family loan at the start of a business cannot be understood through a cost-benefit analysis alone. It has to be comprehended by analysing the more general concept of the Vietnamese family and the set of duties, obligations, and rights embedded in familial relationships, and the tension and affection as well. Two different considerations drive the decision to ask for family support. The first is anchored in the traditional vision of the Vietnamese family (Bui, 2004). The family is conceived as a strong structure, a "warm nest"<sup>21</sup>, where harmony is based on respect and obedience from the youngest to the oldest and the women to the men, but also on mutual

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<sup>21</sup> "Tổ ấm" in Vietnamese

assistance and the contribution of each its members to the well-being of all. The interviews in Box 12 illustrate this common perception on close contacts. Financial support from parents makes it possible for their children to take risks and be persistent when doing business. Asking for support from a non-family member is considered suspicious because it means that there is a problem with you or your family (see Interview 34 in Box 12). The gossip cost of obtaining funding from outside the family network is high in rural contexts, where people are closely interconnected.

### **Box 12. Family as the most common form of support**

#### **Interview 10, Seller at a vegetable stall, female, 39 years old**

*I had to plan my business and find information by myself. I was in charge, and no one gave me any advice. Only my mother, brothers and sisters encouraged me. When I got out of the canteen business, I asked my mother to let me use the front room in her house for free, so that I could open a store. There was already a store there that sold children's clothes, and it was a successful business, so after my mother evicted them, I decided to sell children's clothes as well. My mother thought this was a good idea and let me do it. My parents love us very much and always take care of us. They supported me because my husband and I were unemployed and our children were still in school. (...) The total investment for the clothing business was 100 million. I borrowed 50 million from my mother. (...) My mother had saved money by renting out the place before she let me have it, so I asked her for a loan (...). She would have given me more if that had not been enough. She wondered whether 50 million was enough or if I needed more than that. I didn't ask for more because 50 million was already too much to ask for from my mother.*

#### **Interview 21, Small grocery shop, female, 47 years old**

*When I need money, I ask my relatives for help. Borrowing from relatives is easiest. They even lend me money and tell me I don't have to repay them. They support me in order to encourage me to take risks in business. If I don't take it, they will be unhappy. When I have enough money, I will pay them back.*

#### **Interview 34, Wholesale rice trader, female, 32 years old**

*In rural areas, people think that you should only borrow from family members. Otherwise, people will speak badly about your family and say that you had to borrow money because of gambling or alcohol problem.*

Another thing to consider before asking one's family for support is how to avoid potential conflicts related to financial issues that could occur and thereby preserve the harmony in the family (see Box 13). A potential conflict may arise when one person feels another is taking advantage of blood relationships (see Interview 7), or when there is disagreement as to how to allocate money among family members (see Interview 11). A reluctance to ask one's family for support can be rooted in fear of emotional blackmail as well. If there is some conflict or tension in the relationship, the family member will ask for the money to be paid back immediately and thereby put the business in a difficult situation. The fear of conflict is particularly common among women and their husband's family. Sometimes, it is men who fear conflict with their sisters-in-law (see Interview 7). Women are at higher risk of experiencing conflict, especially those who come from a traditional family. In a traditional family, financial support is offered to sons first, and daughters usually have to rely on their husband's family (see Box

14). However, a woman's position in her husband's family may prevent her from asking for financial support.

### **Box 13. Family financial support as a source of conflict**

#### **Interview 7, Motorcycle taxi, male, 51 years old**

*Everyone has his or her own family. I don't want to ask my two older brothers for help, but I can ask my sister. A sister and brother have a close relationship. Borrowing money from her is fine. But with brothers, if their wives found out that I had borrowed money from them and not paid it back, they might say that I had taken advantage of my brothers. That would not be good, and I don't want to be in that situation.*

#### **Interview 11, Artistic costume rental, female, 27 years old**

*My first store was run in my husband's parent's house. The front of the house is seven meters wide. My parents-in-law divided it into two parts, one for my husband's brother and one for his sister. My husband didn't run a business, so they gave him a house in an alley. His sister ran a business for a time. Then she went abroad. His brother rented her part for five million VND per month to run a plastic products business. However, his business failed, so I asked them if I could rent both parts to start my first store. I paid five million VND to each of them. After two months, my business was booming. My husband's sister and brother were jealous. As a consequence, his parents urged me to find another place. They took the store back and ran the same business as mine. It is a conflict in my family.*

#### **Interview 16, Sewing sock-liners, female, 60 years old**

*My husband is the oldest brother in his family. His siblings live all around the village, but I didn't like to borrow from them. My family doesn't have enough financial potential, so I can't rely on my relatives at all. In addition, money matters can easily cause divisive emotions among people in the family. I asked neighbours because it was easy, and they lend me money without charging interest.*

The allocation of money among family members is indeed often driven by the traditional roles of its members. According to Confucianism, the eldest son has more obligations but at the same time more support. He has to take care of his parents, carry out the worship of ancestors and support his younger brothers. In return, he has more financial support, which can be capital to create a business, the use of the land certificate to get bank loans, or the inheritance of a house or better land than the others siblings (see Box 14). This rule does not hold true in every family, but in most of the business owners interviewed said that the eldest sons received an advantageous allocation of family resources, either to counterbalance their obligations or because they were the first ones to ask for their parent's support. Conversely, the daughters are more disadvantaged than sons. The ability to get financial support from their family greatly depends on their relationship with their in-laws.

### **Box 14. The advantage of being the eldest son**

#### **Interview 10, Selling vegetables at a stall, female, 39 years old**

*I am the youngest child in the family. I have a brother and a sister. My brother lives in Thanh Xuan District and works at the Ministry of Construction. My sister has passed away. My parents are old, and they would like to live in another house in the countryside. So my family moved to my parent's house in the city, in order to take care of the house. My parents are old-fashioned, so even though I live in this house, my brother will inherit it. In the past, my parents rented out this front room for five million VND per month. My parents want to support my business, so they let me have the front room to run my shop. They do*

*not ask me to pay them the rent. If I had the money, I would give some to them. However, I don't make much profit. I can't make a lot of money.*

**Interview 11, Artistic costume rental, female, 27 years old**

*My brother inherited my parent's business – a restaurant. (...) The restaurant is very big, about 500–600 square meters. (...) My parents still have a gender prejudicial mindset. My father is traditional and paternalistic. So are my grandparents. My brother was born first, so my grandparents and my parents like my brother more than my siblings and me.*

**Interview 24, Construction, male, 57 years old**

*I inherited this house from my parents. I am the firstborn male in the family. I have one older sister and five younger brothers and sisters. They are labourers. They do things like selling vegetables in the market and working in factories. I am the firstborn male, so I take care of my parents when they are sick, and I am in charge of worshipping our ancestors. My parents are farmers, so they are not wealthy. The land was divided into four parts for the four sons only. I have a little more land than the others because I need to take care of my parents.*

**Interview 26, Noodle restaurant, male, 36 years old**

*My eldest brother sold shoes at a store in Hanoi until four years ago, when I told him he would fare better selling food here, as our hometown had developed economically. He returned home and inherited my parents' pig organ restaurant. Each of us inherited a piece of land from our parents, but mine was way back in a cul-de-sac, so it could not be used as an eatery, and I had to rent a place somewhere else.*

**Interview 27, Truck transportation, male, 43 years old**

*None of us came from wealthy families, so we had to borrow from the bank at an interest rate of 1.7 or 2 percent per month. Since I am the oldest son of four children, I am expected to support the others. My brother went into business with me. My parents gave us the certificate of land use rights as a deposit. Thus, I was able to obtain 100 million VND to start the business. I was the eldest child, so everyone respected me, but I also assumed all the responsibility. I could have taken all the profits and paid a substitute driver a modest salary, but I had to show my brother how to make money because he had no idea how to do it by himself. I am the first son, so in any case, I will take care of my brother and make sure he has a job. (...) My two sisters live with their in-laws.*

***b. Developing strategies when financial support from one's family is not enough***

Interviews confirmed that the immediate family is the main source of informal loans. They also highlighted that although there are numerous advantages to borrowing money from family members, there is sometimes a price to pay and that some people are excluded from this kind of support because of the place they occupy in the family. Another reason for not relying on family loans is that the immediate family is not wealthy enough to be able to afford lending money — even to close relatives — or to finance the total amount of initial capital needed. In those cases, some decided against opening a business,<sup>22</sup> and others adapt the size of their business according to the capital they can get from their family and their savings. Yet, the diversification of funding sources is a

<sup>22</sup> Our quantitative and qualitative data are not designed to provide information about the proportion and characteristics of wage workers or the unemployed who have not become own-account workers because they lack capital. Indeed, both surveys rely on a sample of business owners only.

frequently observed strategy. The case of Bình is a good illustration of what people highlighted in the interviews (see Interview 29 in Box 15). After working for several years in a welding workshop, Bình decided to open his own business, and he described the strategy he intends to implement to raise the initial capital. First, he plans to ask several people for small amounts instead of asking one person for a large amount, not even his parents. The main reason for doing this is that people are more likely to agree to lend him money, but it is also to avoid placing a heavy burden on immediate family members (see Interview 17 as well).

Second, the order in which people are asked to lend money is associated with the level of intimacy embedded in the relationship: The family comes first, and then close friends if the family loans are not sufficient. A male like Bình generally excludes his in-laws, because being indebted to them is likely to damage their relationship. Support comes mostly from the parents, directly or indirectly. As shown in Interview 25, parents often act as an intermediary to get loans from family members outside the nuclear family. They stake their credibility within the extended family to support their children. Family events are also a means to get in touch with distant relatives who one does not often see (see Interview 23). Women often prefer to not rely on their own family, because after marriage a daughter is considered to be a member of her husband's family, and she should not bother her own family (see Interview 33). When they have no other choice (e.g., when the in-laws are poor, or when their creditworthiness is too low to get a loan from a moneylender), they ask their mother only.

Outside the family sphere, intimacy and the corresponding trust are not sufficient to ask for financial support. Reciprocity is an important criterion as well. Bình thinks, for example, that his friends should help him because they are in debt to him. He helped them in the past. In addition to intimacy and reciprocity, one should be sure that the potential borrower is sufficiently well-off.

Bank loans are generally a last resort, as in Bình's case. He will only ask a bank for a loan if he cannot get any money from people in his network. He is reluctant to take out a bank loan because such a loan is expensive. For other business owners, using the land certificate of their parents as a mortgage is too risky. They do not want to run the risk of causing their parents to lose their house. And as seen above, some do not have this option because of being women, or because the eldest brother has already used the land certificate.



## **Box 15. Multiplying the source of funding**

### **Interview 17, Motorbike accessories, male, 37 years old**

*I opened the store so both my wife and I could work and earn a living. I can't afford to raise a family working alone. I only borrowed one million VND. I had to borrow from five or six relatives and friends. They also do business, and they have money, so they lent me a little. I told them that I needed capital and that every penny counts. After one year, I paid off my debts.*

### **Interview 23, Construction material transportation, male, 28 years old**

*I got married in 2007, and I was 21 years old. I had to work away from my wife, and I wanted to work closer to my family. At the time, I could not even borrow 10 million VND. My friends were also young, and they didn't have any savings. Two years later, in 2009, when my uncle came back for a funeral, I told him that I wanted to buy a truck and settle down. He lived in the city and had stable work, so he was quite better off. He asked me how much I had saved and how much I needed. After working for several years, and with the money from my wedding, I had about 60 million VND. I told him I wanted to buy a truck that cost about 120 million VND, so he lent me 60 million VND. If he hadn't gone to the funeral that day and lent me the money, I would still be driving for someone else.*

### **Interview 25, Welder, male, 27 years old**

*My parents didn't have any money, so they asked my aunt, who lives nearby, to lend them some. She let my father borrow 20 million VND. My father gave me all the money so I could buy equipment and machinery. After two years, I was able to pay back the loan. She is my relative, so I didn't have to pay interest. She also didn't urge me to pay back the money. However, I paid her right away because her family was in need of money. (...) I am the only one who asked my parents for money to start a business. My brothers are all employees, so they don't need significant capital.*

### **Interview 29, Employee at a welding workshop who plans to open his own business, male, 24 years old**

*It costs at least 100 million VND to open a small business in Hanoi, including renting space and buying machinery. I don't have enough start-up capital, so I will have to purchase machinery one piece at a time over a period. Regarding materials, I can ask my customers to leave a deposit. Over the last three years, I have saved 20 million VND. I think I will have to ask for a loan of 100 million VND. I will ask my family first and then my friends. It is easier to borrow five to 20 million VND from each person. I've never borrowed money before. I'm not sure if my parents can lend me money, but I will ask them anyway. I guess I can get a loan of 20 million VND from my family. I have about six close friends who also came to Hanoi to make a living. I'm confident that they will help me because I helped them when they were building their houses or got married. I even lent money to one of them. If I don't get any help, I will use my parents' land license as security for a bank loan. I think my family and friends will lend me money eventually. If so, I will not have to pay interest. I expect to pay off all the debts in two or three years if my business goes well. I do not want to ask for support from my wife's family, so I will only consider it as a last resort.*

### **Interview 33, Small glossary store, female, 35 years old**

*I asked two wealthy neighbours to lend me money (and charge me interest). But none of them would lend me money, because they thought my financial situation was not stable enough to be able to pay them back. So I stopped asking neighbours and tried instead to seek support from my family and close friends. (...) One friend agreed to lend me money. She is my best friend from childhood, and she is wealthy. She even owns a car now. (...) Of the five or six friends I have, she is the wealthiest. The others are just manual labourers like me. (...) I didn't ask my mother to give me money as a gift. I asked her for a loan because I*

*had already moved out, and my parents still had to provide for my three younger brothers. I was afraid that she would not give me any money. I had to talk to her several times to convince her, and finally, my mom agreed to loan me some money (...) I did not ask my mom or my friend for a specific amount. I just said, "I need a few million to start a grocery store. Could you please lend me some money?" I was worried that I would not get any money from them, so I explained that I wanted to take advantage of the location of my house on the main road, and because my in-laws were too poor to be able to help me, I needed their support to raise the initial capital. I was poor at the time, so I was thankful for any money at all.*

## **4.2. Development of household businesses**

Three important aspects of the development of businesses are examined in this section: the access to labour, and capital, and the building of professional networks to face competition and to upgrade the size and the technology.

### **4.2.1. The family as a good source of labour?**

At the start of a business, people generally work alone or with close family members. According to the 2014 HBIS survey, 55 percent of the business owners started alone and 34 percent with one other person, usually the spouse. As a business expands, additional workers have to be found.<sup>23</sup> In a context where formal labour market institutions are almost non-existent, an interpersonal relationship is a dominant way to recruit workers.<sup>24</sup> Again, family networks play a significant role: Half of all employees — excluding the spouse — are linked to the owner by family relationship. The use of family labour is even more widespread among informal household businesses, and it is associated with small but longstanding businesses and with trade activity (Pasquier-Doumer and Nguyen P., 2017). Our qualitative survey allows us to scrutinise the reasons why business owners massively rely on family labour and what the consequences for the development of the businesses are. We distinguish the support providing by the spouse from having family employees or family apprentices.

#### ***a. Working with one's spouse***

Around 40 percent of the business owners work with their spouse, according to the 2014 HBIS survey. In most of the cases, the spouse's contribution is decisive from the start of the business. Because of cultural perceptions about gender roles, some female business owners have to get their spouse to agree to most of the decisions regarding the business. To illustrate, Yến (see Interview 18) considers her role in her wedding logistics business to be secondary even though she is the boss. Regarding her husband's decision to buy an expensive sound system that they have not been able to use, she said: "How can I dare to be against him? He is the man of the house. When he wants something, he decides without asking me for my opinion". In the case of Thiệu (see Interview 26), his

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<sup>23</sup> The representative 2014 HBIS survey data shows that 20 percent of the household businesses have expanded their labour force by at least one worker since they began doing business.

<sup>24</sup> According to the 2014 HBIS survey, 93 percent of the employees at household businesses were recruited through an interpersonal relationship.

wife has no other choice than to work with him first at a shoe shop, and later, at their rice noodle restaurant. "Boats are rowed by oars and wives are instructed by husbands"<sup>25</sup>, he said, and "After getting married, a wife has to work at her husband's family's business"<sup>26</sup>.

For other business owners, including women, it is necessary for the spouse to work at the business. At least, two people are needed to run the business. The reason is that it does not make enough profit to pay someone, and it would be almost impossible to find someone willing to do the hard work that would be required, e.g., beginning to work at four a.m. Vy's case (see Interview 14) is illustrative. She decided to open a small restaurant on the public pavement together with a neighbour. She thought, "*No one can work alone. Two people are always better than one alone in this business*". However, she soon realised that the profit they made was too low for both of them to earn a living, so she decided to run the business alone with the help of her husband. The husband is not defined as the business owner. He is a wage worker for the city bus company and works there in the evening. Vy was ambiguous in the way she defined the role of her husband. On the one hand, she said that he just supports her business. On the other hand, she used the terms "*our couple*"<sup>27</sup>, "*we, I and my spouse*"<sup>28</sup> instead of "*me*" in the discussion. She said, "*without his (her husband) help, I would stop the business immediately*". The reason is that she cannot afford to hire a man to carry the heavy cooker at four a.m., and to serve food then until noon, make noodles and wash the dishes. She focuses on preparation, cash management and working as a waitress.

Working with one's spouse is quite common among both male and female business owners. It generally means shared management of the business. They work together like this because they have complementary skills and are unable to hire someone. Also, the reason is rooted in traditional culture. In most cases, this nuclear structure within the labour force of a business does not change over time. What does vary is the recruitment of other workers, which is associated with the growth of the business.

### ***b. Recruiting family labour: a burden on the growth of a business?***

When a business is growing, the easiest way to expand the labour force is to rely on one's family network. In a context with no labour market intermediaries to convey information about workers and jobs, the family is a sphere where such information circulates and where young people can receive vocational training that is tailored to the job (see Interviews 24 and 10 in Box 16). However, the most common reason given for favouring family labour is the trustworthiness of family members (see Interviews 24 and 11). "*It is hard to trust strangers*" is a largely shared opinion. Many business owners believe that only family members can keep designs and method of production a secret. They assume that family members are trustworthy and honest. In practice, however, this is not always the

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<sup>25</sup> "*Thuyền theo lái, gái theo chồng*" in Vietnamese.

<sup>26</sup> "*Lấy chồng thì phải theo nghề nhà chồng*" in Vietnamese.

<sup>27</sup> "*Anh chị*" in Vietnamese.

<sup>28</sup> "*Nhà anh chị*" in Vietnamese.

case, as shown by the experience of some business owners (see Interview 23). Nevertheless, according to the 2014 HBIS survey, more than half of the business owners feel that family workers are trust-worthier than other workers (Pasquier-Doumer and Nguyen P., 2017).

Another reason is the existence of strong obligations towards one's family. The recruitment of family members may be the result of a need for workers. Besides, many business owners stated that they have felt obliged and pressured to hire a family member. A family member has demanded that another young relative was trained and given a job. In the recent literature on social networks, this behaviour is generally associated with the response to pressure for redistribution. But our qualitative interviews show that recruiting a family member is also done to maintain the family network and enhance its cohesion. Agreeing to demand from someone in a higher position in the family hierarchy is a way to guarantee support from the family in the future. In addition, but more marginally, family labour is also valued because it provides moral support (see Interview 6).

While there are clear benefits to working with family members, this can be costly as well. It is not rare that family members are better paid than non-relatives. When they are paid market wages, they usually benefit from more in-kind benefits like free meals or more flexibility with the work schedule (see Interview 10). However, the main cost is undoubtedly not being able to punish family members when they break the rules. For example, while non-family workers have to reimburse the business owner when they break or lose goods, family members do not have to do so, and the business owner covers the losses. A lack of effort, absenteeism, and theft among family members are not uncommon, according to business owners. Although the business owners complained about the difficulty of firing their family workers when faced with such situations, they managed to do so by giving another reason for their dissatisfaction (see Interviews 10 and 23). It is usually something along the lines of "business has been slow". But this makes it difficult for business owners to hire other workers soon after and thereby expand their business.

In conclusion, it seems that family workers are used during the starting phase of a business. When the business grows, there is often a switch from family labour to market-oriented recruitment. At a certain point, having trusted family members on the payroll becomes less important, because the cost of not being able to enforce regulations or having to pay more than market wages becomes too high. The case of Dũng (see Interview 17 in Box 16) illustrates this point. The expansion of his business called for product-based payments instead of a fixed monthly salary, and for the recruitment of highly skilled workers. These two conditions forced him to replace family workers with non-family workers. It shows that the use of family labour is more widespread among small and informal household businesses than larger ones (Pasquier-Doumer and Nguyen P., 2017), and it helps to understand why.

## **Box 16. Strength and weakness of the family labour**

### **Interview 6, Cell phone repair, male, 61 years old**

*(Do any of your relatives want to assist you?) Yes, two of my nephews. They asked me if they could be my apprentices, and I agreed. They were very helpful. They helped me look after my store and assisted me with the daily tasks. They also kept me company, but sometimes they messed up, and I had to compensate my clients.*

### **Interview 10, Selling vegetables at a stall, female, 39 years old**

*When I sold food in the hospital canteen, I was pregnant. I needed helpers who I could trust, and I had no experience managing others. I called relatives in the countryside and asked for two people to come and help me. I had just started the business, and I needed workers, so it was good that my relatives were able to come and help me. But having relatives work for me is not easy. The market wage is only 500,000 VND a week. I pay my relatives higher, at 700,000 VND a week, and I cover the cost of their meals. This is uneconomical. (...) When I have to hire workers, I prefer to hire non-relatives to pay them the market wage. First, the reason is that I cannot question relatives. When I sold food at the canteen, if a non-relative worker did something wrong or stole money, I would talk straightforwardly with them, but I am reluctant to question relatives. I have to fire relatives who cause trouble at work. If I don't, I have to oversee them, and that is a headache. So, I have to think of some reasons to fire them, and I cannot simply say that I am not satisfied with their work. My cousin made mistakes when working for me in the canteen and I had to fire her. I could not say really the reason I fired her, so I said it was because the hospital (where the canteen is located) would not allow me to expand the business, and I, therefore, did not need her help anymore.*

### **Interview 11, Artistic costume rental, female, 27 years old**

*I could easily find another workshop that could produce costumes for my rental business less expensively. I prefer to work with her (her husband's sister, who currently produces the costumes), even though she charges more than others do. I give her my designs, and the money needed to buy materials and manage a team of sewers. The market prices for materials and wages in this industry are very transparent. When prices go up, I pay her more. (...) In short, money is not the most crucial factor. The most important thing is having someone I can trust who will keep my designs a secret, do good work and deliver the costumes on time. She is my relative and has worked with me for six years. We work well together, and I treat her fairly.*

### **Interview 17, Motorbike accessories, male, 37 years old**

*Of the seven master workers, only my older cousin is a relative. Previously, all of the labourers in my workshop were relatives. Gradually I hired people. At first, I offered my cousin, who is an experienced mechanic, a position in my workshop, and I pay him the market wage. (...) He works very well, so I'm delighted. One older brother and two younger brothers used to work for me. In general, I feel an obligation to help my relatives, but over time I discovered that there are many problems associated with employing relatives. The young relatives often asked for days off, and they often discussed my business behaviour at their houses, since I quarrelled with bossy relatives. I could not punish relatives or reduce their salary when they did something wrong. Gradually I expanded my business and made some regulations. I found that the paying a fixed salary is not reasonable because then productivity is low. So, I began to pay according to output, and I made everyone follow the regulations at work. Since my relatives' productivity was lower than the others, I was able to replace them with highly-skill workers. Now, only one of my cousins works for me. None of the other workers are relatives.*

**Interview 23, Construction material transportation, male, 28 years old**

*I used to employ my cousin. I have known him since childhood. He was also an obedient boy, so when my uncle (his father) asked me to hire him, I agreed right away. At first, he behaved well, but later he stole money from me. I couldn't ask him to return the money because I had no proof he had taken it. He even dared to pawn my truck to get money. Maybe he needed money, and he planned to repay me after receiving his salary. I didn't talk to my uncle about this, but it caused me a lot of stress. After a while, I fired him and told him it was because it was low season.*

**Interview 24, Construction, male, 57 years old**

*I needed a helper but couldn't find one, so I contacted my nephew in Phu Tho Province and asked him to work in my store. I told him that I would teach him how to do the job. Afterward, he could choose to work with me or to go back to his hometown and open his own business. (...) Of course, I only hire relatives. It is a way to help them. I do not hire strangers. Trusting strangers is hard. I don't want to let them inside my house.*

**4.2.2. Weakness of strong ties to increase capital**

Most businesses have to invest if they want to grow. Access to capital is a determining factor for those who plan to grow their business.<sup>29</sup> The interviews show that business owners generally do not rely on their close family anymore. The main reason is that they can usually only ask people in their network for support once. When they get the initial capital from parents or close family members, they do not dare to ask for money again, because they do not want to burden them. “*I can't borrow from my parents because I have already borrowed a lot from them*” was a frequent statement. The same holds true for the people who offered support at the start of the business who are not family members. Business owners do not want to ask their friends and relatives for more money, because then it would look as though they were taking advantage of them (see Interview 33 in Box 17). In addition, the amount of money needed to develop a business is often greater than the amount of required capital at the start of a business.

Similar to when starting a business, a strategy for obtaining funds to grow a business is asking people with whom one has weaker ties for money (see Box 17). If it is not possible to raise the required funds, the business owner will continue to run the business as it is. However, there is another possibility: borrowing money from informal moneylenders. As the business already exists, it can be used to guarantee the creditworthiness of the owner. The interest rate they have to pay depends on the strength of their relationship (see Interview 22 in Box 17).

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<sup>29</sup> According to the 2014 HBIS survey, 30 percent of the household business owners plan to increase their level of activity within the next 12 months.

### **Box 17. From family loans to money-lender loans**

#### **Interview 22, Groceries and rice seller, female, 41 years old**

*When I started making tofu and sold groceries, I didn't have to invest a lot of money. My parents-in-law gave me five million VND to use as capital. (...) When I needed more money, I borrowed from my parents. I borrowed 10 million VND from them, and then I paid them back. (...) Later, I built a house and changed my job and began selling rice. To do this, I needed to borrow money again. My husband and I are very hard working. My husband is different from his brothers. He always strives to have a better life, and he thinks about how to improve our economic situation. He talked with me about borrowing more money to expand our business. My mother has a retirement pension. She was a teacher at an elementary school. She had saved about 100 million VND and gave us all her money so we could build the house, so I can't borrow from her anymore. The people in my family are farmers, and they do manual labour, and they don't have much money to lend. My elder brother lives near my house. I often borrow small amounts of money from him in order to make change for customers. I always pay him back soon, usually the same day or the next day. (...) When we needed to borrow money to buy stocks of rice, only my mother was willing to support us, but she had no money left. I had to borrow from someone else. I borrowed from a woman named Toan who was recommended by my neighbours, and she charged me two-percent interest. The interest rate is quite low. It is three or four percent everywhere else. Because I am poor, my acquaintances don't trust me enough to lend me money, so I also had to borrow from a moneylender at a high interest rate, but I had no other options. We live in the same village, so we know each other. Her house is 500 meters from here. She knows I run a legal business and make money from it, so she trusts me. Both my husband and I went to her house and asked to borrow money. First, we borrowed about 10 million VND, then 20 million VND and then 50 million VND. (...) Gradually, we are enthusiastically investing the borrowed money, because it helps us make more money than when we ran a small store.*

#### **Interview 33, Grocery store, female, 35 years old**

*I borrowed from a friend when I started the business. At the time, I had just gotten married and had no savings. She supported me because she was a close friend. She was very helpful and gave me all she could. I only asked her to lend me money once. It would have been embarrassing to ask a second time. If I had asked for more, that would have implied she had some left and that she did not want to give to me. If I were to ask for a second interest-free loan, she might think I was trying to take advantage of her. Because she is my friend, she never charged me interest. If I want another loan, I will have to go to a moneylender or a bank. Now I have some savings and a house, so I can use the land use certificate to take out a bank loan if I want. I should work hard, and I should not take advantage of my friend's kindness, nor that of my mother.*

Other business owners prefer to take out bank loans. In addition to providing the owner with a large amount of money, bank loans have the advantage of a clear repayment schedule. Borrowing money from a bank requires the owner to make a business plan and creates an incentive to be more efficient (see Interview 11 and Interview 17 in Box 18). However, whether or not one gets a formal loan depends on the guarantee, they have at their disposal and also their level of risk aversion. Because a bank loan usually requires a land certificate to take out a mortgage, only business owners who have a good position in the family hierarchy – usually the eldest son — or those who have enough savings to buy their own house can use such a guarantee. However, some business owners are reluctant to risk losing their houses or their parents' houses in the event the business fails. Quỳền (see Interview 13) has a land certificate and the good

relationships needed to expand his business, but he is unwilling to risk losing his home in order to expand his business. Thu (see Interview 9) does not want to risk losing her house either. A mass organisation like the Women's Union is another source of formal loans, although the amounts of these social loans are smaller than commercial loans. Taking out a mortgage is not required, but a strong commitment is, and local associations supervise the disbursements of these loans. This kind of loans is frequently dependent on having a good relationship with some of the leaders (see Interview 34).

#### **Box 18. Conditions for bank loans and risk-aversion**

##### **Interview 9, Family printing business and spice seller, female, 52 years old**

*Borrowing money is not easy nowadays. We print wedding cards and invitations in our living room, and our business would be successful if we had a proper shop. However, if we were to borrow money and our business failed, we wouldn't be able to repay the money. We use our savings when we need to invest in the business. So if our business were to do poorly, we would only lose the effort we put into the business and our own money, not borrowed money. (...) My husband's parents gave this house to his brothers. My husband lives in and looks after the house, but we can't mortgage it to borrow money. Even if we could, we wouldn't. The reason is that if our business failed, we would lose the house. I don't want to borrow money to open a proper shop.*

##### **Interview 11, Artistic costume rental, female, 27 years old**

*When I got money from my parents, it was up to me to decide when to pay them back. Only by borrowing from a bank, will I be motivated to improve my business. When you take out a loan, you have to run the operation better.*

##### **Interview 13, Motorbike repair, male, 39 years old**

*My father has a great network. A friend of him has a car repair shop. I think that as Vietnam has been developing fast recently, more people will get around by car soon. The demand for shops that can service and repair cars will increase in the same way that the demand for motorbike repair shops increased in the past. So, I have a plan to turn this motorbike repair shop into a car repair shop, just as my father converted his bicycle repair shop into a motorbike repair shop. I told my father's friend, who has a car repair shop, about my plan, and he has agreed to teach me everything. I need to know about the business during the launching process. I also have a house that my father gave me. However, I would need a space that is four times bigger. My plan requires a large investment. However, I'm not sure I can run such a large business, so I need to consider my options carefully. My shop is fine as it is, so I will probably continue running it. Thinking about the investment for new car repair shop has made me lose interest. Borrowing one billion VND from a bank and having to pay it back within six months seems too risky. The potential profit is good, but the idea of borrowing the money to expand the business frightens me.*

##### **Interview 17, Motorbike accessories, 37 years old**

*Two years ago, I needed more than 500 million VND to invest in my business. I went straight to a bank. There are many banks, I just went there and asked them. I knew that ACB Bank only charges seven-percent interest per month, less than the others, so I decided to borrow there. The advantage of a bank loan is that the repay plan is transparent and fixed. I used my land certificate as a guarantee. I never asked my parents or siblings to lend me money. I am only willing to risk my savings and home. I don't want to risk losing money borrowed from others. If my business fails and I lose my house, I will go and stay at my parent's home. They bought a house for each of their children, and now they don't have any extra money. (...) Capital is the most important thing. Now, I can only borrow about 500*



*million VND. Borrowing a larger amount of money is not possible, because the amount of the loan is based on the guarantee. If I had two billion VND, I would invest in an automated production line. That would increase output, and the workshop could be expanded fivefold. At present, a worker can make ten products per day. If I had an automated production line, a worker could make up to 20 products per day. But my workshop is only about 200 square meters. It is the house I inherited from my parents.*

**Interview 34, Wholesale rice trader, female, 32 years old**

*My parents-in-law gave me the initial capital. They left me some stock when they handed over their business to me, and after the stock was sold, I gave them what they had spent buying the stock. To import new stock I needed 50 to 60 million VND. (...) To get 60 million VND I had to borrow from three sources: 10 million VND from the Farmer's Union, 30 million VND from the Women's Union and 20 million VND from my friends, who are also relatives of my husband. I have a relative in the Women's Union. She also lives around here, so she knows my financial situation. So, I went to her and told her that I was in desperate need of some money. She told me that the Women's Union would be more likely to borrow me money if I said that I wanted to plant trees by the riverside, and she helped me write a proposal. I just had to sign it. Then I got the money, and I think I was lucky. It was a three-year loan, and I managed to pay it off. The woman who lent me money is a relative of my husband. She sells plastic household products and is financially secure. I told her I was in need of money and asked her for 10-20 million VND. She gave it to me right away without asking any questions. We are quite close because her stall in the market is next to mine.*

Giving financial support to a friend or close relative so that they can start a business is seen as a form of encouragement and emotional support. However, relying on people in one's social network many times might be perceived as taking advantage of those relationships, and that should be avoided. It explains why the majority of business owners rely only once on their acquaintances, and usually only at the start of the business. Asking for financial support from people in one's social network at a later phase is rare, except for small loans used for current expenditures. This self-restriction may explain why most businesses owners do not grow their business and instead continue to conduct business on a small scale. Only those who have access to informal lenders or bank loans have an opportunity to invest in their business and grow. This supposes having a privileged relationship with a moneylender who offers a reasonable interest rate or having a large enough guarantee and low risk aversion in the case of a bank loan as well as a land certificate, a key form of support that is often provided by the family network. Women, who generally do not have a land certificate, are thus disadvantaged in their opportunities to develop their business.

### **4.2.3. Building a professional network**

Building a professional network is important for business development. Maintaining strong relationships with customers is a strategy to deal with competition. On the other hand, horizontal cooperation with owners having similar business could be essential to reach critical size because it provides technical support and allows sharing orders. In this section, we examine how these professional relationships are built and what are the costs and benefits.

#### ***a. Building strong relationships with customers to deal with competition***

Because of small entry barriers, competition in the household business sector is generally fierce. A way to survive and to grow is to build and maintain strong and long-term relationships with the customers. As shown by Interview 18 in Box 19, there is a mutual advantage to maintain this relationship. Guarantying the product quality throughout repeated transactions is a privileged way to build long-lasting relationships as illustrated in the Interview 17 (see Box 19). An interruption in the exchanges can be fatal to the relationship (Interview 28 in Box 19).

Proving trade credit and preferential prices are other frequent strategies to build close and trusting relationships. Trade credit refers to the facilitation by the supplier of the purchase of supplies without immediate payment. According to the 2014 HBIS survey, around two-thirds of the household businesses (68 percent) having one main supplier benefit from trade credit in the form of late payment from their main supplier (Pasquier-Doumer and Nguyen P., 2017). Late payments are usually provided to regular customers who demonstrated through repeated interactions their capacity to pay off after reasonable delays. For customers, late payments are an important source of short-term financing. The change of supplier implicates the loss of this advantage for the customer. Besides maintaining customer loyalty, trade credit and preferential prices could be mean to express gratitude towards previous support (Interview 14 in Box 19).

While trade credit is a generalized practice, it is not always costless for the owner. Late credit sometimes results from social pressure, especially in rural areas. Because customers are neighbours or acquaintances, some owners have to provide them with trade credit or preferential prices even this is out of their interest. As explained in Interviews 21 and 24 (see Box 19), some customers take advantage of their close relationship and the fear of conflict in a cohesive neighbourhood to delay payments. Trade credit can even be counterproductive by discouraging customers. Although trade credit can sometimes place the business in difficulties, the owner could accept it as a support to the community (Interview 19).

## **Box 19. Importance and strategies to maintain customer-supplier relationships**

### **Interview 14, Soup restaurant in the street pavement, female, 39 years old**

*I'm not afraid to compete with anyone because of the difference in my processing and cooking. Firstly, all cooking steps are done in the traditional ways. My sister in law taught me, and I consider the customer's advice as well. (...) Moreover, I am always friendly and sociable. I treat people around very kindly, so they trust and like me very much. Almost every day, four people are helping me a little. (...) We know each other because we sell together on the sidewalk. They are very supportive, so when they eat from my food stalls, I will charge them cheaper or add more ingredients to the soup for them. They don't agree to eat free, because everyone has self-respect. If they can't sell well, I will buy the remaining for them. They will charge me cheaper.*

### **Interview 17, Motorbike accessories, 37 years old**

*I mostly work with the mold I buy. (...) The difficulty is to maintain the relationships with four mold suppliers. We have been together for many years. Even when I tell them shortly, they can understand my request right away and clearly. They have a deep understanding of my requests and the specificity of my products. I have to maintain the relationships with them; otherwise, my job can be delayed. If I work with others, I have to explain them thoroughly, but sometimes they still don't understand me. At first, when I got one or two suppliers only, my work was affected a lot. The order was delayed so I lost my customers. When I have more good suppliers, it became better. We are fair to each other, and they don't overcharge me. It is hard to find a supplier, so I have to try doing with them one or two times. If they do well, I will continue to co-operate with them. At first, there were always problems with the products, but I felt that they also try to fix problems, then we co-operate long term. (...) Finding good supplier needs time, I have worked with more than ten suppliers [before selecting four].*

### **Interview 18, Wedding event logistic, female, 41 years old**

*It is the long-term business that they [the suppliers] want to do with me. For me, I want them to provide me with high-quality goods. In return, they also hope my business will go well so that they can keep being my suppliers. In this business, both sides rely on one another to keep the other going well, so I try to pay them off as soon as possible.*

### **Interview 19, Demolition contractor, male, 50 years old**

*The only limitation I face in my job is when my clients delay paying. Some clients do not have enough money to build their house, but they do it anyway, resulting in several debts. They do not try not to pay, but actually, they could not arrange yet. I could not do anything but accepted because that was the support among villagers. (...) Each only rebuilt his house once in his life, so I should support them to show the cohesion of social relationship. This is not exchange for anything back from them, but I value the spiritual connection among relatives.*

### **Interview 21, Grocery, female, 47 years old**

*My customers live around here, we are acquaintance, so I also sold on credit in the past. Then I realized that it made me lose customers. Because when they owed me money, if they didn't have enough money or didn't want to pay back, they would buy from other stores. After six months, I stopped selling on credit. I started to require cash on delivery. Who said that they would pay later, I said that the profit was very little or I needed to return my loan after that so I could not allow late payments. Gradually, they understood that so no one asked me to sell on credit. Sometimes, if they forget to bring money, I still sell goods only when I know for sure that they will pay back soon.*

### **Interview 24, Construction, male, 57 years old**

*In this business, owing money is quite normal. Most of my customers are neighbours. After I finished my works, some said that they didn't have money, while some said they had sent all the money to the bank. I could not do anything, but had to wait for the money. I could not uninstall equipment or argue with them. We were neighbours living in the same area, so conflict was not good. But I still had to pay the cost of materials to the suppliers. There were some cases, not many. Then, I got experiences. Now, I deal with customers that they must pay deposits for materials at first, while human fee can be paid later.*

**Interview 28, Vegetable whole trader, female, 40 years old**

*There was one reseller that I met at Kim Lien by accident. She asked me to collect vegetables from other sellers then resell them to her. Since then she became my reseller for ten years. However, we stopped doing business six years ago when I took maternity leave. When I came back to work, another wholesaler had already supplied her shop.*

***b. Fostering the cooperation with other business owners***

Horizontal cooperation is another important challenge for the development of a business. Building relationships with owners of similar businesses may be a valuable asset. As shown by Interview 13 in Box 20 (or Interview 17 in Box 8), cooperation among business owners is demanded to solve technical problems, when each specializes in particular skills. They share advice, market information or supplier recommendation. Discussion with peers allows staying up to date with new technologies. Another advantage of horizontal cooperation is the opportunity to share orders (Interviews 19 and 24 in Box 20). It helps the business to regulate the activity, especially in sectors where seasonality is an issue.

Therefore, similar businesses are usually not considered to be competitors but, instead, are regarded as a source of support. It is particularly true in rural areas or craft villages. The perception of "*each has his owned fortune*"<sup>30</sup> facilitates this process. New competitors are not considered as a threat, although it can slightly reduce the market share, because of the strong link established with regular customers. Cooperation is instead highly valued, and competitors are viewed as members of the same community, professional community (Interviews 13 or 17), local community (Interview 22) or both (Interview 24). Supporting members of this community is more important than the cost and benefit related to this support.

Professional networks are usually built with the development of the businesses through business interactions. The expansion of the business leads to more contacts. In turn, these contacts are helpful to the business. Maintaining a professional relationship supposes reciprocity and sharing leisure time and social events. However, this investment in time is not very costly according to business owner (Interview 13).

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<sup>30</sup> "*Lộc ai người nấy hưởng, mỗi người có duyên riêng của mình*" in Vietnamese

## **Box 20. Cooperating instead of competing**

### **Interview 13, Motorbike repairing, male, 39 years old**

*If the issues are hard to find, I will ask for support from other repair shops. I bring the scooter to a repair store, which has well-skilled workers, and then ask how I can fix it. I pay them at the same rate I charge the customer. Day by day, I become closer to workers, so they are supportive. Many times, they fix for me without charging money. There are a few stores, which have well-skilled workers. We keep in touch even some work far away. Now, mobile phones are very advanced. I can take a photo, then send the image to them to ask for help. If they know, they will tell me how to fix it. (...) We work in the same industry, and so all things are simple. We all are busy, so we only contact each other if needed. Or on some special occasions like the Lunar New Year event, we gather for food and drinks. Shortly, I don't have to spend much time and money to maintain those relationships. Each one is good at a specific field. If I need information, they will provide for me.*

### **Interview 19, Demolition contractor, male, 50 years old**

*Two workers quitted my business and invested in doing the same business. They charged lower prices than mine. Thus, I lost some contacts with construction managers. The same happens to all kind of businesses, not only mine. I just kept thinking that my service was the best and tried my best. Even they proposed lower prices to the market; I did not care. (...) We work together in the same sector, so it would be fine among us, still being close friends. When we have so many orders, we introduce orders to each other. It's good as well.*

### **Interview 22, Grocery and rice seller, female, 41 years old**

*My cousin wanted to set up his store, but he didn't know about the investment and the ordering process. We are relatives, so he asked me straight away for help. I instructed him like a senior. There is nothing to hide. I helped him quite enthusiastically and told him what to buy, how to install it. It doesn't affect my business and me at all. I only wasted little time to talk to him. If there is one more store, the amount of my customers will decrease slightly. I still ok. (...) Now, his store is bigger as twice as mine. Helping others is the predestined tie. I help them, and then, there will be others helping me. He is my relative, as well as my villager. This sibling relationship is precious. We don't care about the advantage or disadvantage.*

### **Interview 24, Construction, male, 57 years old**

*There are four people around here who also open water and electrical stores. There is no competition in this business. Firstly, we are neighbours who work in the same industry. Secondly, this business is based on relationships with construction contractors or house owners. In general, the customers mostly come from the references from others, so there is no competition. Otherwise, we are quite close and actively support each other. In free time, we visit each other and chitchat. When I am too busy, I ask them to support in one or two work shifts and vice versa. It is not frequent. However, when there is a high season, all of us are busy.*

## 5. Conclusion

The creation process of household businesses is largely embedded in the family networks of the business owners in Vietnam. Interactions with family members, especially those linked with the business owner through strong ties, shape the design of the business. They condition the business size by providing the initial capital, and the business activity by diffusing the main information and by transferring skills.

In the business creation process, family networks are by far the most preferred source of the initial capital, which brings many benefits to the business. They include low cost, flexibility in reimbursement and no requirement of guarantee. In a context where the formal financial market is not well developed, these benefits are usually a necessary condition to start a business. Conversely, the flexibility in the reimbursement of loans from family networks limits the structuring of the business. Accessing such loans from social networks, business owners do not need to evaluate the risks related to the business or even to build a business plan. In addition, this source of funding makes the business dependent on good relationships within the family.

Although the bulk of business owners benefits from financial family support, the amounts and the conditions of the loans they can get are determined by two factors: the wealth of their close families and their status in the families. Women are particularly disadvantaged in this last aspect. Interestingly, this study highlights the strategies implemented by some business owners to circumvent these limitations. The main strategy is to multiply the source of funding by asking small amounts from several people in the family networks. Moving out of the family sphere may be costly, especially in rural areas where this behaviour generates gossip. And, it supposes to get intimate and reciprocal ties with people who are better off enough in order not to burden them. Therefore, business owners frequently adapt the sizes of their businesses to the amounts of loans they can get from very close relatives. Only those having a privileged status in the families (mostly the eldest sons) and families with land certificates can access formal loans. Low risk-aversion and long-term perspective for the business are commonly observed characteristics of business heads doing so.

Strong family ties also play an essential role in the choice of the business activities. Information for the business creation process is transferred through family members, but not as common as financial family support. However, it does not mean a less important role in information support. Family support in diffusing information is ranged from the transfer of businesses or specific skills to some advice on the choice of business activities. Strong ties are mostly involved in the transfer of businesses or skills. It results in resources for the business owners that are *savoir-faire* or brand names, reputation and professional networks. Information support from family networks heavily influences the design of the business and consequently its trajectory. Choosing to reproduce a business already conducted by the family makes the owner more confident in his or her capacity. It is a natural choice, “the easiest way”, and a mean to take advantage of the private information. However, in comparison to

financial support, information support from the family networks is not costless. Information support often goes against innovation and does not encourage the owner to question the sustainability of the business he or she plans to create: the adequacy of the activity with the current economic context is not taken into account, neither the potential demand. As a consequence, the business usually has a low potential opportunity for growth, except in the rare cases where the owner can invest and upgrade his or her skills. In that aspect, it does not differ much from businesses, which are created with public information, or in other words, without relying on social networks.

A more efficient way to get private information is through weak ties. Weak ties generally convey innovative information for the business and provide the owner with new perspectives and models on what he or she can do. The weaker the ties are, the less detailed information is. Information from weak ties would come to the business owner having developed entrepreneurial skills and being low risk-averse, which are essential for a successful business.

Therefore, support from strong family ties is essential at the start of the business, and also shape the business at a small size at first, which is often not adapted to rapid changes in the demand and the technologies in the latter phase of business development. Weak ties are much less mobilized at the start of the business, but they are a source of valuable information to create innovative businesses.

The more the business grows, the higher the strength of the weak ties is. Relying on family networks to get labour to develop the business is common practice. Besides the lack of labour market intermediaries to recruit workers, the main reasons are the trustworthiness of these family workers and the obligation or desire to participate in the business for the well-being of the whole family. But this practice is not sustainable as soon as a critical size of the business is reached. Enforcing regulation at work and applying market-based remuneration is difficult with family workers. Moreover, relying on family workers could be a drag to the development of the business in case of bad experience with one family worker: the condition to fire a family worker is often not to recruit someone else because the pretext of firing have to be a slowdown in the activity, in order to get the acceptance from the family.

Similarly, family support in financing the business leaves the place to the use of weak ties or even formal loans to access financial resources for the development of the business. Asking for financial support commonly happens once only at the start of the business: close ties are willing to provide loans at the business start, as a form of encouragement and emotional support, but relying on them several times is perceived as taking advantage of these relationships. Moneylenders or bank loans thus fund investment in the business. For moneylenders, interest rates depend on the strength of their relationship with the owner. And bank loans are conditioned to having land certificates and are risky as the land is taken as a loan mortgage. For these reasons, most business owners do not grow their businesses and maintain their activities on a small scale.

After having shaped the business at its start, family or inherited networks become less and less essential in the development of the business. Meanwhile, the professional networks, which have been built since the business started, get more importance. Maintaining strong relationships with customers and suppliers is a way to deal with competition. Guarantying the product quality throughout repeated transactions and providing trade credit for customers and suppliers are common strategies. Horizontal cooperation among owners having similar businesses could be essential to reach a critical size of professional networks because it provides technical support to the owner and allows sharing orders. These professional networks among household businesses are usually built up with their reciprocal interactions and the spending of their leisure time together.

The use of social networks for a household business performance is a consistent component of its functioning. Most of the resources for the household business are getting through personal relationships of the business owner. A cost-benefit analysis of the use of social networks and family networks, in particular, remains mixed. Besides providing resources, the use of social networks often conditions the business to remain small, in circumstances where other alternative accesses to resources are weak. However, the use of social networks should be understood in a larger perspective than a cost-benefit analysis of accessibility of resources for business performance. Indeed, it is anchored in family structures and local community contexts, supposing a set of duties and rights embedded in reciprocal relationships beyond the business interactions only.



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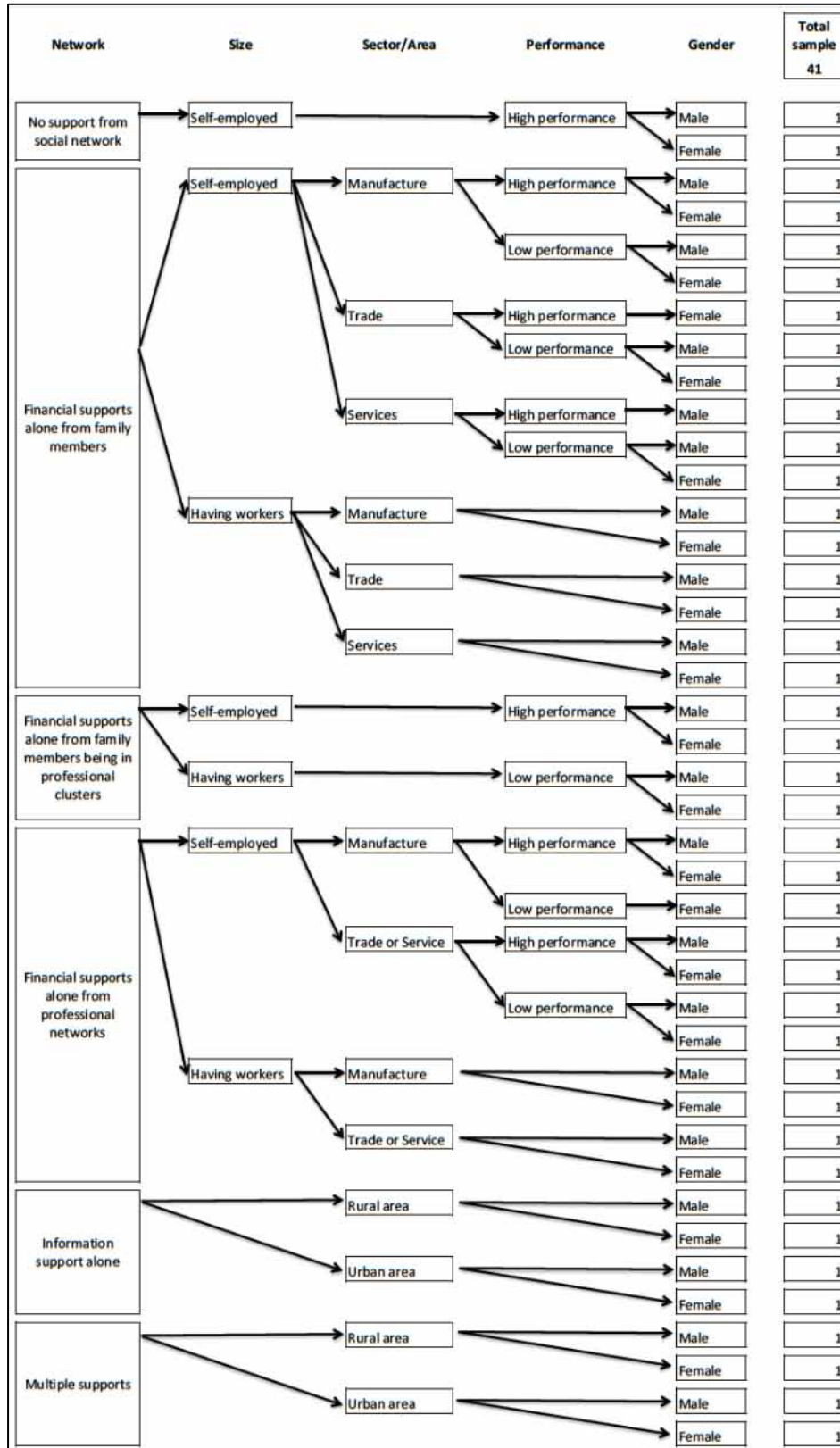
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## Appendix

### Appendix 1. Characteristics of the businesses of the qualitative survey sample

Interview number	Source of information at the creation	Annual value added (000 VND)	Quartile of value added	Type of premises	Number of workers
1	Family network	6600	1	Home	2
2	No network	43267	3	No premises	1
3	No network	67680	3	Home	1
4	No network	832833	4	Home	6-18
5	No network	16921	1	Home	1
6	Family network	6120	1	Professional premises	2
7	No network	26880	2	No premises	1
8	No network	10236	1	No premises	1
9	Friends	20993	2	No premises	1
10	No network	82500	3	Home	1
11	Business tie	315042	4	Professional premises	6-18
12	No network	32866	2	Home	1
13	Family network	370436	4	Home	3-5
14	Family network	356040	4	No premises	3-5
15	No network	162960	4	Professional premises	3-5
16	No network	3600	1	Home	1
17	Business tie	1488000	4	Professional premises	6-18
18	Family network	254177	4	Home	3-5
19	Friends	878915	4	No premises	6-18
20	Family network	113400	4	Home	3-5
21	Friends	26520	2	Home	3-5
22	No network	11880	1	Home	3-5
23	Business tie	922000	4	Professional premises	3-5
24	No network	20000	2	Home	1
25	Business tie	85200	3	Home	1
26	No network	68040	3	Home	3-5
27	Business tie	72000	3	Home	1
28	Business tie	11264	1	No premises	1
30	Business tie	102000	4	No premises	1
31	No network	19594	2	Home	3-5
32	Family network	26513	2	Professional premises	1
33	No network	7170	1	Home	1
34	Family network	41300	2	No premises	1
35	No network	36000	2	No premises	1
36	Family network	82690	2	No premises	1
37	Family network	432600	4	Home	3-5
38	Business tie	6929538	4	Home	6-18
39	No network	173866	4	Professional premises	1
40	No network	55100	3	Home	1
41	Friends	88967	3	No premises	1

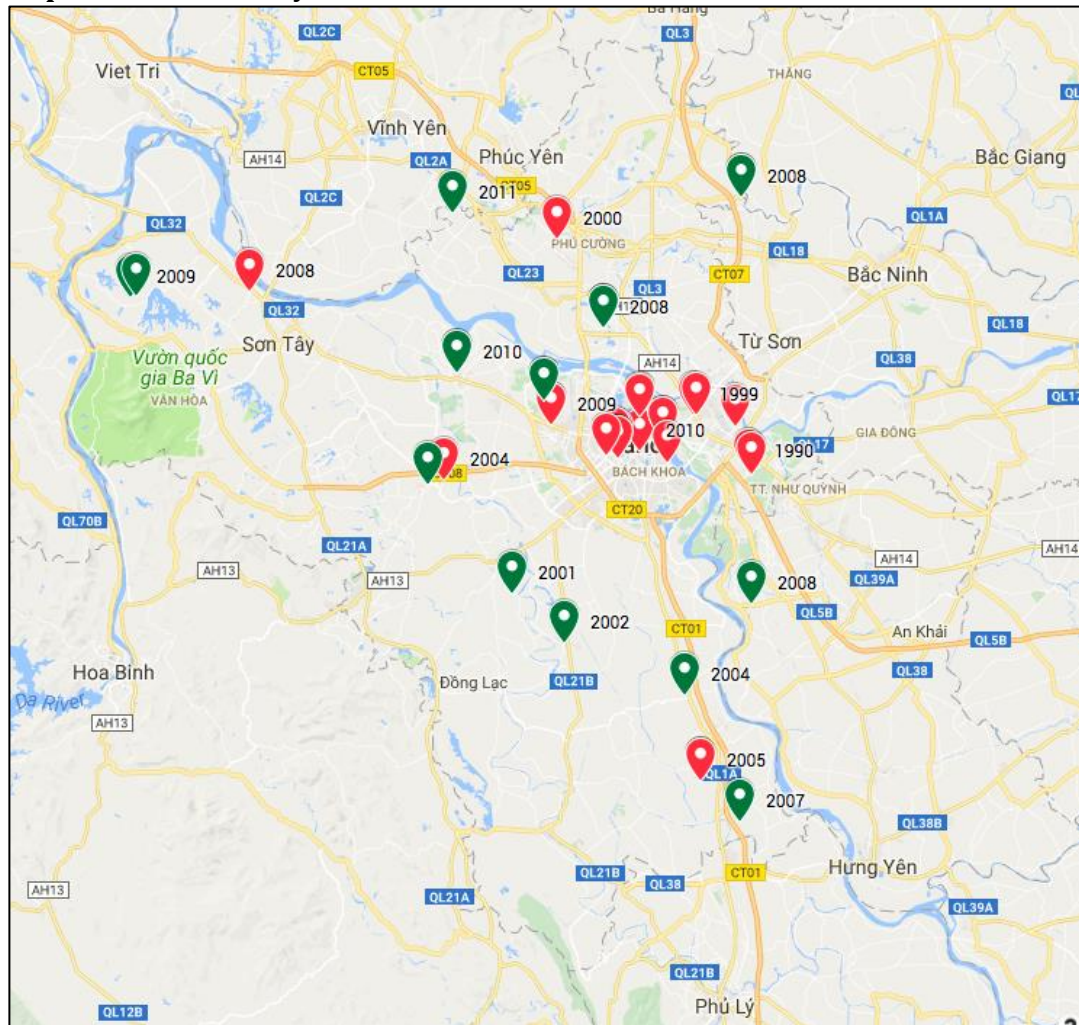
## Appendix 2. Sample design



Source: by Authors

### Appendix 3. Survey site maps

Map 3.1. Interviews by location of urban or rural areas



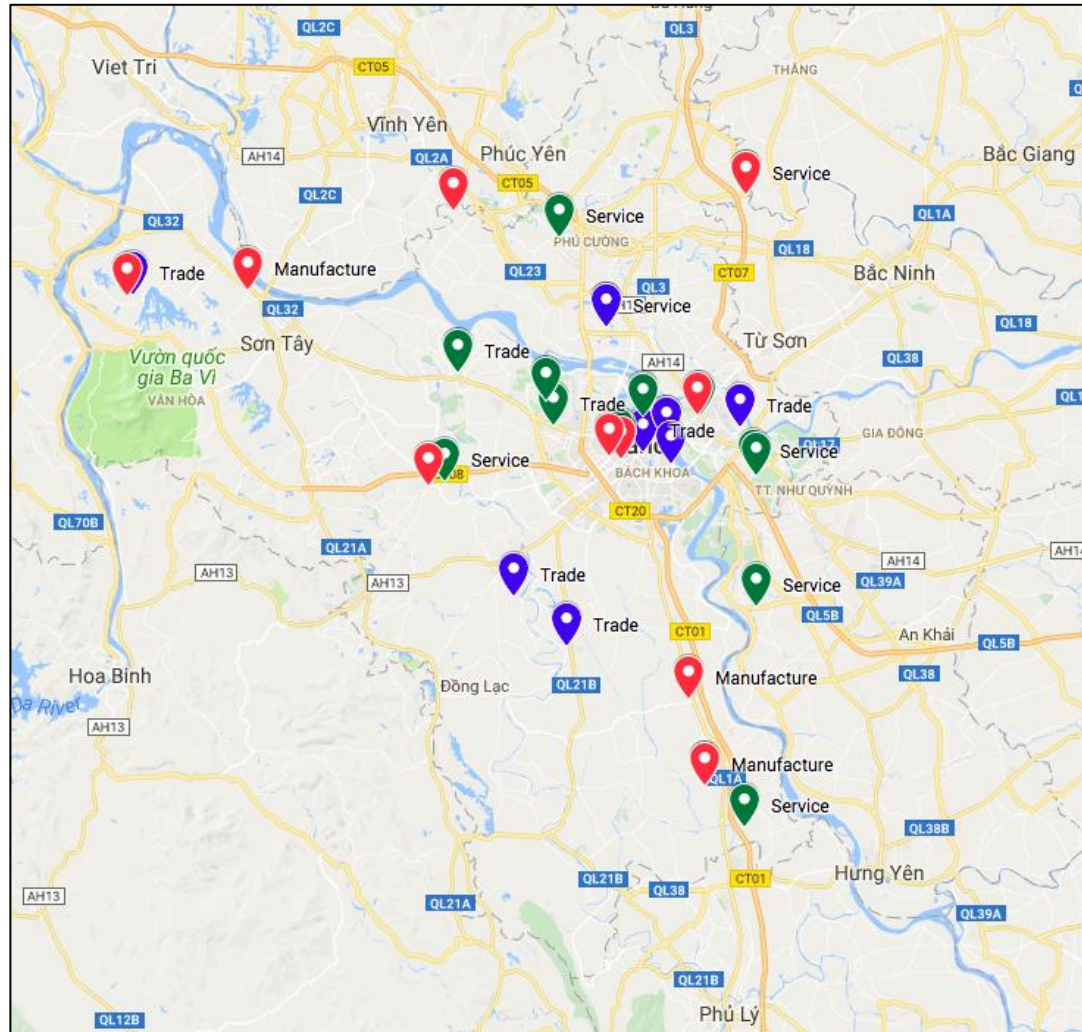
*Note: Observation in urban areas as in red (24 observations); Observation in rural areas as in green (17 observations).*

*Provincial boundary in dashed line. Observations are marked by the starting year of the business.*

Source: by Authors



**Map 3.2. Interview locations by sector**

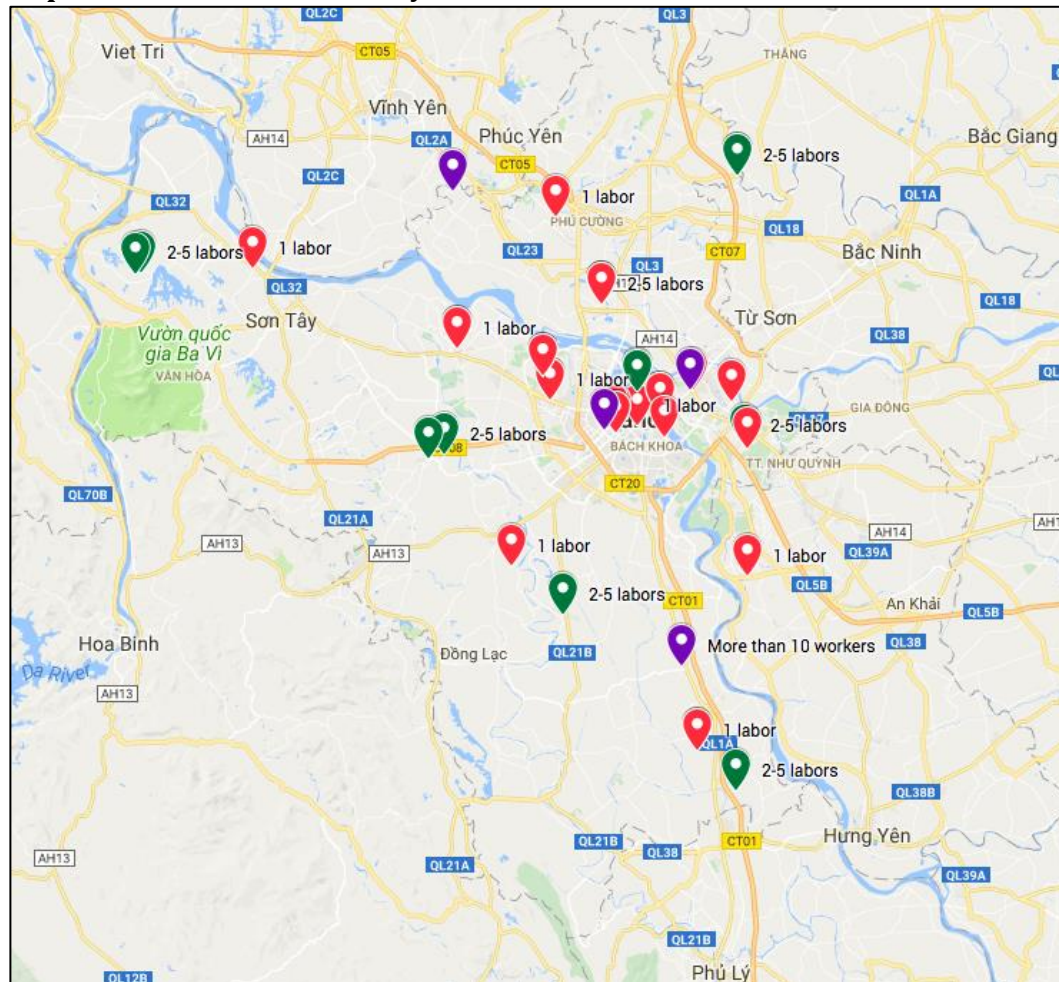


*Note: Manufacturing businesses are marked in red (14 observations); Service businesses are marked in green (17 observations); Trading businesses are marked in blue (10 observations).*

*Provincial boundary in dashed line.*

Source: by Authors

**Map 3.3. Interview locations by the business size**



*Note: Self-employed businesses without worker are marked in red (25 observations); Businesses having 2-5 workers are marked in green (12 observations); Businesses having more than 10 workers are marked in purple (4 observations).*

*Provincial boundary in dashed line.*

Source: by Authors



## **Appendix 4. Interview topics**

In-depth interviews aim to gain an in-depth understanding of the influence process of social networks on the business performance. The interview is developed based on the combination of two qualitative tools, including (1) the timeline of the business to explore the process over time, and (2) the social network map to explore influence from a particular *Alter*, based on the 2014 HBIS survey data.

Along these two tools used as a support for discussion, interview topics were structured for in-depth interviews as followed.

### **1. Introduction**

Objective: explaining the objective of the study and gaining the trust of the interviewee

### **2. Discussion of the global context of the business and social environment of the business owner**

Objective: To get a detailed timeline of the business including the main changes in the business operation and in the opportunities, constraints, and difficulties in conducting this business; to complete the social network map built from the 2014 HBIS survey.

#### Topics for discussion:

- The process of how the business owner had evaluated his or her need, goals and constraints in starting a business;
- The identification of people, who had influenced the choice of this kind of business activity, and more generally of the social embeddedness of the owner at the start of the business;
- The perception of the business owner about the important changes in his or her business operation, and how social interactions had influenced these changes; reversely how changes in the network had affected the business operation.

### **3. Costs and benefits of particular relationships in a specific phase of business**

Objective: To discuss about the costs and benefits of all interactions identified in the network map, and to compare them with the ones related to other potential sources of supports.

#### Topics for discussion:

- The evaluation of the opportunities to rely on alternative strategies (formal institution, other relationships) to get resources, and the relative cost and benefit of these strategies;
- The process of how supports had been distributed among family members and what were the ins and outs of this decision-making process;
- The identification of the social commitments related to each use of social relationship; and the consequences when the commitment was not fulfilled;
- The history of exchanges between *Ego* and *Alters* to identify the long-term social obligation and reciprocity included in the interaction.