

Chapter 7: The role of friends and family in correcting market deficiencies

We have seen that family and friends are critical in firm financing, by playing the role private credit markets have been unable to play. As research continues on the best way to assist private development in the provinces, it is worth asking what other critical market deficiencies have been alleviated by turning to family and friends?

7.1. Market deficiencies corrected by friends and family

With regard to firm development, by looking at the mean importance attributed to family and friends in several different areas, table 32 shows the strong difference between high performing and periphery provinces. While all provinces turn to family for capital, periphery provinces seem to utilize family much more than the five high performers in their negotiations with government, banks, sales, and even service provision. Indeed, this is one of the more striking results of the survey.

Some of the major warning signs was the strong belief by firms in Thanh Hoa that family is very important in negotiating with government (leading to a mean of 2.27 out of a possible 3). Nam Dinh also scores quite high on this measure, and over 50% of Nam Dinh companies relied on family for promoting sales of their projects (for a mean of 2.45). Nam Dinh, Thanh Hoa, and TT Hue are also revealing for the high importance of friends overall; a figure arrived at by adding up the mean importance in every role played by friends and family.

There is little difference in the role played by family and friends across regions. Rather, high performing versus periphery is a much better distinguishing characteristic, especially with regard to sales assistance and business service provision. Sales assistance, however, was consistently high across both high performing and periphery provinces. By contrast, a clear divergence was found on business service provision. The high performing provinces (23% overall) and Long An (10%) were very unlikely to use family and friends for help, preferring to use commercial suppliers, though Dong Nai was an interesting exception. By contrast, TT Hue, Nam Dinh, and Thanh Hoa had quite high percentages of firms turning to family and friends. The crucial factor in determining whether firms chose family and friends does not seem to be "the proximity to market" from our initial conditions. Long An and Ha Tay—both within a motorbike ride of large cities—are the least likely to be reliant on family.

Table 32: Importance of family and friends in solving various problems
 Mean score ranging from (0- Not Important to 3- Very Important)

Regions	Province	Infrastructure problems	Bargaining with government officials	Sources of capital	Dealing with company's internal problems	Bargaining with banks	Sales assistance	Business service provision	Sum
North	Ha Noi	1.90	1.94	2.35	2.01	1.77	2.03	1.80	13.80
	Hai Phong	2.18	1.81	2.32	2.09	1.67	2.22	2.00	14.28
	Ha Tay	1.96	1.55	2.66	2.00	1.41	2.24	2.06	13.87
	Nam Dinh	2.03	2.06	3.28	2.19	1.79	2.45	2.17	15.96
	<i>Total</i>	<i>1.96</i>	<i>1.86</i>	<i>2.55</i>	<i>2.04</i>	<i>1.68</i>	<i>2.15</i>	<i>1.93</i>	<i>14.18</i>
Central	TT Hue	1.97	1.90	2.45	2.14	1.91	2.26	2.26	14.90
	Thanh Hoa	1.82	2.27	2.18	2.40	1.91	2.00	2.00	14.58
	Da Nang	1.50	1.58	2.10	1.69	1.61	2.10	1.88	12.45
	<i>Total</i>	<i>1.70</i>	<i>1.77</i>	<i>2.24</i>	<i>1.93</i>	<i>1.75</i>	<i>2.14</i>	<i>2.03</i>	<i>13.57</i>
South	HCM City	1.76	1.86	2.17	1.94	1.68	2.05	1.80	13.26
	Dong Nai	2.29	2.11	2.44	2.21	1.88	2.41	2.11	15.46
	Long An Binh Duong	1.88	1.62	2.44	1.83	1.61	2.03	1.69	13.09
	Duong	1.70	1.73	2.35	1.95	1.58	2.07	1.73	13.10
	<i>Total</i>	<i>1.81</i>	<i>1.81</i>	<i>2.28</i>	<i>1.95</i>	<i>1.66</i>	<i>2.08</i>	<i>1.79</i>	<i>13.40</i>
High Performers	Total	1.79	1.84	2.26	1.94	1.70	2.07	1.82	13.42
Total	Population	1.86	1.83	2.39	1.98	1.69	2.12	1.90	13.77

Figure 21: Market deficiencies corrected by friends and family (by region)

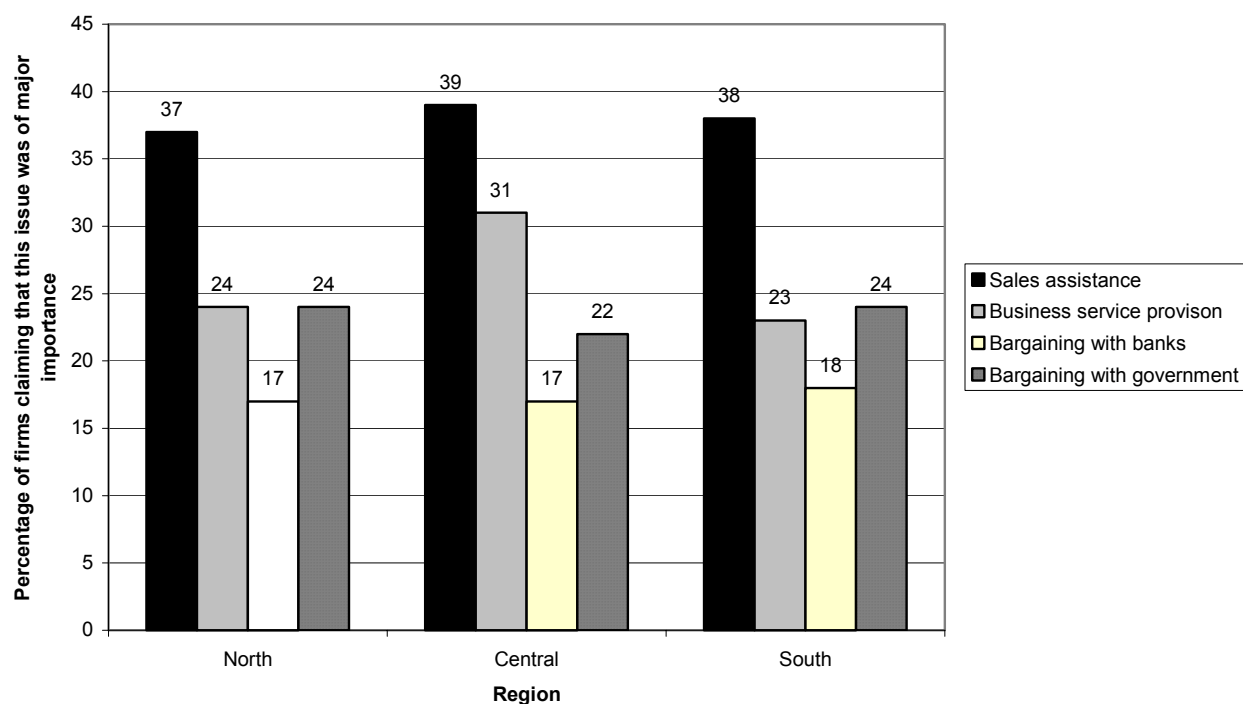
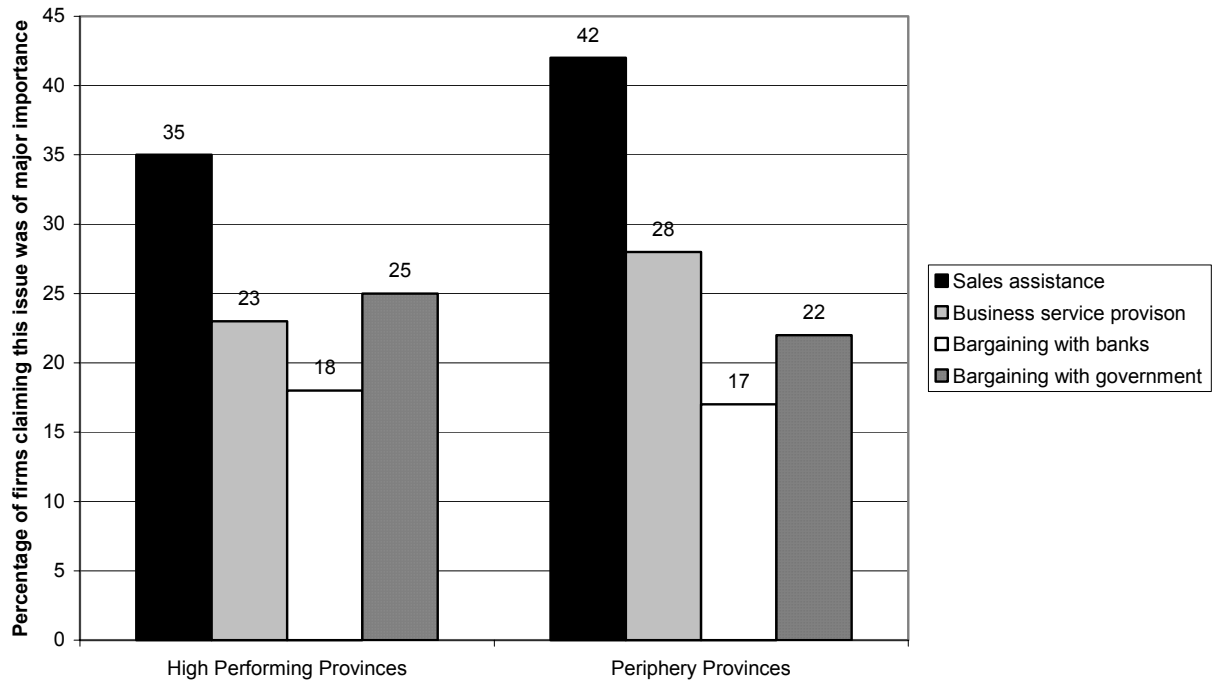


Figure 22: Market deficiencies corrected by friends and family (by provincial group)



7.2 What types of services are friends and family supplying for firms?

The assistance of close relations is widespread in local business. The only service not selected in high numbers was computer services, but in Nam Dinh and Hai Phong family was even turned to for some computer assistance. Provision of information on market opportunities and partnership possibilities was the most important service across the board, with financing and accounting following closely behind. Nevertheless, patterns are difficult to discern. The only statistically significant dichotomy is between northern and southern provinces on the use of family and friends for training and computer services.

Table 33: Business services provided by friends and family									
(Percentage of total mail-out firms receiving service from friends or family)									
Region	Province	Info provision	Finance & accounting	Consulting services	Training	Marketing assistance	Technical assistance	Computer MIS services	Legal advice
North	Ha Noi	60.3	37.4	33.6	8.4	26.7	22.1	16.0	16.0
	Hai Phong	62.1	41.4	48.3	20.7	27.6	34.5	20.7	17.2
	Ha Tay								
	Nam Dinh	45.8	35.4	27.1	14.6	10.4	20.8	14.6	18.8
	<i>Total</i>	<i>44.6</i>	<i>29.2</i>	<i>26.6</i>	<i>9.0</i>	<i>18.0</i>	<i>18.4</i>	<i>12.7</i>	<i>13.1</i>
Central	TT Hue	53.7	31.5	35.2	14.8	25.9	9.3	9.3	18.5
	Thanh Hoa	56.3	50.0	37.5	25.0	31.3	37.5	12.5	37.5
	Da Nang	46.2	15.4	21.2	3.8	13.5	26.9	3.8	17.3
	<i>Total</i>	<i>50.8</i>	<i>27.0</i>	<i>29.5</i>	<i>11.5</i>	<i>21.3</i>	<i>20.5</i>	<i>7.4</i>	<i>20.5</i>
South	HCM City	53.6	30.4	22.3	8.9	28.6	20.5	8.9	17.0
	Dong Nai	54.2	29.2	37.5	12.5	8.3	45.8		29.2
	Long An Binh	44.4	42.2	15.6		13.3	15.6	4.4	6.7
	Duong	44.1	28.8	20.3	5.1	16.9	16.9	10.2	25.4
	<i>Total</i>	<i>49.6</i>	<i>32.1</i>	<i>22.1</i>	<i>6.7</i>	<i>20.8</i>	<i>21.3</i>	<i>7.5</i>	<i>18.3</i>
High Performers		53.4	30.42	26.72	7.67	22.75	23.02	10.32	18.78
Total	Total Population	47.69	29.89	25.44	8.58	19.72	19.87	9.7	16.53

7.3 Comparing family to the commercial market for business services

Very few firms in the periphery provinces seem willing to pay for business services. The percentage of firms doing so was about half of that in the high performing provinces. Regarding computer services, where family is likely to lack the requisite skills, there appears to be some convergence. On the whole, periphery firms are more willing to pay for finance and accounting help, while in the high performing provinces, information-provision is more highly valued. Distinctions between the two groups are even more stark when one omits Long An, which accounted for about a quarter of the firms paying for assistance across the sample. An interesting note is that despite the low number of firms using services in the periphery, those users are very likely to be repeat clients. Median usage for information provision in the high performing provinces was four times, while every other service was about two times. Contrast this with Hai Phong, where three firms had used training assistance 6.5 times, information service provision 10 times, and marketing assistance 10.5 times. Long An (consulting 4.5 times), Ha Tay (marketing 4.5 times), and Nam Dinh (information provision 6.5 times) were also high repeat users.

7.4 Factors distinguishing business service provision

Among both high performing and periphery provinces, the biggest determinant of service provider selection is reliability and consistency. The choices made by periphery firms tend to be slightly more determined by the price of the service, though periphery firms in some provinces (eg. Hai Phong and Nam Dinh) were more sensitive to the competence of the providers than the high performers (see figure 23 below). In Thanh Hoa and Ha Tay, price was the strongest determinant of selection. Long An firms were not inspired to select any of the factors in high numbers. One policy conclusion that can be drawn from these results is that if donors want to promote business services among periphery firms, their appeal should be based on realistic costs and reasonable pricing.

Figure 23: Factors in choosing a business service provider

