FROM RISK MANAGEMENT TO OPPORTUNITY MANAGEMENT: An institutional approach

Case company: RADIO TECHNOLOGY Company Limited
(RADTECH)

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My Đang
Clarification of Signature
ABSTRACT

As Institutions has become an important research topic, the motivation to understand the institutional environment in a particular economy and how firms adapt to this environment created a background for the thesis. Vietnam, as an emerging economy, is an ideal example of a weak institutional system. By reviewing relevant literature in the fields of institutions and risk management, the study developed a theoretical framework of effective management strategies for firms to exploit opportunities and gain competitive advantages. Furthermore, the framework was examined in the situation of the commissioner company in Vietnam in order to understand the current situation in the country. The thesis includes a deep structured interview with the CEO of a Vietnamese private company in the telecommunication industry, RADTECH. Recommendations were given to the commissioner company's manager when dealing with institutional issues in order to enhance the firm’s performance.

Theories on risk management show limitations in coping with risks caused by a weak institutional environment, while opportunity management may increase firm’s performance in this situation. In particular, theories on Institutions reveal that business ties and political ties play an important role in acquiring institutional support and thus, gaining competitive advantages. In addition, organizational learning and market orientation enhance positive relationships between managerial ties, institutional support and firm’s performance. These theoretical findings created a foundation for the development of the conceptual model in this study. The commissioner company, RADTECH is aware of its institutional environment and has been using managerial ties strategy to achieve growth and success. Table 3 showed that most of the hypotheses were supported. Nevertheless, the effects of some variables in the conceptual model, such as the relationship between market orientation and cost advantage, have not been realized by the CEO of the company. This thesis, therefore, provides a better understanding of the situation and a theoretical framework for managerial implications. With the conceptual model, future research can examine at a larger scale for SMEs in different areas in Vietnam and compare the effects of managerial ties on firm’s performance through institutional support and management strategies in order to gain a deeper knowledge concerning this issue.
Keywords Institutions, Risk Management, Business Strategies, Managerial Ties, Institutional Support.

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<th>Abbreviation</th>
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<tr>
<td>RADTECH</td>
<td>RADIO TECHNOLOGY Company Limited</td>
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<td>CEO</td>
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1 INTRODUCTION

Fast-growing and unpredictable changes in the global market economy have increased the importance of firms' risk management. Carey and Turnbull (2001) called risk management an “integral part” of business management. Over the last decades, scholars have shown interests in many different aspects of risk management. While risk management program has been adopted and implemented widely by managers, from the perspectives of finance, accounting, project management, etc., little attention is paid by managers on institutions to identify risks. By using literature review on theories of risk management, the thesis writer realizes the limits of risk management and its applications in practice. In addition, as research has shifted to an entrepreneurial mindset of managers towards particular risks, it has been realized that effective opportunity management is another important strategy, which enables managers to exploit new opportunities for growth and success. Managing risk is not only simply depending on internal sources of firms, in fact, the external environment, in which firms are operating, plays a key role. This paper aims to focus on one important aspect of the business environment, Institution, which is realized as the “fundamental cause of economic growth and development differences across countries” (Acemoglu & Robinson, 2008, p. 2). According to North (1991), “Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct), and formal rules (constitutions, laws, property rights)” (p. 97). Institutions function in a country in forms of formal institutions and informal institutions. Their interactions may be beneficial in some contexts and detrimental in others. Understanding these interactions will help companies to create management strategies and generate success.

Under the influence of institutions, research has been searching for effective strategies for a firm's interactions with institutions in order to gain advantages and create opportunities. Since institutional environment cannot be changed in the short term, risks caused by weak formal institutions are difficult to be mitigated by common risk management strategies. The thesis writer proposes that the best way to deal with those risks is to adapt to the local environment and exploit potential opportunities in an uncertain market environment. According to Ingram & Silverman (2002), “institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy, and to create competitive advantage” (p.20). Therefore, this thesis emphasizes firms' strategies to exploit actively competitive advantages in ineffective formal institutions, rather than risk management strategies to avoid the situation.

Institutions play a critical role in economic development as well as firm performance and become an important issue especially in developing countries, where the framework is weak and ineffective. Vietnam, for example, as an emerging economy, is in the process of transitioning from a
centrally-planning economy to a market economy. Many reforms and changes have been happening in the country, which requires companies to be highly adaptive. As shown in five items of Economic Freedom Index, which indicates the strength of market-supporting institutions in four emerging markets, India, Vietnam, South Africa and Egypt (Meyer et al. 2009), Vietnam showed the lowest indexes among these countries, which means the efficiency of the Vietnamese market is relatively low, resulting from an ineffective and weak institutional framework. There have been important reforms in the institutional framework of Vietnam. However, major issues, such as property rights, law enforcement, firm ownership structure, relationship between firms and stakeholders, etc. are barriers for the future prosperity of the country. In addition, there is a lack of research which focuses on how companies in Vietnam, especially small and medium-sized companies are dealing with the weaknesses of an institutional system. The main purpose of this thesis is to apply theories in practice, to gain deeper understanding of management strategies towards an ineffective institutional framework. A conceptual model based on recent research will be developed in order to create a theoretical framework of managerial responses to an institutional environment in emerging economies. Examining theories into practice, the thesis later includes a deep structured interview with the owner of a Vietnamese private company, RADTECH. The reason for choosing private-owned companies is these companies are more vulnerable, in term of the influence of a weak institutional framework but are more easily adapted with changes in business environments. The reactions of the commissioner company towards the institutional issues will be analysed from both theoretical and practical perspectives.

1.1 Research Question, Objectives and Scope of Topic

The importance of institutions in economic development has raised concerns of the influences of the effectiveness of institutional framework on management strategies. According to Peng et al. (2009), institution should not only be considered as a background condition but it directly affects a firm's strategic choices. Especially in developing countries, where the market works poorly, institution is an increasingly important factor in deciding business strategies. Approaching this issue, the thesis brings the following research question: **In the situation of an ineffective institutional environment, in which way does the interaction between private-owned firms and institutions affect a firm's performance in emerging economies, particularly Vietnam?** In order to answer this key research question, several sub-questions are also listed:
- To what extent does ineffective institutional environment affect firm performance?
- Do established risk management strategies enable firms to enhance firm performance in a weak institutional system?
- What are the factors influencing the interaction between firms and institutions?

The main purpose of this thesis is, by reviewing relevant literature in the fields of institutions and risk management, to develop a theoretical framework of effective management strategies for firms to exploit
opportunities and gain competitive advantages. Furthermore, the framework will be examined in the situation of the commissioner company in Vietnam in order to understand the current situation in the country. The writer aims to give recommendations to the commissioner company's manager when dealing with institutional issues to enhance the firm performance. Through the results of this paper, the writer desires to raise the importance of the relationship between firms and institutions in Vietnam, as an important source of improving firm performance and to become more successful. The results can also be useful for foreign companies in Vietnam to be able to adapt to the institutional environment in the country.

Addressing the research gap of risk management strategies when dealing with ineffective institutions, the thesis emphasizes on the knowledge of opportunity management and the interaction between firms and institutions in order to develop management strategies. By reviewing the established theories of risk management, the writer aims to show that risk management strategies are not effective enough for firms to cope with weak institutional environment. It is then suggested that opportunity management should be more focused on. In addition, by indicating the important roles of institutions on firm performance, the thesis emphasizes interactions between firms and institutions in order to exploit opportunities and gain competitive advantages. In this thesis, institutions are classified as formal institutions and informal institutions, which create significant impacts on economic development and growth.

1.2 Research Methodology

1.2.1 Method

After defining key research questions and research objectives, the writer decided to choose literature reviews and qualitative research interviews as methodology. First, literature reviews provide a theoretical framework for the research. Many observers have created knowledge and business implications on the topic of institutions and risk management. Therefore, the student plans to collect research papers related to these topics in order to build a knowledge foundation and explore how these theories can be applied in real business activities. Furthermore, by conducting an in-depth interview with the owner of the commissioner company, the thesis writer aims to find out whether institutional environment is a concern of the company's management strategy and how it is dealing with the issue. The analysis then helps to examine hypotheses of effective management strategies used in the situation of weak institutional system in Vietnam.

Qualitative research interview: An interview is seen to be the most common method for collecting qualitative data. Within the scope of this thesis, it is difficult to investigate managerial perspectives towards a weak institutional framework and strategies to deal with the issues by using quantitative data. In addition, when considering the number of case companies examined, the thesis writer decided to choose qualitative research method.
Qualitative interviewing aims to encourage the interviewee to share their experiences about the issue concerned, the results are later analysed by comparing a theoretical framework to see the effects, differences or explaining phenomena. According to DiCicco-Bloom & Crabtree (2006), “the purpose of the qualitative research interview is to contribute to a body of knowledge that is conceptual and theoretical and is based on the meanings that life experience hold for the interviewees” (p. 314). The authors also explain that while structured interviews often produce quantitative data, unstructured and semi-structured interviews are used to produce qualitative data. Moreover, unstructured interview needs “the collection of observational data” (DiCicco-Bloom & Crabtree, 2006, p. 315), whereas semi-structured interview uses “the sole data source” and is planned in advance. In order to gain a deep understanding of the specific situation in the commissioner company, the thesis writer chose an individual in-depth interview, which consists of predetermined open-ended questions. The set of questions allows the interviewee to share experience, facts, attitudes and opinions. The writer recognizes a qualitative research interviewing method as the most suitable research strategy for this thesis. This method helps to investigate the awareness of the company's managers towards ineffective institutions and investigates the company's management strategies. With the help of theories obtained from literature review and knowledge gained from the interview, management practices are explored and compared with the hypotheses developed in this thesis. In addition, the writer desires to suggest the important points in the management strategies of the commissioner company. The results will be reported in the form of key findings from the interview with manager of the commissioner company.

1.2.2 Data Collection and Data Analysis

In order to test the hypotheses derived from the conceptual model, the thesis writer examines the situation of the commissioner company, RADIO TECHNOLOGY Company Limited (RADTECH), Hanoi, Vietnam. The interview is conducted with the owner of the commissioner company, who is directly involved in the management strategies of the company. The institutional environment that the company is operating in is weak and highly inefficient. Thus, as a SME, it is worth mentioning effective management strategies to deal with the uncertain and risky environment. A list of questionnaires used for the interview is first developed in an English-language version, based on the conceptual model and literature review. They are then translated into Vietnamese and re-translated into the English version. The validity and relevance of the questionnaires will be evaluated by the company's owner. A transcript of the questionnaires is sent to the interviewee in advance for adjustments. The interviewee will be asked to bring critical insights into the interview questions based on the real situation of the company in order to reflect their experience, expertise and assessment. The results are later analysed within the theoretical framework as well as compared with the conceptual model and existing knowledge in recent research.
1.2.3 Research Limitations

Even though the set of questionnaires is taken from existing research, of which measures were validated, the relevance of these questionnaires on the situation of the commissioner company is not tested while designing the interview. In addition, the fact that the translation of interview questions will be done by the thesis writer only, does not guarantee the reliability of the results. Furthermore, since institution and its interactions with firms is a huge topic, examining only one SME in Vietnam does not represent the situation in the country. The conceptual model and hypotheses are not tested thoroughly. However, it may create a fundamental framework for further research in a larger scale.

1.3 Structure of the Thesis

After the introduction, this thesis is organized as follows. The second chapter provides a theoretical framework of risk management and its limitations. The third chapter reviews the literature on the topic of institution. The fourth chapter focuses on developing a theoretical conceptual model and hypotheses as a foundation to explore management strategies and examine its effectiveness in practice. The fifth chapter investigates the current situation of institutional framework in Vietnam and an introduction about the country's private business sector. The sixth chapter aims to describe the commissioner company background. The following chapter describes the theme interview. Key findings of the interview on the firm's management strategies to cope with the weak institutional system in Vietnam will be shown in the eighth chapter. The discussions and recommendations and conclusions will be addressed in chapter nine and ten.

The main process of this thesis is presented in Figure 1.

Figure 1. The thesis's process.
2 FROM RISK MANAGEMENT TO OPPORTUNITY MANAGEMENT

This chapter aims to provide a brief overview of risk and the risk management theory. By having a closer look at the theory, the limits of risk management literature in practice are also being explored. By emphasizing the limits of applicable risk management theory, the chapter creates a reasonable direction to change from risk management to opportunity management when coping with weak institutional system in developing countries.

2.1 Risk and Uncertainty

The concept of risk is broadly defined in terms of uncertainty, likelihood, event or consequences. The definitions of risk have been developed considerably since risk management is considered an essential tool for effective management. In a common sense, risk is seen as the negative impacts of uncertain events. According to Berg (2010), “risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential influence the achievement of an organization objectives” (p. 1). The definition covers different aspects of the risk concept and by not referring to risks as negative consequences, it implies risk as a neutral outcome. A recent study has used the term risk also for “uncertainties with positive impacts”. As Gregorio (2005) pointed out “country risk becomes an opportunity to profit from uncertainty”, the concept of risk is now an even broader approach.

There is a distinction between the concept of risk and the concept of uncertainty. While “uncertainty would be immeasurable, risk would be measurable” (Cienfuegos, 2013). Risk can be measured based on probability and its effects. How risky the event is depends on how much the outcome is likely to differ from the organization's objectives.

Literature reviews show a variety of classifications of risks. According to Al-Tamimi & Al-Mazrooei (2007), risk can be classified into systematic and unsystematic risk. The approach is more frequently used in financial terms. Systematic risk (or specific risk) is risk that cannot be eliminated through diversification, while unsystematic risk is a kind of risk that can be neutralized through diversification.

In Gregorio's research of country risk (2005), by defining two different sources of uncertainty, the research exploited risks faced by companies when operating in a given country. “The universe of uncertainty that each company faces is comprised of endogenous and exogenous dimensions” (p. 211). Endogenous sources of uncertainty are the result of the internal environment, whereas exogenous uncertainty arise at “three levels: industry, competition and external environment”. Within the scope of this thesis, uncertainty arose from external environment is used as an aspect of risk. “Environmental uncertainty arises from the prospect of political, macro-economic, social, natural, financial and currency volatility, and is
often represented by the term country risk” (p.211). This thesis focuses on institution as an external environmental source of risk faced by enterprises.

There are several other classifications of risk, including financial risk and non-financial risk (Vaughan 1997), fundamental and particular risk (Vaughan, 1997), operational and strategic risk (McConnell, 2008). However, within this thesis, the concept of risk is considered as upside risk and downside risk, which will be explained in detail in another chapter.

2.2 Risk Management Overview

2.2.1 Risk Management

Risk Management has its history started after World War II. Along its history, the concept of risk management focused on finance and insurance section significantly. There have been various studies on the financial field, particularly on the management of insurable risks. However, development of risk management research shows that “a number of aspects have contributed towards changing this narrow application of the risk management discipline” (Cienfuegos, 2013, p.26). According to Cienfuegos (2013), risk management has moved to a wider approach from “a constricted technical function to a broad and integrated management of all of an organization's risks” (p. 26).

Risk management is considered a crucial element in organization's success, especially in an uncertain and rapidly changing business environment. As pointed out in the previous section, risks can be classified in different categories. Managers need to understand the sources of risk, its nature and how it can be managed effectively. Anderson & Terp (2006) defined risk management as the process of understanding and managing effectively internal and external uncertainties by eliminating, reducing and controlling pure risks, enhancing benefits and avoiding detriments from speculative exposures (p. 31). The authors also refer to various objectives of risk management to organization, including creating transparency, enhancing risk awareness, minimizing the probability of future losses and maximizing the probability of success (p. 31).

From another literature review, Risk Management is a scientific approach to the problem of dealing with risks, considering that it follows a general applications of techniques, procedures and structured process on a sequence of logical steps” (Cienfuegos, 2013). The definition emphasizes the definition and development of Risk Management program, which enables organizations to reach its strategies and objectives.

In general, Risk Management in modern world is not limited in identifying and controlling the negative impacts of uncertainties which happen but also enhancing potential opportunities. It is also important to raise the awareness of risks within organizations, by involving people at
all levels in order to gain a better insights into likelihood of risk and its impacts. Therefore, developing a risk management culture helps to implement risk management effectively. Risk management is not only risk managers' job but everyone's business.

2.2.2 Overview of Risk Management Processes

Risk management process refer to logical steps of managing risks, or “risk management cycle”. The process involves crucial stages in developing an effective risk management plan. The literature provides different approaches to risk management process. Anderson & Terp (2006) describe risk management process as a “five-step progression: (1) risk identification, (2) risk evaluation, (3) risk control, (4) risk financing and (5) risk monitoring and reporting” (p. 34). The process provides a simple and logical way of looking at risk management, which goes along with its objectives.

COSO (2004) develops Enterprise Risk Management (ERM) concept, which consists of eight interrelated components: (1) internal environment, (2) objective setting, (3) event identification, (4) risk assessment, (5) risk response, (6) control activities, (7) information and communication and (8) monitoring (p. 4). By integrating risk management and enterprise management, the eight components of ERM do influence each other.

The ISO standard (AS/NZS ISO 31000:2009) provides an outline of the relationship between risk management principles, framework and risk management process. The risk management process expands from the core traditional five steps to eight sequence steps. The additional significant elements of ISO standard risk management process, compared with the traditional process are “establish the contexts” and “communicate and consult”.

Establish the context: Since the organization's characteristics and needs are different, establishing the context is important in seeking the appropriate approach to the organization. This stage includes the activities to define the internal and external environment, to set objectives and scope of risk management process. By establishing the context, it is also important to develop risk criteria. According to Berg (2010), “the criteria should reflect the context defined, often depending on an internal policies, goals and objectives of the organization and the stakeholders”. Berg also suggested that the methods to assess the organizational environment include SWOT (strengths, weaknesses, opportunities and threats) and PEST (political, economic, societal and technological) frameworks (p. 84).

Risk assessment: This step exists to provide an overall assessment to risk identification, risk analysis and risk evaluation. After each step when risks are identified, analysed and evaluated, it is crucial to generate a comprehensive review, which helps managers to evaluate fully their risk management process. This step aims to take critical factors into consideration and support for decision making process.
Risk identification: Risk identification is one of the core steps of risk management process. This step focuses on revealing and identifying potential risks which might occur. Based on the information given in the first stage “establish the context”, managers are able to determine risks that are likely to affect the organization's objectives. At this stage, risks are identified and classified into different categories by looking at the influencing factors from all directions. Tools which are useful for risk identification are interviews, Delphi method, check-list, annual report, etc. According to Berg (2010), “creative tools support this group process”:

Risk analysis: “Risk analysis involves the consideration of the source of risk, the consequence and the likelihood to estimate the inherent or unprotected risk without controls in place” (Berg, 2010, p. 85). It is the step where managers use different techniques to assess the potential
impacts of risks and how likely they might occur. It is necessary to understand risks and their consequences. In daily business, risk analysis might be considered as a complex process when major risks may require more sophisticated methodology.

Risk evaluation: By knowing a certain risk impacts and probability, managers can decide which risk require more attention than others. Research used the term “risk appetite” to determine the amount of risk that managers are willing to take. The step of risk evaluation helps to make decisions on acceptable and unacceptable risks.

Risk treatment: When risks are unacceptable, treatment is needed. The objective of this step is not to eliminate risks but rather minimize the negative impacts with cost effective options. One more more treatment options can be implemented for a certain risk. Options offered at this stage include: avoiding risk, reducing risk, transferring risk, diversification (Gregorio, 2005). These options will be discussed further in the another chapter.

Communication and consultation: It is important to understand that the risk management process requires communication and consultation through all steps in order to achieve its objectives. Risks need to be communicated by involving internal and/or external consultation to gain deeper insights into risk management process.

Monitoring and review: It is critical to have risks monitored and reviewed periodically and formally by measuring the outcomes of treatment and ensuring that the changing environment does not affect risk assessment. New risks can be also taken into consideration while reviewing risk management process on an annual basis. This step is crucial in determining a successful risk management.

2.2.3 Managerial Responses to Risks

The identification and analysis of firm's risks in the risk management process lead to the requirement of managerial responses to manage those risks.

Miller (1992) provided a framework for identifying and managing many types of risks, from an integrated risk management perspective. By analysing different uncertainty exposures faced by firms, the framework indicates a wide range of firm strategies to deal with multiple uncertainties, providing a starting point for the development of risk theory. Based on strategic responses drawn from Miller's research as a fundamental knowledge, this thesis desires to gain a closer look at traditional risk management to identify its validity in current business world. According to Miller (1992), potential managerial responses include financial responses and strategic responses. “Financial risk management techniques reduce corporate exposures to particular risks without changing the firm's strategy. Strategic responses generally impact a firm's exposure across a wide range of environmental uncertainties.” (p.320).
Literature has shown an extensive attention on financial responses. Within the scope of this thesis, more attention is given to strategic responses.

Miller (1992) mentioned forward or futures contracts and insurance as the “principal financial risk-reduction techniques”. Both instruments aim at financial hedging by locking a fixed price to insure against potential losses due to uncertainties in the future. In case of possible property losses, firms use insurance to protect themselves. However, because of lack of market development and poor economic system, possibilities of using financial instruments to reduce losses are limited, and in many cases, are more costly than the expected loss values. According to Miller (1992), “The lack of a one-to-one correspondence between firm exposures to uncertainties and financial market hedging and insurance instruments points out the need to incorporate strategic responses as well as financial tactics in managing corporate risk” (p. 321).

The attention shifts to strategic risk management. Environmental uncertainties, including political uncertainties, government policy, macroeconomic, social and natural uncertainties are factors that impact the business significantly. Five categories of managerial responses are considered to deal with environmental uncertainties, including: avoidance, control, cooperation, imitation and flexibility (Miller, 1992, p. 322).

Avoidance strategy refers to the decision to avoid risks by not implementing a particular business activity due to severe and disruptive consequences that are considered as unacceptable. When risk avoidance is chosen, any chance of potential losses is also eliminated. In international business, risk avoidance occurs when firms choose to “avoid uncertainty through a niche strategy of participating only in low uncertainty markets” (Miller, 1992, p. 323). Companies which already participate in a high-risk market can withdraw from it. Companies which not yet participate can choose to not enter the market. While this strategy can be seen as effective in eliminating risks, concerns are raised for risks that cannot be avoided. Besides, by applying an inaction strategy, firms may miss beneficial opportunities. Gregorio (2005) pointed out that environmental change should be a factor to be considered when firms decide to avoid a certain risk, “the avoidance strategy highlights the risk of inaction (p. 218).

Control strategy involves conducting political activities, gaining market power or exchanging of threats (Miller, 1992, p. 31). Operating in developing countries, where there is great concern for political and policy instability, it is critical for firms to be aware of the risks and act accordingly. Political activities refer to lobbying or networking. Gaining market power is a strategic move to control competitors in the market by turning the risks into more predictable and expected behaviours. Another example of control strategy mentioned by Miller is influencing customers through advertising and promotion. As Gregorio added, control strategies in current time are “lobbying, bribery, pacts with labour unions, social-sector investment, charitable contributions, and public relation campaigns” (p. 222). Compared with avoidance strategy, controlling risk
seeks for actions, which directly reduce risks. However, this strategy requires resources and market power, which creates difficulty for mall and medium sized enterprises (SMEs) to implement.

Cooperation strategy can be seen as another active risk mitigation strategy, which at the same time exploits potential opportunities. According to Miller (1992), “cooperative responses involve multilateral agreements, rather than unilateral control, as the means for achieving uncertainty reduction” (p. 323). The activities may include different methods of long-term contract agreements with suppliers and buyers based on developing business partnerships. Participation in business associations can be exercised as another form of cooperation. These business associations play an important role in business networking, information exchanging and creating informal norms and regulations, thus support firms to reduce unexpected risks, especially in transactions or supply chain risks.

Imitation strategy is another choice of dealing with risks when firms imitate their rival organization's strategies. According to Miller (1992) imitation strategies can be in the form of “pricing and product strategies that follow those of an industry leader” (p. 324).

The last category of managerial response to risks is flexibility. It has been proved as a critical strategy for firms to survive by adapting to fast-changing environments. In order to protect themselves when uncertain environmental factors occur, firm can choose to diversify its products, options for input or geographic markets. By being flexible, firms gain more competitive advantages and will be able to exploit and take advantage of opportunities caused by diversification.

Since Miller (1992), there have been a few research suggesting established strategies for risk treatment, depending on different types of risk and management's objectives. Basic risk treatment options include risk control (avoidance, diversification, reduction, etc.) and risk financing (transfer, retention) (Borghesi & Gaudenzi, 2013, p. 90). From an emerging field of research, Enterprise Risk Management (ERM) has been receiving attention from both scholars and practitioners. In managing risks, ERM frameworks suggested four important management's actions: avoidance, reduction, share or insure risk and acceptance of risk (Yilmaz, 2009). Both approaches provide critical managerial implications to risk management. However, a detail explanation for practice was not fully described when risks related to general external environment are considered. The following chapter aims to describe the limits risk management literature in contemporary world, which drives a concern for risk management practices.

2.3 The Limits of Risk Management

As mentioned in the previous section of this chapter, risk management theory has gained significant attention on managing financial risks. Not until recent years, research has paid more focus on project, enterprises and
organizational risks. However, considering risk management strategies coping with weak legal framework, regulations or information exchange in a country, literature has shown its weaknesses and gaps in research. This section aims to point out limitations of risk management, which prevents managers to apply theories into practices when dealing with institutional causes of risks.

Klimczak (2007), in the attempt to develop an empirical research to integrate new institutional economics in risk management context, found an insufficient theory support in this field. The paper pointed out that “no empirical studies of new institutional economics approach to risk management have been carried out so far”. As a significantly increased recognition of the institution's roles in determining the effectiveness of legal framework, property rights, information system and regulatory regimes (Meyer et al., 2009), a lack of strong institutional framework leads to risks when doing business in developing countries. Even though it is seen that risk management practices may be influenced by institutions, scholars have not paid enough attention at developing a concrete framework for managing these risks.

Reviewing traditional approach of risk management, recent research shows that the approach is no longer appropriate in providing a conceptual view towards risk management. By viewing risk management as “social constructions” instead of “objective reality of risk”, Stahl et al. (2003) point out the limitations of traditional approach and suggest a new approach of risk management, which offers a strategic management to deal with the positive as well as negative aspects of risk (p. 15). The review of critique towards risk management shows that along its development, risk management theories and practices have recently been questioned. Traditional approach of risk emphasizes on identifying, evaluating and eliminating risk factors; thus, risk is objective and “out there to be found and dealt with” (p. 18). Meanwhile, Stahl et al. (2003) point out the problematic side of this objective approach of risk, that it can lead to “a false sense of security that dull managers' attention and can thereby create even bigger risks” (p. 19). The analysis is then followed by the clarification of risk terms, which shows that risk should be studied in a particular situation with defined context. The article then suggests a different conceptualization of risk management, which focuses on the positive aspects of risk, that risk is a social construction “the way in which social institutions and social life generally is socially produce rather than natural given or determined” (p. 19). The definition expands the understanding of risks, that risk should be specified in different organizational contexts and risk can also include opportunities for growth ad development for broad areas. In general, risk should not be considered as objectively given factors but instead, risk can be seen from its dependency on social interactions, which requires managerial actions to explore opportunities.

Over the decades, risk management researchers have been developing techniques, models, framework for managing risks in practice. However, risk management has been realized as an imperfect managerial tool. An
implementation of risk management strategies cannot ensure firm's control over external uncertainties. According to Enriques & Zetsche (2013), risk management tools are not as reliable as they should be in reality. As mentioned in the previous section, risk management tools include risk avoidance, risk control or risk transferring. These tools do not help companies to mitigate risks effectively in all cases. Risk managers may choose to avoid risks, which may restrict firm's ability to exploit opportunities; control risks, which requires powerful resources or transfer risks to another party, such as insurance company, only in a sound and positive circumstance of insurance industry. Furthermore, when dealing with operational risk, Enriques & Zetsche (2013) raises a concern over the reliability of risk assessment. Because “risk data on operational risks are highly subjective and non-uniform in form and function” (p. 16), it is not a reliable source to analyse and assess operational risks. Collecting operational risk data by internal resource may raise concern that some valuable data will be hidden due to “conflicts of interest”. This concern is based on employee's fear to be criticized for his mistake, risk will not be realized. Meanwhile, data limitations collected by external service are expressed in form of lack of risk management expertise, lack of public data, different cultural, legal and geographical background and simplistic models which are not good enough. Those limitations make it difficult or invalid to identify and analyse operational risks. The similar reason can be considered for collecting data of risks caused by weak institutions in developing countries. Too less studies have been conducted to help firms overcome this situation by implementing established risk management tools.

Since institution plays an important role in influencing business climate, it is necessary for managers to measure how risky institutional risks are. This kind of measurement is even more crucial in international business. By understanding the level of risks faced by firms in foreign countries, managers are able to make strategic decisions, such as allocating resources differently in a portfolio of countries or planning expected returns in each country (Oetzel et. al., 2001). Thus, in order to do business in an overseas country, country risk measurement is necessary. For local firms, even though country risk is not often considered in decision-making process, country risk measures give managers a knowledge of how risky the country is, compared with others. They can then use the information to exploit advantages in competition with foreign firms. However, the question here is whether or not these measures of country risk are reliable enough. Oetzel et al. (2001) explains in their paper current country risk measures, which aim to provide an assessment of political, social and economic environment, negatively affecting firm's business climate in a country. Using the data provided by “the world's leading commercial publishers of country and political risk analysis” (p. 132) and measuring environmental discontinuities, the study examines on how risky country risk measures are, in term of giving managers a false evaluation of risks they face. The results show that these measures are “capable of forecasting business risk” (p. 132) in short term, however, when the environment changes in long term, country risk measures fail to predict the true level of risk. As a result, managers should not rely on
country risk measures in developing a long-term strategic plan, which may hurt the business by a “false sense of security” (p. 142) or missing opportunities.

In general, considering traditional approach in solving risks caused by weak institutional framework, the student has found an inconclusive and inadequate literature support. Since institutional causes of risks cannot be eliminated and need to be put in a particular business environment, a traditional approach to deal with this kind of risk is not effective. On the other hand, country risk measures are not reliable in indicating significant risks, using country risk measurement to assess institutional causes of risks is not a good enough method. As Gregorio (2005) indicated, “not only are established measures of country risk inadequate in helping managers minimize downside risk, but relying on conventional country risk analysis may produce the unintended consequence of minimizing upside risk” (p. 217). In the end, due to lack of literature support, limitations of risk management strategies and measurement, when dealing with weak institutional system, firms should emphasize on exploiting opportunities rather than managing risks.

2.4 From Risk Management to Opportunity Management

2.4.1 The Concept of Downside Risk and Upside Risk

The term “downside risk” has been used interchangeably for the definition of the word “risk”. When referring to risk, people usually only see the downside, meaning losses and negative effects on the outcome. However, recent definition of risk suggests that risk has its positive aspects, which emphasizes on upside risk as an important influence on business success. According to Hillson (2002), “risk is an umbrella term, with two varieties: opportunity which is a risk with positive effects and threat which is a risk with negative effects. The common characteristic of downside risk and upside risk is that they are both uncertain and potentially affect objectives. Therefore, managing downside and upside risk pro-actively is critical for managers.

As mentioned in the definition of risk, risk can be seen as a set of two components: uncertainty and potential impact on outcomes. Other people argue that there exists the third component, which is downside, when the outcomes are undesirable. It reflects common usage of the word “risk” that we use when referring to accidents, nature disasters or investment. Suppose that a man is given a lottery by a friend, which has two possible outcomes, either gain nothing or gain one million Euros. In this case, both outcomes do not include losses but one outcome is more desirable than the another. It is not persuasive in this case to state that the man is suffering from an absolute downside risk. In fact, if he is not taking the lottery, he has an upside risk of missing the opportunity to gain one million Euros.

The concept of upside risk has been exploited in the correlation with the theory of entrepreneurship. As mentioned in Gregorio (2005) research,
“the definition of entrepreneurship is based on the discovery and exploitation of opportunities” (p. 211). A successful entrepreneur is the one who can see opportunity in uncertainty and benefit from it. The strategies aim at creating competitive advantages and making differences. In the context of dealing with weak institutional systems, it is obvious to see the bad sides of it. However, since the risks cannot be eliminated, there are two options for managers in developing countries, either letting the business fail or discovering the new opportunities to take advantage of weak institutions to become successful.

2.4.2 Opportunity Management

Even though risk, as mentioned above, includes both upside and downside aspects, “modifications may be required from the standard risk management approach in order to deal effectively with opportunities” (Hillson, 2002, p. 236). The standard risk management process tends to emphasize on dealing with threats rather than opportunities. The risk management process in the previous sections appears to recognize negative outcomes only and fails to cope with exploiting opportunities. This section, instead focuses on different approaches in contemporary research of opportunity management, which is applicable when dealing with ineffective institutions in emerging economies. By integrating risk management process and opportunity management process, research shows an effective approach to minimize negative effects and at the same time maximize opportunities to gain positive effects.

Gregorio (2005), in his paper, by gaining an insights from entrepreneurship theory provides a different perspective on managing risks, managing opportunities. He emphasized “entrepreneurial actions, in turn, lead to discovery, or the unveiling of new knowledge regarding the specifics of time and place” (p. 216). In other words, managers can learn from entrepreneurial mindsets to deal with uncertainties to adapt and benefit from uncertain changes. Since the external environment is volatile and unpredictable, a risky condition may turn out to be an opportunity.

Hillson (2002) raised the question whether opportunities can be handled by a traditional risk management process. The research points out that “if opportunity and threat are two varieties of the same thing, they should be managed together” (p. 236). In practice, putting both processes together will be more efficient. However, as mentioned in the previous section, traditional risk management only focuses on negative uncertainties and using different tools to avoid, mitigate or transfer risks, which do not enhance opportunity exploitation. In order to solve this problem, Hillson (2002) suggests modifications in risk management process, which focuses on maximizing upside risk.

The first stage, as Hillson (2002) mentioned in opportunity management process is setting the objectives. When the goals of obtaining opportunities are defined and communicated clearly, other steps, including identification, analysis and evaluation are followed accordingly. In particular, when identifying potential threats, potential opportunities are also considered by using different methods, such as SWOT analysis,
constraints and assumptions analysis, force field analysis (p. 237). The methods aim to “enable potential enhancements to be identified as well as potential problems” (p. 237), by paying attention to recognizing opportunities in a risky environment. Hillson (2002) introduces the double probability-impact matrix for opportunities and threats, which visualizes key threats and opportunities at the levels of their impacts and probability. The dark area in Figure 3 implies risks with high impact and high probability of occurrence, which requires higher attention of managers. This area will be expanded if managers are more risk-averse or the organizations are willing to put more effort on risk management.

One of the significant points in Hillson's research is his proposal of managerial responses to potential opportunities. By looking at limitations of traditional risk management responses, the research outlines four strategies to help organizations achieve benefits. First, exploit strategy seeks to opportunities, instead of avoiding the situation. An implication of exploit strategy is manifested in Gregorio's study (2005): arbitrage strategy, which taking advantage from “achieving economies of scale in information gathering and by having access to unique resources. By applying this strategy in a volatile and inefficient market, the company has potential to gain competitive advantages over its competitors. This strategy can be very helpful in countries with weak institutional systems since firms with more abilities to exploit unique resources and information will win the market. Second, share strategy, similar with risk transfer strategy mentioned above, aims to find a third party to identify and manage opportunities. Companies may seek partners to share the opportunity and at the same time maximize the chance of making it happen. Third, enhance strategy is useful in increasing the probability and potential benefits of opportunities. The specific method, however, are not
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indicated in the research. Finally, Hillson supposes that managers can choose to ignore, meaning to take no action in dealing with uncertain situation. In this context, “minor opportunities can be ignored” (p. 239).

Gregorio (2005), based on entrepreneurship theory, proposes other strategies for firms to gain beneficial outcomes. In his research, flexibility is emphasized, as a result of real options theory, which demonstrates “how a company can benefit from increased exposure to uncertainty” (p. 221). He pointed out that firms, in an uncertain world, when being flexible, can gain more options in doing business. This means flexibility enables firms to change when the external environment evolves. There is a similarity between real options strategy and diversification strategy, as mentioned above. Both create more options for managers to be able to the environment. However, real options approach “emphasizes on flexibility rather than commitment” (p. 222). Another similar strategy mentioned in Gregorio's study is control strategy. The author suggests that control strategy can also be used to exploit opportunities. Regarding control activities listed in the previous section, this strategy helps to change the environment to possibly create positive effects on business. In dealing with weak institutional context, control activities may include building and developing managerial ties, with the purpose of gaining institutional advantages. Networking is an important part of doing business in developing countries since institutions are inefficient. Therefore, creating relationships with political and business partners supports firms in seeking unique resources and gaining competitive advantages. The thesis later will focus on this point to develop an effective strategy for companies to be successful in weak institutional environment.

3 THE CONCEPT OF INSTITUTION

Studies on the concept of institution have shown that institution plays an increasingly important role in the development of countries. The impact of institutions on economic growth has received a significant theoretical support since North and Thomas (1973). The theory has been developed by focusing on the relationship between institution and firm's strategy and performance, as a “third leg of the strategy tripod” (Peng et al., 2009). In particular, researchers have investigated its impact on multinational companies' entry mode choices, networking strategy, firm's ability to exploit resources and entrepreneurship. This chapter aims to provide a theoretical framework of the concept of institution by reviewing important papers in this field. The chapter emphasizes on the influences of institutions on business environment and risks firms might face due to weak institutional system, thus it leads to effective strategies to cope with the situation, which will be exploited in the next part of the thesis.
3.1 Institution is a Fundamental Cause of Growth and Development

3.1.1 Institution: Definition and Context

The term “institution” has been widely used in social sciences and many other disciplines in recent research to refer to growth and development. According to North (1991), “Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct), and formal rules (constitutions, laws, property rights)” (p. 97). The definition reveals institution's functions in its relationships with politics, economy and society and how institutions are classified. Institutions, thus provide “the incentive structure”, that shapes the economy and its performance. In other words, institutions are humanly devised systems that constrain behaviours and structure social interactions by using rules, norms and conventions. A similar approach is defined by Greif (2006): “An institution is a system of rules, beliefs, norms and organizations that together generate a regularity of (social) behaviour” (p. 30). The definitions of institution, as “the rules of the game in society” (North, 1990, p. 3) became a theoretical framework for understanding obstacles to economic growth.

Research has shown interest in distinction between organizations and institutions. As organizations are groups of people with common objectives, Hodgson (2006) argued with North's concept of institution that it shows insufficiently clear and misleading points regarding the nature and essence of institutions. Based on what North (1994) wrote: “It is the interaction between institutions and organizations that shapes the institutional evolution of an economy. If institutions are the rules of the game, organizations and their entrepreneurs are players”, organizations and institutions are different and organizations are players in the environment made by institutions. However, according to Hodgson, North does not say that organizations are not institutions. In fact, North is interested in the economic environment in general rather than internal functioning of organizations, which leads to his ignorance of the existence of rules within the organization. That means organization can be regarded as institution (Hodgson, 2006, p. 10). On the other hand, Khalil (1995) suggested in his paper that the theory of organization and the theory of institution should be distinguished because referring organization as one type of institutions “presents the behaviour of organization as dictated by institutions” and “neglects the issue of division of labour and how intra-organizational relations cannot be fully explained solely by examining the underpinning institutions” (p. 463). In addition, Boliani & Topyan (2007) emphasize that organizations are not institutions, “they operate under the institutional framework of a society but they also create their own formal and informal institutions and the enforcement mechanisms of both” (p. 3).

Acemoglu et al. (2005), in their study on modelling institutional differences, consider three institutional characteristics: economic institutions, political power and political institutions (p. 392). Economic
institutions are institutions determined by the society, which play an important role in structuring the economic incentives in society (such as property right) and allocating resources efficiently (such as information system) (p. 389). Economic institutions, therefore, determine economic performance and distributions of resources. However, the differences in distributions of resources lead to “conflict of interest” and political power is explained as the deciding factor for groups and individuals in choosing different set of economic institutions. Thus, “whichever group has more political power is more likely to secure the set of economic institutions that it prefers” (p. 390). The study then identifies two aspects of political power, which are: de jure and de facto political power. De jure political power is the power originated from political institutions that create and enforce regulations and laws in society. De facto political power is political power given to a group of individuals not by political institutions. This power enables the group to “solve its collective action problem” and is determined by the distribution of resources (p. 391). The three institutional characteristics are summarized in the following framework:

![Figure 4. Institutional framework characteristics (Acemoglu et al., 2005, p. 392).](image)

The framework provides an understanding on how political institutions and distribution of resources affect the distribution of political power and choices of economic institutions. Those who hold de jure political power have influences on the evolution of political institutions and those who become rich compared with others in the society will increase their de facto political power, which enables them to gain favourable interests. These variables determine the development of economic and political institutions, thus economic performance.

3.1.2 Impacts of Institution on Economic Growth and Development

Deriving from North (1991) definition of institutions, as mentioned in the previous section, institutions, composing of constraints that shape human interaction, create a significant impact on economic growth and development. Over the last decades, research has focused on institution's influences and whether or not institution should be considered as determinant factor which explains why some countries are poorer than others. Do institutions matter? Acemoglu et al. (2005) argue that “differences in economic institutions, rather than geography or culture, cause differences in incomes per-capita”. They point out that there are three fundamental causes of income differences across countries, including economic institutions, geography and culture. While geography reflects the influences of nature, different countries are given different
natural gifts (climate, natural resources, etc.) and culture reflects what people believe and value, which may affect success and prosperity of a country, economic institutions that people choose how to organize their society are considered as a vital cause of growth. North (1991) sees the impact of institutions based on economic exchanges and production. He wrote “by lowering information costs and providing incentives for contract fulfilment, this complex of institutions, organizations and instruments made possible transacting and engaging in long-distance trade” (p. 100). That said institution is the key to adjust transaction costs, including cost of information, right protection and cost of contract enforcement. In modern world, limited information, lack of right protection and effective contracting are obstacles to economic performance and growth.

Yeager (1998) modelizes North's idea by illustrating how institutions influence economic performance by applying two cases: the static case and the dynamic case.

The static case, with constant level of technology:

Institutions → Transaction costs → Creation of markets → Specialization and Division of Labour → Productivity → Economic Performance

Yeager emphasizes that a good market is the one with low transaction costs, enabling an effective market exchange. Boliari (2007) realizes from the model that “formal rules must clearly define the property rights to the goods and services to be exchanged; the informal rules must promote a sense of trust and respect for the rule of law, and finally enforcement must be carried out as objectively and fairly as possible”. All these elements make up a well-functioning market, thus economic performance.

The dynamic case, with advancing technology:

Institutions → Behaviour of organizations → Process of Creative Destruction → Technological Process → Economic Wealth

In order to reach technological development, human creativity, well-functioning markets and competitive environment are important processes. Yeager (1998) wrote: “the process of creative destruction does not occur in every economy, but only in one where the proper institutional framework is present” (p. 50).

The impacts of institutions on economic performance have been proved by its effects on economic exchanges, particularly transaction and production costs. The analysis reveals the key role of institutions in growth and development and institution is a useful indicator to explain why some countries are poorer than others.

The statement that institutions matter for economic growth has raised the concern of how institutional environment affect organization's strategy. The answer is found in the emergence of institution-based view as an
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important aspect of strategic management, besides industry-based view and resource-based view. According to Peng et al. (2009), institution should not only be considered as background condition but it directly affects firm' strategic choices. Especially in developing countries, where market works poorly, institution is an increasingly important factor in deciding business strategies. The authors indicated that the interaction between institutions and organizations, under the conditions of formal and informal constraints as well as industry conditions and firm-specific resources affect organization's strategic choices. This outcome is expressed in the following model:

The model shows the integration of institution-based view, industry-based view and resource-based view theories as theoretical framework for strategic choices. Firms should rationally make their choices based on the consideration of these conditions in order to be successful. By investigating the institutional environment in a country, firm is able to select effective strategies and gain competitive advantages. Meyer et al. (2009), for example, examines the impact of market-supporting institutions on business market entry strategies. The paper points out that different institutional contexts in emerging countries affect entry strategies differently under the consideration of firm's needs for local resources. Meyer et al. suggests that joint venture, for example is an effective market entry mode in a weak institutional system. The reason is that under weak and ineffective institutional system, informal rules act as substitution to formal rules, which require firms to act locally and create network with local business partners in order to survive and grow. Since joint venture entry mode helps firm to network and build relationships, firms will be able to access to local resources and lower economic exchange costs, even though ineffective institutional system fails to fulfil this need. The message delivered by Meyer et al. (2009) is that institutions directly influence entry strategies by providing a theoretical framework.
for choosing market entry modes, depending on situations of institutions and the need for local resources.

The institution-based view has a great implication in management, especially when referring to market or country analysis. Firms, when doing business abroad should find it crucial to evaluate and investigate the conditions of institutional system in order to make strategic choices. This thesis, by accessing institutional environment in Vietnam, focuses on how firms can survive and grow by looking at potential opportunities and competitive advantages of weak institutional system.

3.1.3 Indicators of Institutional Quality

Research shows that institution matters since institutions make significant impacts on economic growth and social activity. Therefore, it is important for firms to investigate the institutional environment in the operating country, especially countries with weak institutional systems. This section aims to provide an understanding of established institutional indicators and determinants of institutional quality, as a theoretical base for accessing the quality of institutional environment in Vietnam.

The fact that there are various institutional differences across countries has raised the question of how to measure institutional environment and quality. However, little research agreement has been made, instead, the measurements are put in different research concerns. Sheng et al. (2011) for example, while examining the impact of business ties and political ties on firm performance, manifest institutional environment as enforcement inefficiency and government support. They explains “enforcement inefficiency refers to the extent to which the enforcement of legislation and regulations is problematic” (p. 3). When institutions in a country fail to enforce its law to protect firms against “unlawful or unfair competitive behaviours” (p. 3), institutional system is considered as inefficient. Government support is another component of institutional environment, which refers to “the extend to which the local government provides general and broad support to all firms in the region” (p. 4). The support may include efficient infrastructure to economic exchanges, supportive policies and valuable information and resources. In another study, regarding influences of institutions on firm's ability to exploit local resources, Meyer et al. (2009) measure institutions based on five items of the economic freedom, including: business freedom, trade freedom, property rights, investment freedom and financial freedom (p. 69). The freedom Indies show how free individuals and firms are to conduct their activities, which indicates institutional role in supporting market efficiency.

By categorizing formal institutions into three groups: legal, political and economic, Kuncic (2013) establishes 30 institutional indicators and presents World Institutional Quality Ranking (WIQR). His work shows the improvement or deterioration of an institutional system in a particular country over a period of time. He mentions three projects that are best known for providing assessment on institutional environment of countries.
Firstly, Global Competitiveness Report (Sala i Martin et al., 2011) which examines the competitiveness of 142 countries in the world but the focus of this report is much broader than the concept of institutions. Secondly, the Quality of Government Institute project (Teorell et al., 2011) gathers a big amount of indicators to investigate the quality of government in various aspects, such as corruption, bureaucracy quality, etc. Certain variables retrieved from this project are used in Kuncic's study. Finally, Institutional climate index (Eicher & Rohn, 2007) is the most similar work with Kuncic's. The index, taken from OECD countries from 1994 onwards, access the institutional quality of each country in the process of achieving economic growth. Kuncic's institutional quality data, with the focus on institutions and based on New Institutional Economics theory, contributes a larger country and term coverage and links “the theoretical institutional concepts with the empirical counterparts” (p. 6). The institutional proxies represented by Kuncic (2013), grouping formal institutions as legal, political and economic, are shown in Appendix 1.

After carefully examining the institutional proxies, the results reveal that countries can be grouped in five clusters, based on their institutional quality. Cluster 1, with low scores in all three groups, is the worst. Cluster 5 is the best with above average scores. Cluster 4 is quite good, as it has most of the scores are above average. Meanwhile, cluster 2 and 3 are not that easily defined. As Kuncic (2013) mentions “In terms of the legal environment, cluster 2 scores poorly on the quality of courts and protection of property rights, and reasonably well on freedom of the press, civil liberties and interference of religion; the opposite goes for cluster 3. In terms of the political environment, cluster 2 and 3 mostly have average scores, with the exception of cluster 3 doing very badly on the autocracy versus democracy measure, checks and balances and democratic accountability by very well on the corruption measure. Finally, in terms of economic institutions, cluster 2 is bad, with scores significantly below the average, while cluster 3 is doing well” (p. 9). The results of differences in institutional quality go along with economic growth and development in individual country. While cluster 1 countries (such as, China, Vietnam, Kenya or Egypt) are poor, underdeveloped and unstable political condition, cluster 5 countries (such as, UK, Germany or the USA) are developed countries with high living standards. Cluster 2 has the highest number of countries, such as Mexico and India, who are doing better than cluster 1, with double income level. However the levels of income cannot be comparable with cluster 4 or 5 and their institutions are not doing so well. Cluster 4 countries, such as Spain, France or Italy are relatively developed countries. Cluster 3 countries are the most interesting ones with high level of income but low on civil liberties, democratic accountability and free media. This cluster includes mostly the countries in which Muslim religion is the majority, with the exception of Hong Kong.

The research provides a data on accessing institutional quality, which will be used to investigate the institutional environment in Vietnam in another chapter of this thesis. Within the scope of this thesis, institutional quality, as weak or strong, is determined by the outcome of market-supporting
efficiency, for example, firm's ability to access business information and resources, contract enforcement and protection of property right.

3.2 Formal and Informal Institutions

The concepts of formal and informal institutions were first introduced by Douglass C. North (1990). He categorized institutions based on formalization and their emergence. Recent research focuses on the interaction between formal and informal institutions and how this relationship impacts economic development. This section aims to provide an overview understanding of formal and informal institutions and their different interactions in different countries.

3.2.1 Formal Institutions

North (1990) describes formal institutions as sets of rules in written form. They include constitutions, laws, regulations, which “determine the political system (the governance structure and individual rights), the economic system (property rights and contracts), and the enforcement system (the judiciary and the police). Governmental authorities enforce formal rules by means of sanctions such as fines, imprisonment and execution” (Pejovich, 1999, p. 167). Formal institutions emerge, exist, and are shaped by government authority. Formal economic institutions play an important role in the enforcement of contracts, property rights, protection of customers and investors, and creating rules that determine costs and production.

It has been realized that weak formal institutions in developing countries create a condition for corruption and bureaucratic burdens on firms. This is because weak formal institutions fail to control and distribute resources effectively as well as apply a fair regulation, which leads to uncertainty and higher operational and transactional costs. In these countries, dealing with licenses and laws is tricky. For example, according to Hellman et al., 2000), firms need to negotiate with officials from different governmental departments, with a high transaction cost in order to deal with tax bills in post-Soviet Union. In addition, working with banks is also troublesome since small firms are unable to receive financial support without high interest rates. From a legal environment aspect, according to Tonoyan et al. (2010), weak formal institutions are unable to enforce and implement written legal frameworks related to property, contracts, commercial activities and taxes effectively (p. 807). As a result, firms do not choose to go to court to solve their problems but instead, find other ways to get benefits and lower transaction costs, by dealing with illegal or unethical activities. Under the absence of effective laws and regulations, firms are more likely to get involved in corruption and bribes (Tonoyan et al., 2010).

Formal institutions play a crucial role in economic development, which characterizes market efficiency. Research has also shown that, in modern world, lack of understanding and underestimating the roles of informal
institutions may cause severe problems for the economy. Especially in a weak formal institution environment, informal institutions should not be disregarded.

3.2.2 Informal Institutions

Even though informal institutions are commonly known, there is little theory and studies on this topic, compared with formal institutions. According to Estrin & Prevezer, 2010, “unwritten rules that often shape incentives in systematic ways” (p. 4). Thus, informal institutions are contrast to formal institutions in the way that they are not established by governmental authorities. Pejovich (1999) wrote: “informal rules are traditions, customs, moral values, religious beliefs, and all other norms of behaviour that have passed the text of time. Informal rules are often called the old ethos, the hand of the past, or the carriers of history” (p. 166). Informal institution reflect these characteristics and has its origin of culture, which makes informal institutions difficult to change immediately. Informal rules are more about the interaction between humans, rather than the interaction with government. Helmke & Levitsky (2003) suggest that there is an ambiguous understanding in the concept of informal institutions, which limit the ability to understand informal institutions. According to them, informal institutions should be distinguished from formal institutions and from non-institutional, informal patterns and behaviour (p. 8).

As mentioned above, informal and formal institutions differ in the way that formal institutions are state rules while informal institutions are societal rules. However, informal rules can govern behaviour within state institutions and state rules can govern non-state organizations (p. 8). Helmke & Levitsky (2003) suggest another understanding of informal institutions that “are socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels”. The definition indicates a clear distinction between formal and informal institutions. In addition, the study notes what informal institutions are not, in order to avoid the misunderstanding of this concept.

Firstly, informal institutions are not weak institutions. Formal institutions are weak or ineffective when laws and regulations in written are ignored or not matched in enforcement and practice. Based on this understanding, “formal institutional weakness does not necessarily imply the presence of informal institutions” (Helmke & Levitsky, 2003, p. 9). Secondly, informal institutions are different from other informal behavioural regularities. The authors indicate that “to be considered an informal institution, a behavioural regularity must respond to an established rule or guideline, the violation of which generates some kind of external sanction” (p. 9). The example was taken as taking off a coat in a restaurant is only a common behaviour for physical comfort, while removing hat in a church is considered as social norm. Therefore, if the behaviour is not commonly expected and accepted by public officials, it is not institutionalized. Thirdly, informal institutions may be originated from culture but it should be distinguished from a broad understanding of
culture. Culture shapes informal institutions, however, Helmke & Levitsky argue that informal institution should be understood “in terms of shared expectations rather than shared values” (p. 10). Finally, informal institutions are not informal organizations. As mentioned in the previous section, institutions and organizations are different concepts, which, according to North, is a difference between rules and players. It is useful to separate informal organizations, such as “clans, mafias, and kinship network” and informal institutions, such as morals, norms, customs and religions.

According to Högb erg (2009), while formal institution and its characteristics are possible to measure and quantify, it is a challenging issue for researchers to measure informal institutions. In addition, the importance of formal, informal institutions and their interaction seems to be different around the world (p. 2). For example, while family networks and traditions are highlighted in Asian countries, rules and formal laws are more emphasized in Western countries. This knowledge is important for companies who do business across countries since they should be able to adapt to different environments. The question now is that in which ways informal and formal institutions interact and how this interaction affect economic development. Helmke-Levitsky (2003) provided an answer in providing a theoretical framework for categorizing informal institutions based on the interaction with formal institutions. The next section focuses on this relationship and aims to gain a critical knowledge of institutional differences in different countries.

3.2.3 The Helmke-Levitsky Typology of Informal Institutions

By approaching how informal institutions work, Helmke & Levitsky (2003) provides a model of the interactions between informal and formal institutions. An understanding of this interaction is important in investigating the effects of institutions on economic development. The authors stress that informal institutions have two roles: problem-solving and problem-creating roles. Informal rules can be seen as solutions to interaction and coordination and improve the performance of formal complex institutions. One the other hand, informal institutions can also contribute to clientelism, corruption, clan politics, that undermine the performance of markets, states, democratic regimes, and other formal institutions (p. 11). Informal institutions can work in ineffective formal institutions environment, they can also operate in the context of weak formal institutions where formal rules and regulations are not effective. As mentioned above, the effectiveness of formal institutions is determined by the match-ability of written rules and their enforcement.

Drawing from this approach, the study develops a typology of informal institutions, aiming to capture the differences of the interactions between formal and informal institutions. The typology is based on two dimensions, the effectiveness of formal institutions and the degree of compatibility of formal and informal institutions' goals. Helmke & Levitsky (2003) explains that “whereas in some context actors’ goals are similar to or compatible with expected formal institutional outcomes, in
other contexts actors pursue goals that are at odds with those outcomes” (p. 12). In particular, if the formal laws, under the condition of business groups or family networks meet the same end, the goals are compatible. In another case, the goals of investors or shareholders and the local state's ownership rights are contradict, the goals are not compatible. The authors introduce a theoretical framework of typology of informal institutions as shown in Table 1.

Complementary informal institutions reflect the co-existence of informal institutions and effective formal institutions, where their goals are compatible. In this case, written formal rules are enforced in practice and informal institutions play a role in “filling in the gaps” by addressing the problems that are not dealt with by formal institutions without violating formal rules. Informal institutions, in this situation, improve the performance of formal institutions and enable complex formal institutions with heavy bureaucracy to function effectively.

Accommodating informal institutions are the combination of effective formal institutions and conflicting actor goals. Formal institutions are effective, however, actors are not happy with the outcomes of formal rules but they are also unable to change or openly break the rules. Helmke & Levitsky (2003) mention, in this case, “they violate the spirit, but not the letter, of the formal rules, generally by tempering or modifying the effects of those rules. In so doing, they often help reconcile key actors' interests with existing formal institutional arrangements” (p. 13). Accommodating informal institutions do not enhance the performance or efficiency, but the can create the stability of formal institutions. Estrin & Prevezer (2010) give an example of developed countries with effective property rights systems but high levels of business taxation and regulation, shadow economy in those countries operate in order to reconcile the interests of key actors.
Substitutive informal institutions arise where formal institutions are ineffective but goals between formal and informal are compatible. Helmke & Levitsky (2003) wrote “substitutive informal institutions are created or employed by actors seeking to achieve outcomes that formal institutions were expected, but have failed to generate” (p. 14). For some reasons, formal institutions lack of credibility or ability to reach the outcomes, informal institutions provide alternative methods to improve performance. An example given is the Chinese guanxi, or informal personal relationships. While formal rules in China are ineffective or irrelevant, guanxi is a solution for foreign investors to assure business transactions or access to costly resources. Guanxi acts as a mechanism of coordination, enforcement and dispute settlement, which provide a substitution to ineffective formal institutions.

The last type of informal institutions is competing. Competing informal institutions occur where formal institutions are ineffective and the goals between formal and informal are in conflict. In this situation, actors have to violate legal rules in order to follow informal rule, and vice-verse. Examples include mafia groups, corruption or clientelism are operating and replacing ineffective formal institutions, however, since their goals are not compatible with formal institutional goals, they inhibit the ability of new firms to grow and only create wealth to a certain domestic large, rich companies. In some countries, custom laws are also competing with formal rules, which mean that in some circumstances, when people choose to adhere norms or indigenous laws, they violate state laws.

Studies have been focusing on substitutive and competing informal institutions since they are operating in unstable institutional settings. While complementary and accommodating informal institutions are often found in developed countries, substitutive and competing informal institutions are found in developing or post-communist countries, where formal institutions are weak and ineffective.

Estrin & Prevezer (2010) provides a sharper theoretical framework by applying Hemke-Levitsky typology of informal institutions into practices. They examine the situations in BRIC countries by assessing the roles of informal institutions in corporate governance in China, India, Brazil and Russia. They find out that in China, ownership rights are neither protected nor transparent, while in India, because of pervasive family or group control, formal legal rules are less enforced. In both countries, informal institutions play a role in substituting to some extent for the weak formal arrangements. In Russia, even though formal legal protection for shareholders exist, in practice, there is poor law enforcement, corruption and unclear relationship between large corporate owners and the government. In Brazil, formal institutions are effective but it is argued that because of too tightly enforced regulations, firms tend to enter shadow economies. In general, in all four countries, protection of minority shareholders is not much paid attention and ownership structures are relatively concentrated (p. 20). Even though there has been no current study considering typology of informal institutions in Vietnam, Steer & Sen (2010) reveal in their paper that with the gradual institutional reform
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In Vietnam, informal institutions play a role in completing and substituting ineffective formal institutions in the way as “instruments of risk management” (p. 1612). In Vietnam, the importance of business networks and family groups are highly emphasized under the condition of ineffective formal institutions, however, their rules are considered to be compatible.

Estrin & Prevezer (2010) summarize their findings in a framework as shown in Figure 6. The knowledge gained from this study is crucial for companies when doing business in those countries and useful for management strategy. By understanding the interactions of informal and formal institutions, firms are able to adapt to the situation and adjust their strategies in order to gain benefit and competitive advantages from the local economies. The literature provide a theoretical framework to understand and investigate the situation of institutions in Vietnam in another chapter.

![Figure 6. Corporate governance institutions in the Helmke-Levitsky framework (Estrin & Prevezer, 2010)](image)

3.3 Institutions and Entrepreneurship

This section focuses on another aspect of institutional impacts, entrepreneurship. Scholars have recently paid attention on the supporting effects of external conditions, including political and economic
environments, on entrepreneurial behaviours. Research emphasizes on transition and developing economies, with poor formal institutions which hinder entrepreneur activities.

Puffer et al. (2009), by examining transition economies in China and Russia, shows the effects of formal institutional voids on the relationship between entrepreneurship and institutions. The authors also indicate the role of informal institutions, particularly blat/guanzi in filling that voids. Entrepreneurship, in economic research, is defined not only as the creation of novelty, new business organizations, which contribute to market efficiency but also the recognition and engagement in creating opportunities. While formal institutions in developed countries actively support entrepreneurs, entrepreneurs in developing countries are not given such a favourable environment. This condition is created by weak and ineffective formal institutional systems, which make it difficult for entrepreneurs to grow and succeed. In order to examine how institutions affect entrepreneurship, Puffer et al. (2009) emphasizes on three institutions, private property as a formal institution, trust within network and blat/guanxi as informal institutions.

Private property right is considered as a requirement for entrepreneurs to sustainably grow, as they are dependent on private assets to create wealth. However, as mentioned earlier, China and Russia belong to the group which has low scores on protection of property rights. In Russia, for example, “the legacy of communism has led to severe weakness in the protection of real property in the country” (p. 447). The evidence is shown in the fact that only 7% of land in Russia is privately, up to 92 % is government and municipally owned (Economic Newsletter, 2005). Entrepreneurs, hence face a risky situation when establishing private business in Russia. In China, the situation is better since the Chinese Communist Party recognizes the contribution of entrepreneurship to economic development, which encourages entrepreneurial business to grow. However, absence of effective legal frameworks and enforcement, the concept of property rights in China do not look the same as in Western countries. National and cultural unity and a separation of powers threatens chaos as well as cultural tradition prevent China from pursuing the same approach of private ownership (p. 453). Due to this situation, entrepreneurs in these countries tend to choose informal institutions, such as building business networks, as a replacement for formal institutions.

One of the important aspects of dependency on private network is trust. In an uncertain country like China and Russia, where legal protection is missing, trust is a crucial element for entrepreneurs to build networks and reduce the risks of transactions and costs. Additionally, successful entrepreneurs build trust with their to generate new business ventures and exploit opportunities. According to Puffer et al. (2009), Russian culture tends to distrust individuals, groups and organizations that fall outside personal relationships (p. 449), only members of a relationship circle, such as family, friends, colleagues are trusted. Therefore, under the circumstances of weak formal institutions, trust is only created among in-group networks, which provide support to entrepreneurs in terms of
protection and survival. The situation is similar in China, that trust-based networks are inaccessible to the outsiders. However, there exists a trend that many entrepreneurs in China are more willing to put their trust on “versalistc Western institutions rather than in the more particularistic local ones” (Puffer et al., 2009, p. 455). Many Chinese companies build partnerships with foreign firms, under the effects of globalization in this country, which may indicate a foreseeable entrepreneurship development in China.

Blat and Guanxi are two well-known concepts which have attracted the attention of many researchers. Puffer et al. 2009 wrote “blat is rooted in cultural traditions and has generally been seen as necessary, ethical, and a reasonable in order to conduct business, as well as to obtain personal favors”. Blat is different from bribery in the meaning that money does not matter, relationship does and it is not illegal. In case of ineffective legal framework, Russian entrepreneurs rely heavily on networks, blat takes place among members in those networks by exchanging favors. Unfortunately, “some legitimate cultural traditions like blat too often move to excess like outright bribery” (p. 451) when entrepreneurs are forced to engage in bribery to start and protect their business and property. Guanxi in China is also considered as a culturally based institution, which emphasizes “reciprocal relationships”. Guanxi is understood in a broader meaning than blat. Among people who have something in common, such as coming from a same region in China, being classmates or sharing a common experience, trust can be established. Within this meaning, Puffer et al. Mentions that guanxi is “neither necessary nor sufficient for corruption to occur”, it is purely affective for entrepreneurs to expand their networks and benefit from them.

Entrepreneurship in transition economies, as analysed by Puffer et al. (2009) is a different concept compared with one in Western countries. Due to inefficient formal institutions, entrepreneurs have been primarily dependent on informal institutions. This dependency does not always lead to illegal or unethical behaviours but should be seen as an appropriate and local-oriented adaptation in transition economies. Based on the study of Scott (1995), institutional dimensions can be classified into regulative, cognitive and normative. The regulative dimension reflects the impacts of laws, regulations and government policies, which create favourable or unfavourable conditions for new ventures. The cognitive dimension refers to “knowledge and skills possessed by he potential creators of new ventures” (Nguyen et al., 2009, p. 26). Finally, the normative dimension examines to what extent, the society appreciates entrepreneurship in a country. In another paper, Kshetri (2007) examines the effects of institutional changes on entrepreneurship in China. He provides an overview of how different institutional components affect entrepreneurship over time. The findings are summarized in Table 2.

The table shows that changes of formal and informal institutions have shaped Chinese entrepreneurship. The contribution of entrepreneurs are recognized and thus, entrepreneurship receives more promotion and support.
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<table>
<thead>
<tr>
<th>Institutional Component</th>
<th>Institutions in the Past</th>
<th>Institutions today</th>
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<tbody>
<tr>
<td><strong>Regulative</strong></td>
<td>Entrepreneurial ventures perceived as potential threats to the Chinese Communist Party regime (Yang, 2002). Weak laws related to private property and entrepreneurship, and port enforcement mechanisms (Yang, 2002).</td>
<td>Developed relationship between entrepreneurship and party membership. Improvements in new laws and enforcement mechanisms (Pei, 1998; Meredith, 2003; Hughes, 2005).</td>
</tr>
<tr>
<td><strong>Normative</strong></td>
<td>Chinese societies had highly negative perception of entrepreneurs (Harwit, 2002). Entrepreneurs were said to violate the views of society and the communist regime towards ownership of private property (The Economist, 2006). Entrepreneurs had to fulfill social obligations (Lau et al., 2011).</td>
<td>Entrepreneurs are gaining more respect from the society (Loyalka &amp; Dammon, 2006). Social obligations are not expected.</td>
</tr>
<tr>
<td><strong>Cognitive</strong></td>
<td>Culture of complacency, conformity and risk aversion refused Western level of risk taking (Mourdoukoutas, 2004; Harwit, 2002). Entrepreneurship as an occupation was often considered for individuals not able to find other jobs (Nair, 1996).</td>
<td>Overseas Chinese with industrialized world’s points of view are more familiar with Western world (UNDP, 2001). Attitude towards entrepreneurship is rapidly shifting (Han &amp; Baumgarte, 2000; Nair, 1996).</td>
</tr>
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</table>

Table 2: Institutional changes influencing entrepreneurship in China (Kshetri, 2007)

4 DEVELOPMENT OF CONCEPTUAL MODEL

As explained in the first chapter, institution plays an important role in economic development and growth. Hence, in developing countries, where institutional system is weak and ineffective, institutions fail to support market and its activities. Under these circumstances, firms and entrepreneurs face a higher level of risks and challenges in doing business. The situation requires entrepreneurs or managers to actively look for effective risk management strategies to deal with risks caused by weak institutional environment. Unfortunately, as mentioned in chapter two, current literature review of risk management lacks of strategic solutions to institutional risks. The thesis writer, therefore, propose an opportunity management approach to cope with the problem. This chapter aims to provide a theoretical framework of managing opportunities in an ineffective institutional context. The theory is later used to create a conceptual model, which indicates a managerial tool in dealing with weak institutions in developing countries, particularly in Vietnam.

4.1 The Concepts of Institutional Competitive Advantage and Institutional Support

Martin (2014) contributes an answer to the concern if institutional advantage exist and if so how it affects corporate competitive advantage. The concept of institutional advantage is explained first by the definition of competitive advantage, which, according to Martin (2014) emphasizes on both outcome and income of firm's strategy use. Firstly, a firm is said to have competitive advantage is when its strategy has not been implemented by any current or potential competitors and the strategy
creates more value in comparison with the competitors. Secondly, from the input side, a firm is able to gain competitive advantage when it is able to access to unique and distinctive resources, which creates differences in activities (p. 56). In addition, as institutions consist of informal constraints and formal rules that shape firms' activities under their influences, such as on property rights and transaction costs. The author continues with approaching the definition of comparative institutional advantage, which exists when firms are engaged in particular activities in the context of institutions. These types of activities allow firms to “produce some kinds of good, more efficiently than others because of the institutional support they receive for those activities” (p. 58). Under this condition, firms gain comparative institutional advantages, rather than competitive institutional advantages. However, there is also the fact that institutional support to firms' activities is not the same in all countries. In countries with strong institutional framework, the support is more visible and effective than in others.

Based on the definition of competitive advantages and firms' interaction with their institutional environment and how they react, Martin (2014) provides an advanced definition of institutional competitive advantage: “a firm has an institutional competitive advantage when it is implementing a strategy, featuring distinctive resources and activities enabled by its interactions with the institutional environment, which generates economic value in excess of its competitors” (p. 59). The definition shows the aspects of competitive advantages, distinctive resources and comparison with competitors in the condition of firms' interactions with institutions. An example of institutional competitive advantage is that, a firm, in good interaction with its institutions, is able to access to partners' information while building business partnership, which reduces transaction costs and transactional risk, compared with other firms. Martin emphasizes that the essence of institutional competitive advantage is “the active matching of firm activities and resources with institutional environments with the purpose of enhancing these resource, subject to firm and institutional cognition” (p. 65). It reflects the important role of linking between input and output, resources and performance. Taking advantages of these resources, performing distinctive activities, firms will be able to “enable further distinctive resource accretion” (p. 66), which therefore guarantee its sustainability.

Li & Atuahene-gima (2001) considers institutional support as an important external element in firms' product innovation strategy. According to them, institutional support reflects “the extent to which administrative institutions provide support for firms” (p. 1125). In such case the government favors firms and reduces risks and environmental uncertainties, which is crucial in transition economies. In another study, Guo et al. (2014) clarifies kinds of institutional support that firms desire. First, they mention information support, provided by the government. If a firm is in a good relationship with the government, it has a higher possibility to gain valuable information regarding regulations and policies. This kind of information allows firms to operate without violating the rules of institutional environment. Second, institutions can
also facilitate firms in accessing to scarce resources. Finally, institutional support includes policy support. Guo et al. explain this kind of support exists since firms are given the ability to influence the regulatory policies. In other words, institutional support provides firms with both tangible (resources) and intangible (information and policy) benefits (p. 119).

Since institutional support provides distinctive resources, Oliver (1997) considers this support as an important factor of sustainable competitive advantage. By integrating institutional and resource-based views, he argues that “a firm's sustainable advantage depends on its ability to manage the institutional context of its resource decisions” (p. 697). He emphasizes the institutional context as the influences from the state, society and inter-firm relations that define socially acceptable economic behavior. The context is defined broader in the relation with not only formal institutions but also informal institutions. Combined with resource-based view theory, which suggests that the process of selecting and accumulating resources are a function of “within-firm decision-making and external strategic factors” (p. 698), the author points out that institutional view has several implications for firms’ behavior. He assumes that firms can make inappropriate resource decisions in the impact of cognition and external support for resource selection may be an important factor of success. The author indicates that institutional support also affects the firm's choices of resources. He mentions, for example, the regulators or local citizens will withdraw their support if firm decides to acquire a specific resource. In this case, firm will violate cultural norms or political interests if it perceives this kind of resource. Therefore, not only institutional support provides firms with scarce resources but firms are also willing to acquire a particular resource only when it receives the institutional support.

In summary, institutional competitive advantage and institutional support play a vital role in firm's strategic decision making process. Institutions influence firms' activities significantly, which leads to firms' ability to gain sustainable competitive advantages through institutional support. Literature also shows that under the context of ineffective institutional environment, the interaction between firm and its institutions is important in acquiring information, resource and policy support. This kind of support is even more relevant in international business. When firms do business in a foreign country, without institutional support from local environment, it is more challenging for firms to survive and grow. Understanding the importance of institutional advantage and institutional support in economic environment, the following sections focus on the methods of how firms can gain institutional support and a detail look on the influences on this support on firm's business strategies.

4.2 Managerial Ties as Source of Gaining Institutional Advantage

As mentioned in the previous section, institutional support is important for companies to gain competitive advantages in a weak institutional environment. It has been questioned by researchers that in which ways firms are able to receive institutional support. Literature shows that
managerial ties and market orientation (Li & Zhou, 2010) or political ties and business ties (Sheng et al., 2011) have a significant influence on firm performance. This section, by reviewing recent research, explores the relationship between these ties and institutional support.

Research has proved that managerial ties create impact on firm performance, especially in emerging economies where formal market-supporting institutions are ineffective. The topic has gained significant attention from scholars. According to Qin & Shaxing (2010), “managerial ties are defined as executives’ interpersonal contacts with external entities” (p. 126). The key issue of dealing with weak institutional system is how firms acquire benefits from external actors when internal resources are insufficient. Building managerial ties includes spending time, efforts and money on activities of networking, communicating and coordinating with external actors. The purpose of these activities is to increase the ability of capturing opportunities and managing environmental uncertainties (Li et al., 2012). Researchers consider opportunity capture as the pursuit and response to particular opportunities quickly and utilizing them to reach firm growth (Short et al., 2010). Li et al. (2012) points out that opportunity capture is successful only when firms are prepared enough resources for achieving it. Furthermore, Xin & Pearce (1996) considers the activities of managerial ties as a substitute for unreliable government and the established rule of law. Hence, managerial ties are even more important in emerging economies due to institutional voids, relating to underdeveloped capital markets, infrastructure, intermediary markets, regulatory systems, contract-enforcing mechanisms that bring buyers and sellers together (Khanna & Palepu, 1997). These institutional voids force firms to depend on interpersonal contacts and informal institutions to substitute for formal institutional support (Qin & Shanxing, 2010). For multinational companies, managerial ties provide a “quick response to local opportunities” since it reduces transaction costs, increase transaction values through facilitated exchange of resources, information and knowledge (Li et al., 2012, p. 4). By conducting an empirical research in Central Asia and the Caucasus for emerging economies, Ismail et al., 2012 shows that the less efficient institutional system in a country is, the more likely firms rely on managerial ties. In addition, the authors also find out that it is more critical for smaller firms in these countries to form managerial ties since they do not have enough resources to bear environmental risks. On the other hand, in a country with strong institutional support, small firms find it irrelevant to invest in creating managerial ties.

Managerial ties are classified as political ties and business ties (Sheng et al., 2011) or ties with managers at other firms (suppliers, buyers) and ties with government officials (Li et al., 2012). According to the authors, ties with other firms are horizontal and between peers while ties with government are vertical and between subordinates and superiors (p. 2).

Firstly, regarding the relationships between firms and government officials, as called political ties, firms will be able to gain institutional support in achieving their goals and thus, competitive advantage. Examining the situation in China, Guo et al., 2014 indicates that since the
Chinese government remains an “active economic player”, the dependence of business organizations on the government is high (p.117). Therefore, it is vital for firms in China to invest time and resources in building relationships with political actors in order to obtain more resources and opportunities. It has been also shown that the value of political ties is “context specific”, which depends on the countries and time period (Sun et al., 2010). However, in general, political ties help firms to gain institutional support, which enables organizational activities and realize entrepreneurial opportunities. In particular, institutional support firms may achieve through closer ties with government officials includes interpreting regulations, enforcing contracts, settling negotiations and erecting entry barriers (Li et al., 2010, p. 858). Furthermore, firms are more likely to access to scarce resources, controlled by the government, such as capital, land, human resources ((Li et al., 2010, p. 858) and bank loans, tax breaks, subsidies (Sheng et al., 2011, p. 3). Li et al., 2012 realizes that relationships with government also help to facilitate economic exchanges and overcome administrative intervention (p. 4). Government holds the information related to the industry and market as well as control scarce resources, it is crucial for firms to invest in political ties in order to receive favourable treatments and competitive advantages.

Secondly, business ties are established on the relationships with other firms or business associations, which are said to provide firms with important market resources (Sheng et al., 2011). This informal connection offers market information, such as product information or changes in the market and helps firms to choose trustworthy and reliable business partners (p. 2). In addition, it is also important for firms to integrate and transfer new knowledge obtained from the business community. As a result, firms are able to adapt and respond quickly to market conditions as well as potential market needs in order to capture valuable opportunities. In emerging economies, participation in professional business associations is a strategic asset for entrepreneurs to achieve their goals. As indicated by Sheng et al. (2011), business ties play an increasingly important role when formal legal enforcement is insufficient (for example, in China), business ties help to reduce “unlawful behaviors and unfair competition” (p.11). When firms cannot rely on formal system to sustain their business, it is necessary to look for social networks, which promotes growth and development. While approaching the concept of social networks to firm performance, Tung (2012) mentions the importance of social capital in recent organizational research, as a source of success. Social capital refers to a set of social links that produce positive social externalities among its members, it arises from shared notions of trust and norms embed on social networks or associations (Fafchamps & Durlauf, 2005). The key indicator of social networks is that they are built based on norms and trust, which increase efficiency through collaboration and networking. Research emphasizes the role of social networks for small firms and entrepreneurs. Falck and Heblich (2010) finds that in small communities, social networks increase the possibility of becoming an entrepreneur since social networks facilitate firms in accessing to financial resources and seeking valuable market information. In summary, business ties are also more
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important for enterprises in countries with higher burden of inefficient institutional system.

Since both political ties and business ties are vital factors for firms to capture opportunities and gain competitive advantages, research has raised the question of which tie is more important than the other. Sheng et al., 2011 focused their attention on time horizons of business ties and political ties. While business ties maximize shared economic returns by reducing risks and transactional costs and encourage long-term cooperation, political officials, who are more interested in developing their political career, lack of motivation for achieving long-term relationships. In fact, “the top priority of government officials is to please super-ordinate officials, not accommodate business organizations, and this goals divergence may create relationship conflict that mitigates long-term cooperation” (p. 3). Moreover, according to Li et al. (2012), business ties and political ties have different effects on firm performance. Business ties do not only involve sharing of operational resources but also strategic resources for firms' development at lower cost because of large network. Meanwhile, political ties, even though provide benefits as mentioned above, may induce more substantial costs and carry political complexity for relatively small firms. In addition, political officials rotate their positions periodically, which may terminate the connections with firms (Sheng et al., 2011). Therefore, while both business ties and political ties deserve attention from firms to acquire unique resources and obtain competitive advantages, political ties seem to be less beneficial than business ties.

In the situation of ineffective formal institutions, managerial ties play important roles in taking advantages of institutional support. Business ties provide firms with reliable partnerships and valuable market information. Firms strengthen business ties so that they can prevent illegal or unethical actions as well as transfer knowledge. Political ties, on the other hand, help firms to receive exclusive government help and preferable treatment. However, Sheng et al., 2011 also notes that in a country where government support is strong and effective, building and exploiting personal connections with government officials will not benefit the companies. In contrast, it is costly and may harm the company. Benefits and competitive advantages are more visible for firms to invest in managerial ties in emerging economies.

4.3 Organizational Learning as Moderating Variable

The idea of organizational learning as moderating variable in the relationship between managerial ties and institutional advantage is derived from the study of Li et al. (2012). The authors argue that “organizational learning may improve the effectiveness of new ventures' managerial ties on opportunity capture” (p. 7). Within the scope of this thesis, opportunity capture is regarded as firms' interactions with institutions to gain institutional support. The two key concepts of organizational learning include exploratory learning and exploitative learning. According to Li et al. (2012), “exploratory learning refers to the
learning of product and process development skills that are entirely new to the current experiences of the firm” (p. 5). It includes learning activities such as “search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation” (March, 1991, p. 71). Exploratory, therefore, carries the burden of higher costs without ensuring valuable benefits. Exploitative learning, on the other hand, refers to the knowledge and skills which are already familiar with firm’s experiences. It includes “refinement, choice, production, efficiency, selection, implementation and execution” (March, 1991, p. 71). Exploitative learning, hence is more predictable since it focuses on improvement of existing resources to make a positive development.

Li et al. (2012) suggest that organizational learning improves the effectiveness of managerial ties in capturing opportunities (p. 5). In the situation when the government encourages exploratory innovation, firms with higher focus on exploratory learning and closer managerial ties have higher chance for opportunity capture. On the other hand, by enhancing exploitative learning, firms are able to leverage their current resources in a fast-paced changing market and environment. Li et al. (2012) indicate their hypotheses in Figure 7.

Through the relationships with other firms or business associations, firms are able to gain new knowledge and information, which is beneficial for their business. However, in order to utilize these resources in order to capture opportunities, it is crucial for firms to implement exploratory learning, which focuses on new knowledge acquired and transfers them into firm's resources. Based on these new resources, firms may find more uses of ties with other firms in designing strategic plan, targeting new markets or create new products and services. In general, “based on stronger exploratory learning, firms can more effectively leverage ties with other firms to capture opportunities” (Li et al., 2012, p. 7). In addition, by strengthening exploitative learning, which aims to improve current resources, entrepreneurs can gain a better understanding of current stakeholders and enhance the current relationships with business partners, thus improve the effectiveness of business ties on opportunity capture.

On the another hand, through the relationships with political officials, as mentioned in the example of China, the government prefers firms with focus on exploratory learning. As a result, firms are able to receive
government support and hence, higher possibility for capturing opportunities. In contrast, since the outcomes of exploitative learning are based on existing competencies and resources, which may not be preferred by the government. Furthermore, according to Li et al. (2012), because of fast changing market and slow process of collecting and compiling information provided by government agencies in emerging market, such as China, opportunities may be reallocated before firms focus on exploitative learning to capitalize on these information. Therefore, while exploratory learning creates positive effects, exploitative learning may have negative effects on capturing opportunities through political ties.

The study increases the awareness of firms, especially entrepreneurs towards organizational learning and its role in moderating the relationship between managerial ties and opportunity capture, or in this thesis, gaining institutional support. When firms engage in business ties, they should strengthen both exploitative learning and exploratory learning in order to utilize resources obtained from business networks. On the other hand, if firms expect to capture opportunities by using resources acquired from their ties with government, they should focus more on exploratory learning (Li et al., 2012, p. 17).

4.4 Influences of Institutional Advantage on Firm's Strategies

As mentioned in the previous section, institutional support helps firms to gain competitive advantages. This section, however, aims to gain a closer look at influences of institutional support on firm's strategies. Compared with firms who are not supported by institutions, what are the differences?

Li & Zhou (2010) suggest that 'institutional advantage leads to differentiation and cost advantages” (p. 858). As a good relationship with institutions enables firms to access to “distinctive resources and activities” (Martin, 2014), firms are more likely to gain benefits that other competitors cannot. Moreover, because of the “economics of shortage”, referring to the shortage in production materials such as materials, capital, labor, information (North, 2005), firms who can access to unavailable resources are more competitive than others. Even though when competitors can access to those resources, firms with institutional advantage can acquire resources with lower cost (Li & Zhou, 2010, p. 858). By utilizing distinctive resources, firms are able to create product differentiation, which includes product innovation, product design, higher product quality and unique product (Dirisu et al., 2013, p. 271) in order to create higher values and benefits to its customers, thus achieve competitive advantages and growth. The authors, examining the relationship between product differentiation and firm performance indicate that there is a significant impact of product differentiation on firm's success. It is also suggested that organizations should not only view product differentiation as a tool of increasing profits and sales but also creating customer values and gaining competitive advantages, which ensures a sustainable growth.
Secondly, Li & Zhou (2010) also indicates the influence of institutional support on firm's ability to create cost advantages. Under the impact of weak formal institutions, institutional support enables firms to reduce production and transaction costs, “by lowering information costs and providing incentives for contract fulfilment, this complex institution, organizations and instruments made possible transacting and engaging in long-distance trade” (North, 1991, 100). In other word, support from institutions is the key to adjust transaction costs in emerging markets, which contributes to a cost advantage. In addition, with benefits obtained from social networks or informal institutional support, firms can build a “unique corporate and brand image” and “good reputation”, which allows them to do business more effectively than other competitors (Li & Zhou, 2010, p. 858).

Li & Zhou (2010) also considers market orientation as a source of advantage, which enhances firm performance through differentiation and cost advantage. They point out there are three behavioral components that help to achieve competitive advantages, customer orientation, competitor orientation and inter-functional coordination. Firstly, because of fast changing pace in customer's demand, it is important for firms to be adaptive and flexible in understanding target customers and their demands, both in present and in the future. The key factors of customer orientation include collecting, analyzing and disseminating information about customers (Zhou et al., 2009). By using the knowledge about customers' demand, a customer-oriented firm can create higher customer satisfaction since what it offers is unique and different from other competitors. Secondly, understanding competitors is also an important aspect for success. Firm can analyze strengths and weaknesses, strategies and capabilities of its competitors in order to compare with and understand its own strengths and weaknesses better. Moreover, this understanding enables firms to create differentiation compared with its competitors and develop its own business identity which is uniquely recognized in the market. Finally, inter-functional coordination emphasizes on “the dissemination and use of market information through coordinated efforts across the whole firm” (Li & Zhou, 2010, p. 858). It focuses on the importance of cross-functional learning and coordination, which combines knowledge from different departments in a company in order to create higher value to customers. Jworski &Kohli (1993) also point out that this kind of coordination can lead to more efficiency and thus, decrease production and administration costs, which contributes to firm’s cost advantage.

In summary, institutional support allows firms to generate strategies which enhance differentiation and cost advantage. In order to foster these strategies, market orientation is an important element. Combining with the previous section of the impact of managerial ties, while managerial ties enable firms to gain institutional support, which leads to differentiation and cost advantage, market orientation can be considered as a moderating variable in the relationship between institutional support and differentiation and cost advantage.
4.5 Conceptual Model and Key Hypotheses

Based on the theories derived in this chapter, the thesis aims to create a conceptual model and later hypotheses on how firms, especially small and medium enterprises, who may find it more important to engage in managerial ties due to lack of resources, can exploit opportunities in the context of weak institutional framework. The conceptual model is shown in Figure 8. The conceptual model will be later examined in the situation of the commissioner company.

The thesis writer develops the following hypotheses, which predict the opportunity management strategies of firms in dealing with weak and ineffective institutional systems in emerging economies.

H1. If a firm is willing to invest in managerial ties, including political ties and business ties, it is more likely to gain institutional advantage.

H2. The more advantage firm gains from relationships with institutions, the more benefits it can obtain from differentiation and cost advantage.

H3. Organizational learning moderates the relationship between managerial ties and institutional advantage.

H4. The more market-oriented a firm is, the more likely it is to gain higher performance through differentiation and cost advantage.

![Figure 8 Theoretical conceptual model](image-url)
Even though the model has been examined in theory, the thesis writer desires to investigate the situation for small companies in Vietnam based on this conceptual model, in order to gain an understanding of how small companies or entrepreneurs in Vietnam are coping with weak formal institutional system and exploiting opportunities for growth and sustainability. The hypotheses listed above will be tested in the real situation of the commissioner company.

5 OVERVIEW OF THE CURRENT SITUATION IN VIETNAM

Literature on institutions has paid significant attention on transition economies, of which the institutional environment is ineffective in supporting economic performance. Vietnam, as one of the transition economies, also experiences a low level of institutional development. This chapter aims to provide an overview of the situation in Vietnam, from an institutional perspective in order to gain an understanding of the institutional environment in which the commissioner company is operating. Based on this understanding, it is easier for the thesis writer to examine management strategies of the company under the impacts of weak formal institutions. The chapter focuses on describing the institutional environment, the emerging private sector and the relationship between institutions and entrepreneurship in Vietnam.

5.1 Description of Vietnam's Institutional Environment

5.1.1 The quality of Institutions in The Transition Economy

As mentioned in the previous chapter, institutions impact significantly economic growth and development. It has been pointed out that a strong institutional environment supports the economic activities in terms of reducing risks, maintaining stability as well as protecting investment and private enterprises. Vietnam, in the process of transiting from a centrally-planning economy to market economy, has been facing various challenges due to government officials' lack of experience and the influences of centrally-planning economy. According to Nguyen (2005), the market institutions in Vietnam are still largely underdeveloped, which leads to lack of market-supporting institutions in the economy. Even though it has been witnessed that the economic reforms in Vietnam have made significantly positive changes, such as the decrease in government's intervention and establishment of key institutions and improvement in legal framework, the institutions ranking of the country is still at very low level. The institutional environment ranks at 98th in the total of 148 countries in Global Competitiveness Report, in which intellectual property protection, for example, ranks 127th or efficiency of legal framework in settling disputes ranks 67th (Schwab, 2013). OECD/The World Bank (2014) notes that the most highlighted problems of institutions in Vietnam include poor protection of property rights, irregular payments and bribes, wastefulness of government spending, lack of transparency in government.
policy making and weak auditing and reporting standards (p. 61). Compared with other countries in the region, such as Thailand, Korea or China, the report shows a comparatively poor quality of Vietnam's institutions.

As shown in the third chapter of this thesis, different indicators have been developed by scholars in order to evaluate the efficiency of institutional environment of a country. Sheng et al. (2011), for example indicates that an institutional system is considered as ineffective when the enforcement of legislation and regulations is problematic. In Vietnam, the case of legal enforcement is much less desirable. Contract enforcement, for instance, is not fitting well with written regulations, Chand et al. (2001) observe that "the private sector is treated less favorably than the public sector in terms of access to credit and subsequent enforcement of debt contracts" (p. 284). From another approach, Meyer et al. (2009) measure the quality of institutions based on business freedom, trade freedom, property rights, investment freedom and financial freedom (p. 69). The authors show that Vietnam is the least favorable country by comparing these indices with Egypt, India, and South Africa (Appendix 2). Investors doing business in Vietnam receive less freedom and significantly low level of property right protection. Kuncic (2013) presents World Institutional Quality Ranking (WIQR) in order to access institutions in different countries. As a result, he divided countries into five clusters with cluster 1 is the countries with lowest scores on legal, political and economic institutions. Vietnam belongs to this cluster, considered as poor and underdeveloped countries. In summary, research has shown that Vietnam is one of the countries with weak and inefficient institutional system, which negatively affects economic performance.

Tran et al. (2009) address the three aspects of institutional performance, provision of information, security of private property rights and lower transaction costs (p. 2). Firstly, the authors realize that there is a lack of market information, including information of suppliers, buyers, price and price trend, changes in policies and regulations, which makes it difficult for managers to quickly identify current situation in the market. Despite the government's attempt to improve the provision of market information, it is still not available for firms due to incompatibility among government bodies and the cost of publicizing the information (p. 2). It is even more difficult for non-state firms because they are treated less favourably by the states. This challenge of information shortage promotes the cooperation among firms, which leads to the establishment of business associations throughout the country. These associations help to provide market information. In addition, when firms are not happy with the information they bought, they usually depend on personal networks such as friends or family to acquire business information, which, according to Tran et al. (2009) plays a significant role in information provision.

Secondly, law on land and contract enforcement are the highest concerns considering property rights in Vietnam. Since land is only supplied to individuals and state-owned enterprises (SOEs), it is very difficult for non-state firms to use land for business operations. According to Tran et al.
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(2009), the procedure for non-state firms to apply for land for business purpose is complicated and costly. Furthermore, when firms need to rent land from individuals or SOEs unofficially, the price is also higher and increases in long-term period (p. 3). In addition, due to weak judiciary system, contract enforcement is inefficient. As a result, firms rely less on courts to solve disputes. Instead, business associations are becoming more reliable in solving dispute issues.

Thirdly, because of the reasons listed above, costs in doing business in Vietnam is high. During the past years, government has put efforts on improving administrative procedure in order to reduce administration costs. However, some problems still exist, such as taxation, “red tape and low transparency still remain as major obstacles to the establishment and growth of private firms” (Tran et al., 2009, p. 4).

North (1990) categorizes institutions as formal and informal institutions. Formal institutions are expressed in forms of laws, regulations and constitutions while informal institutions are unwritten rules, traditions, social norms and networks. In Vietnam, formal institutions are highly ineffective in supporting economic activities and informal institutions, such as networks with friends, family and business networks play a substitutive role. According to Steer & Sen (2010), informal institutions “could contribute to the management of risks of market transactions by firms in the private sector an allowed them to survive and grow” (p. 1603). While formal institutions fail to reduce transaction costs and risks related to property rights and enforcement of contract, Steer & Sen (2010) suggest that informal mechanisms, such as business networks and business associations can help firms to access important sources of information in order to choose trustworthy business partners. Furthermore, engaging in large networks increases firm’s confidence in courts when dealing with contract enforcement, thus, enhances the ability to take risks.

In general, even though there have been institutional improvements in providing firms with market information and protection on property rights as well as reducing bureaucracy issues, formal institutions in Vietnam lack of effective factors to support economic and firm performance. Thus, informal institutions remain important role.

5.1.2 Institutions and Entrepreneurship in Vietnam

Scholars have been interested in entrepreneurship in transition economies, such as China and Vietnam. According to Puffer et al. (2009), entrepreneurship in these countries is happening in a different environment compared with entrepreneurship in Western countries. Due to inefficient formal institutions, entrepreneurs are facing challenging situation. Similar to China, Vietnam has been experiencing the transition process from centrally-planning economy to market economy. As a consequence, large companies were receiving more favourable treatment from the government. Considering bank loan, for example, in Vietnam, “bank almost exclusively served state-owned firms” (McMillan & Woodruff, 2002, p. 155). The lack of information, ineffective court
Entrepreneurship, in economic research, is defined not only as the creation of novelty, new business organizations, which contribute to market efficiency but also the recognition and engagement in creating opportunities. Begley & Tan (2001) defined entrepreneurship potential based on two dimensions: desirability and feasibility, which refer to desire and confidence of entrepreneurs to create new ventures. Desire implies one's dream and motivation to achieve personal goals while confidence implies the level to which one believes on him/herself to complete specific tasks effectively. Both are considered to measure entrepreneurship potential. Based on this study, Nguyen et al. (2009) introduce the third concept of entrepreneurship potential, ”intention to create a new venture” (p. 23). According to them, desire and confidence are not fully measuring entrepreneurship potential, only when the intention is included, entrepreneurs will actually put motivation and confidence into actions to create new ventures. The authors later examine entrepreneurship potential in Vietnam, compared with Taiwan and the US from both cultural and institutional perspectives. By measuring the impact of institutional factor on desire, intention and confidence of people in being an entrepreneur in the three countries, Vietnam, surprisingly enjoys relatively high score on entrepreneurship potential even though the institutions are less supportive. The authors explain that the reason could be because of renovation (Doi Moi) policies in the country which encouraged entrepreneurial spirit. In addition, uncertain and rapidly changing environment requires people to seek opportunities, which contributes to entrepreneurial attitude.

In summary, even though market institutions in Vietnam are still largely underdeveloped and less favourable for entrepreneurs than Western countries, entrepreneurial spirit has been improved in recent years. In the situation of risky business environment and lack of government support, entrepreneurs in Vietnam need to learn to be flexible and adaptive. The result of this thesis aims to explain how Vietnamese firms in private business sector are able to overcome these challenges and create competitive advantages.

5.2 Growth of Vietnam's Private Business Sector

As mentioned in the previous section, state-owned enterprises (SOEs) had dominant role in the economy while private business sector was receiving less favourably treatment an even eliminated. However, it has been indicated that the country has been paying higher attention on important roles of private sector or SMEs in economic development.
The economic renovation (Doi Moi) in Vietnam in 1986 and the accession to the World Trade Organization (WTO) in 2006 created a significant change for private sector development, which bring new opportunities for SMEs in the country to grow. The introduction of Enterprise Law in 1999 enables SMEs to involve in economic activities with fairer competition in the country. Until 2001, a first pro-SME development legal document, which provides an official definition of SME was born. Later policies created by the government emphasizes on strategic directions for SMEs' development with the highlight of Development Plan for 2006-2010 period (Tran et al., 2008, p. 327). Heberer et al. (1999) realizes that “the private economy sector in Vietnam is a quite recent phenomenon that emerged in the process of the Vietnamese reform and renovation process (doi moi)” (p. 2). Positive changes in government policies and attitudes towards private business sector have created a breakthrough for SMEs' development and encouraged entrepreneurial behaviours.

It is worth noted that SMEs, along with their development, contributed significantly to economic growth. According to Heberer et al. (1999), SMEs play an important role in solving "the most burning social problem, unemployment" (p. 7). Because SMEs are more dynamic, flexible and effective than SOEs, they offer many job opportunities for local workers. According to Taussig (2005), small private businesses in Vietnam now employ at least twice as many people as the state and foreign sectors combined (p. 5). These companies are becoming the most important country's source for solving unemployment issue, which in turn reducing poverty and narrowing gap between large and smaller cities. In addition, SMEs also occupy an increasing proportion in GDP. Business-in-Asia reports that from 2000 to 2009, the contribution of private sector to GDP did grow significantly to outweigh public sector. In particular, in 2009, private sector occupied 41.08%, compared with 40.38% by public sector. Even though the figures are also reported to be not precise due to lack of systematic and reliable data, the development of Vietnam's private sector cannot be denied, based on the number of newly registered SMEs from 2000 to 2010 in Figure 9 (Runckel, 2011).
Furthermore, research has realized the role of SMEs in adjusting economic structure. With the development of this private sector, more workers from agricultural sector are attracted to work in industrial and service sectors and also, from state to non-state enterprises (Heberer et al., 1999). As being flexible and dynamic, SMEs are able to meet fast-changing market demand, thus increase the competitive advantages of the country.

However, despite the impressive development, SMEs in Vietnam are still considered as weak because of lack of internal and external networking, competitiveness, innovativeness, human resource and readiness to globalization (Tran et al., 2008, p. 323). The authors state that the inter-firm networks among SMEs and external networks with large enterprises are generally weak (p. 325). Within SMEs network, there is a lack of close relationships in conducting business. Regarding external networks with multinational companies (MNCs), domestic SMEs have also weak linkage, which can be seen in "the low level of subcontracting and localization" (p. 336). It is pointed out that the reasons for this weak linkage is because (1) lack of supporting industries, (2) low level of technology and absorptive capability of SMEs and (3) most SMEs fail to meet the requirements for quality and standard from MNCs. This can be considered as one of the main challenges for SMEs growth in the country since networking with other SMEs and large MNCs helps to enhance capability and strengthen firms' ability to deal with uncertain environment.

The second weakness of SMEs in Vietnam as noted is innovativeness. Vietnam is considered as at the first stage of technology development, which implies the process of adopting technology. Because of low level of technology evolution, private sector in Vietnam also spends much less or no investment in R&D, compared with developed countries (Tran et al., 2008, p. 338). The authors explain this situation through two aspects. Firstly, due to heavily theoretical educational system and less attention on human resources' training, SMEs in Vietnam are lagged behind technology development. In addition, the cooperation among research institutions, universities and enterprises are seen as weak, which significantly hinder the adaptation and development of technology in SMEs.

It is also important to note that SMEs in Vietnam have limited capability in engaging in globalization. According to Tran et al., 2008, direct exports are basically made on handicraft and indirect exports are carried out through large enterprises (p. 341), which shows a minor role and readiness to go global. After Vietnam joins WTO, there have been new opportunities for the country to be globalized, however, lack of knowledge and information on internationalization is discouraging SMEs' willingness to export products overseas. Legal issue, for example, is one important aspect for companies when going abroad. However, in Vietnam, this issue is less being aware of, in fact only a small number of SMEs use legal advisor when entering direct export contracts (Tran et al., 2008, p. 341). As a result, exporting enterprises have a limited number of foreign
partners and exporting figures remain lower than expected despite the government's efforts to expand globalization.

Overcoming these weaknesses requires SMEs in Vietnam to invest more efforts on developing strategic solutions. Considering institutional environment in the country, the thesis suggests that enhancing the importance of networking and informal relationships will significantly improve the situation, hence increase their performance and development.

5.3 Roles of Managerial ties on Firm's Performance in Vietnam

As shown in chapter 4 of this thesis, managerial ties play a key role in obtaining institutional advantages. Xin & Pearce (1996) consider the activities of managerial ties as a substitute for unreliable government and the established rule of law. Research indicates that political ties (relationships with government officials) and business ties (relationships with other firms) positively affect firm performance. It is also noted that business ties, in most of the situations are more beneficial than political ties, especially for SMEs because of lower costs and longer time span. This section aims to gain a closer look at the roles of managerial ties in Vietnam and how SMEs are using these ties in doing business.

Firstly, as a consequence of transition process from a centrally-planning economy to a market economy, SMEs in Vietnam receive less favourable treatment from the government than SOEs. However, since the government still plays a key role in the domestic market, it is important for SMEs to build relationships with government officials in order to overcome challenges of survival and foster growth. According to Sheng et al. (2011), political ties are manifested in the activities of creating personal relationships with government officials, good connections with tax bureaus, state banks and commercial administration bureaus and the level of resources spent on creating and maintaining these relationships. In Vietnam, it is indicated that firms of which the government is a main customer, perform better than ones which do not (Hansen et al., 2009, p. 21). For example, assistance from the government can offer temporary tax exemptions during the start-up phase of SMEs. Since political ties provide firms with unique values such as access to scarce resources, interpreting regulations, enforcing contracts, settling negotiations and erecting entry barriers (Li et al., 2010, p. 858), firms are willing to invest in building relationships with government officials. In Vietnam, these ties are often practised in the form of bribery. Vietnam has been known for its corruption among government officials who seek for private benefits from relationships with enterprises, which creates a condition for bribery to occur. According to de Jong et al. (2012), bribery enables entrepreneurs to "develop and foster a network of informal relationships with public officials, and reap the accompanying benefits" (p. 323). In Vietnam, bribery is seen to be a common activity, which Vietnamese do not feel guilty about, while those who aggressively oppose bribery become outcasts in the society. Thus, bribery is considered as key factor of networking by Vietnam's enterprises. By interviewing 606 entrepreneurs in Vietnam, de Jong et al. (2012) found out that private-owned firms,
SMEs and firms in service sector are more likely to be engaged in bribery. However, there is no supportive empirical result for the relationship between bribery and higher firm performance. Therefore, it is also important to note that political ties activities, especially through bribery are risky since it may harm the companies without gaining worthwhile benefits.

Secondly, due to high costs of doing business resulting from weak and inefficient formal institutions, informal relationships and networks are strategic options for SMEs to survive and grow. One of the options for SMEs in Vietnam to acquire effective business ties is joining business associations in the country. Becoming a member of a "strong, representative private sector organizations", small enterprises' interests are better protected. As mentioned in the previous chapter, there is a lack of effective institutional framework for SMEs in Vietnam, thus, the establishment of business associations play a key role in promoting private sector business. Do (2001) defines business associations as "formal organizations of businesspeople or firms concerned with business issues" (p. 5), which create networks between individuals and on the other hand, act in the central position between individuals and the state by increasing interactions. Their activities vary in three main aspects, economic activities offered directly to the members to increase competitiveness and performance; cooperation activities aiming at coordinating and regulating members and representation activities of which the functions include negotiation with business partners of the members or activity in political sphere (Do, 2001, p. 8). By interacting with the state, business association are able to act for the favor of its members. The research indicates that most of the enterprises in Vietnam joining business associations with the purpose of taking advantages of the association's services. Within its competence, business association can provide useful services for enterprises, such as "vocational training courses, technical and commercial consultancy, promotion of business contacts, organization of trade fairs, exhibitions, seminars, conferences, collection and furtherance of information on different aspects related to the business community" (Do, 2001, p. 11). Thus, engagement in business associations benefits firms in term of reducing transaction costs, expanding business networks, finding trustworthy business partners and acquiring valuable information.

Considering the risk of transactions under the condition of lack of market information, social networks are important determinants in reducing those risks. According to the research conducted by Goto (2013), in Vietnam, most garment suppliers find it more reliable to deal with buyers who are relatives or come from the same region (p. 384). It is considered as a common belief for Vietnamese enterprises that relationships based on kinship or territorial are more trustful. Due to the fact that formal mechanisms to avoid the risk of non-payment are underdeveloped or absent, social networks are said to be helpful to overcome the issues since firms are able to assess the buyers before making transaction decision. Transactional risk also becomes a critical concern in other research as well. McMillan & Woodruff (1999) address the causes from the lack of market information and the absence of enforcement of contracts, thus
“networks are used to sanction defaulting customers” (p. 1285). Conducting the survey with 259 non-state firms in Hanoi and Ho Chi Minh city, the research shows that customers known through a business network receives 10% to 20% more credit by suppliers. Firms in the survey also reveal that they hesitate when dealing with other firms that they have never dealt with because of reliability issue. This issue, therefore, forces firms to rely on inter-firm partnerships.

Nguyen et al. (2005) emphasize on an important question that how managers of private sector business develop relationships and trust with their partners in the condition of ineffective market institutions. By analyzing multiple subcontracting relationships formed by private enterprises in Vietnam, the authors realize that, while large firms with greater resources have no difficulty in forming relationships with other firms, small firms with resource scarcity are facing various challenges. Thus, small firms tend to rely exclusively on trust built with prospective trading partners. The research points out that trust can be based on two levels, inter-organizational trust and inter-personal trust, depending on the stage of the relationship. At least one of these trust types should be involved in developing relationships with business partners. In addition, managers can also involve common third parties, such as business associations who “broker and endorse their relationships” (Nguyen et al., 2005, p. 232).

In summary, political ties and especially business ties are beneficial for SMEs in Vietnam in term of providing support for survival and growth. While political ties are less developed by small firms, business ties are critical to reduce business risks and exploit new opportunities in an uncertain and less supportive market environment. Based on the situation in Vietnam as investigated, the thesis later aims to examine the managerial uses of political ties and business ties in order to gain institutional advantage and competitive advantages in the commissioner company.

6 CURRENT SITUATION IN THE COMMISSIONING COMPANY

6.1 Business Activities

The research's commissioner company, RADIO TECHNOLOGY Company Limited (RADTECH) is a small-sized private owned company which was founded in 2008 in Hanoi, Vietnam. The company's expertise focuses on supplying telecommunication equipments and solutions, including fixed-line telecommunication and mobile telecommunication. Besides the company has been investing in developing fixed Telecom infrastructure, Internet, designing and manufacturing a range of Wi-FI solutions for high-rise buildings and urban areas. RADTECH is constantly improving their product portfolios in order to expand their markets. The company is not only serving customers in domestic market, RADTECH is also a wholesale representative of foreign companies in technological business sector, such as 3M (USA), KATHREIN (Germany), Emerson
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(USA), LSCable (Korea), Litech (Malaysia), YHT (China), YOFC (China), etc.

At present, the company has a workforce of 22, in 2014, the total generated turnover was in excess of 87,450 Euros (about 5 billion Vietnam dong). RADTECH is a small active company in the field of communications technology. As a relatively young company, who has been doing business with partners in different countries, RADTECH is challenged by the business environments it is operating in. Therefore, risk management is crucial for the company in order to effectively control their business as well as grow significantly. Within the scope of this thesis, the company's situation is examined in the interaction with external environment (government and other firms) under the condition of ineffective institutional system.

RADTECH conduct business activities in the field of telecommunication domestically and overseas. The company focuses on long-term strategic planning based on its resources and capability. With the organization of 6 departments: technology, administration, finance, computer & software, marketing and supplies and equipment, which have been working in the interactions with each other, the company has been successful with various projects coordinating with domestic and foreign organizations and enterprises. The activities vary from buying products from business partners abroad with big volume and selling them in Vietnam as well as providing customer services to constructing telecommunication infrastructure by the company's human resources. Because of high demand on working with high-tech products and quality customer service, human resources is a big concern to management, especially good-quality employees with critical skills and knowledge in technological field. In order to achieve sustainable growth, the company has been emphasizing on the importance of solving human resource issues.

6.2 The Organizational Structure

The organizational structure is shown in Figure 13. Executive Board at the highest level is responsible for strategic decisions for the whole organization while each department is responsible for planning and implementing activities within their own fields. Different interactions and discussions occur at regular basis in order to enhance agreements, organizational learning and thus, improve development. The inter-functional coordination within the company will be later revealed in the key findings chapter. As a small company, RADTECH is predicted to have high level of coordination between different departments, which can be in forms of frequent meetings, knowledge sharing or open discussions with people from different functional areas. However, the interview shows a different result.
6.3 The Telecommunication Industry Background and Challenges to RADTECH

During the last decades, the telecommunication sector in Vietnam has experienced a dramatic development with an increasing contribution to the economy's GDP. The telecommunication market has been increasing rapidly with the appearance of SMEs because of higher demand for telecommunication service, at about 5-10% annually. However, the market is still dominated by three state-owned enterprises: VinaFone, MobiFone and Viettel. In addition, even though regulations have been adjusted to catch up with market changes, procedures to obtain licences are still obstacles, especially for private companies. Research showed that, value-added services will be a critical survival factor for small private companies in Vietnam.

In a highly competitive market in Vietnam, it is important for RADTECH to tackle its challenges and seek opportunities in order to gain competitive advantages and grow. One of the directions for development of the company is strong market research and improving connections with business partners, in Vietnam and other countries. The company desires to export telecommunication product from Vietnam and/or participate in profitable projects abroad, especially ASEAN countries. In order to achieve these objectives, RADTECH needs an effective long-term strategic plan with the focus on overcoming difficulties related to weak institutional infrastructure, entry barriers and internal resources. By conducting an interview with the CEO of RADTECH, the thesis aims to provide a theoretical point of view to help the company deal with institutional issues and exploit opportunities.

7 KEY FINDINGS

As a private company which is based in Vietnam and conducts business activities both domestically and overseas, RADTECH experiences the challenges of the business environment caused by weak institutional framework in the country. The company is aware of these obstacles and integrating the external business environment factors into its long-term business strategies. Hence, the thesis writer expected that Managerial Ties would play an important role in the company's success, through the
impacts on Institutional support and Business Strategies. An individual in-depth interview was conducted with the owner of the company, with a focus on the evaluation of Managerial Ties on the company’s performance as well as its strategies to build these ties. As sent to the interviewee in advance, the set of interview questionnaires allow the company’s owner to openly discuss the matters with great insights since the interviewee understands the situation, strategies and objectives of the company the best. More importantly, it is the responsibilities of the leader to make decisions when company faces challenges caused by external factors. Therefore, the company’s owner shows great interest in the outcomes of this thesis. This section emphasizes on analysing key findings of the interview by analysing the aspects of Managerial Ties, Institutional support, Business Strategies and the roles of Organizational Learning and Market Orientation in these relationships. The results were generally fitting in the theoretical framework. However, some of the aspects were not expressed clearly, regarding their interactions with others. The interview also revealed some interesting facts about the real situation and solutions of the company when tackling the problems. The most important points of the interview will be shown in this section.

7.1 Interactions between the Company and Institutions

This section aims to analyze the interactions between Institutions and RADTECH, considering its particular situation. Theory has shown different aspects where Institutions influence strategic choices by directly interacting with organizations. For example, when multinational companies (MNCs) enter a country, it is important for them to investigate the institutional environment in that country. Based on this knowledge, MNCs are able decide which entry mode choice is the best for the company. While Joint venture is more beneficial in a weak institutional environment, because of the ability to access to local resources, Greenfield is considered as possible in a strong institutional environment since the contract enforcement system is efficient.

Considering RADTECH’s situation, entry mode choice should only be taken into consideration when the company expands its business to other countries. Operating in Vietnam, under the impact of weak Institutions, strategic management towards Entrepreneurship and Business Networking should be emphasized on. Figure 11, based on the model developed by Peng (2002) shows in which ways interactions with Institutions affect RADTECH’s managerial strategies.
Weak formal institutions with lack of legal support create challenges for the development of entrepreneurship in Vietnam. Due to ineffective protection on intellectual property rights, firms are more hesitant in generating innovations. The fact that one new product will be easily imitated by other companies only in short time kills entrepreneurship. At RADTECH, even though creative thinking among managers and employees is encouraged, investment on innovations for new products or services has not been paid full attention. The company is active in seeking opportunities by investigating and responding quickly to customers' expectations. However, lack of market-supporting institutions and updated market information makes it difficult for RADTECH to be able to meet customers' changing demands. In addition, as a small private company, RADTECH is less favorably treated in terms of receiving financial support or policy support from the government. Therefore, despite the improvement in entrepreneurial spirit in the country in recent years, the formal institutions have not significantly and successfully encouraged entrepreneurship.

Informal institutions, on the other hand, have been becoming an effective tool to overcome challenges created by weak formal institutions. Vietnamese cultures encourage networking and building close relationships with others. If Blat and Guanxi are the two well-known concepts used in Russia and China, in Vietnam, there has not yet been an invented term. However, the situation is similar in the way that relationships do matter and in fact, they have a huge impact on business success. Entrepreneurs in Vietnam, particularly RADTECH rely heavily on business networks to acquire new projects and find new customers. During the interview, the company's owner said that the relationships built with local banks and industry bureaus are important to do business smoothly. Even though the word “bribery” was not mentioned, this statement may be understood among people from Western countries as “bribery”. In Vietnam, it is considered as an “additional tax” in doing
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business and to get things done, especially it is not meant as illegal. Therefore, it can be said that the interaction between firm and Institutions foster business networking.

Business networking is more often understood as relationships with other firms. For RADTECH, in a situation of fast-changing market, in order to acquire distinct resources (both tangible and intangible), the company needs to establish and build its relationships with other firms, such as customer firms, partner firms and supplier firms. For example, a good relationship with customer firm will enhance the company's reputation in the industry, which in turn attracts more customers. Building connections with partner firms enable RADTECH to access to prioritized and unique resources and thus, stand out from its competitors. Stay closed with supplier firms provides RADTECH with updated market information, including market trend, customers' requirements and demands. Therefore, under the impact of industrial environment and the need for competitive resources, business networking is one of the strategic choices of RADTECH. The results of the interview which will later be shown in this chapter will explain in more detail how the company is managing its business relationships.

7.2 Opportunity Management at RADTECH

As explained in chapter 2, researchers believe that risk is seen as a set of two components: uncertainty and potential impact on outcomes. They argue that negative potential impact of an event on outcomes is referred as “downside risk”. Meanwhile, from an entrepreneurial point of view, the risk of missing an opportunity or positive impact of an event is called “upside risk”. This thesis emphasizes on the managerial responses towards upside risk of weak institutions in a country. In particular, it investigates effective strategies to deal with a weak institutional environment by considering it as an opportunity to gain competitive advantages and success.

In the situation of RADTECH, the downside risk concept can be easily seen. Since weak formal institutions in the country create a condition for corruption and bureaucratic burden on firms, as a small company operating in a highly competitive market, RADTECH cannot avoid the negative effects of this system. The company realizes the unfair business environment, where bribery is the key to important resources and to deal with bureaucratic burdens. The owner of the company himself also said that the company needs to take care of its relationships with local banks and local authorities in order to access to financial support with lower interest rate and acquire important projects. In addition, private property right is another downside risk for RADTECH since the company is dependent on private assets to create wealth. The absence of effective legal framework and enforcement in Vietnam makes it difficult to small companies to protect their own asset. Land, for example, is challenging for companies to acquire since it belongs to the state. At the moment, the company's office is located in Hanoi, under the ownership of an individual, which generates a risk if the land will be acquired by the state
someday. The price for renting the office is also higher and increasing because it is not categorized as business usage. Furthermore, considering lack of market information as downside risk, the company is not happy with the business information available on published sources. This barrier prevents company from responding to customer's demand and meet customer's changing requirements. In order to quickly identify current situation in the market, a more effective way is to collect the information through close relationships with business associations and business partners.

The upside risk of weak institutional system has been recognized by the company, however, it has not yet been fully utilized. Due to the unpredictable changes in the market environment, avoiding the negative effects of formal institutions is not considered as effect strategy. Without exploiting the potential positive impacts of formal institutions on firm performance, the company will miss the opportunities to stand out of its competitors and become successful. For instance, when competing over one certain project, company who has closer relationship with the government authorities or influencing party wins. Thus, the upside risk for RADTECH in this situation is the risk of missing the opportunity to gain Institutional support.

Researchers have studied Opportunity management as an effective strategy towards risk. Based on Hillson's (2002) proposal of managerial responses to potential opportunities, RADTECH can apply this theory in creating its management strategies. First, exploit strategy seeks to opportunities by acquiring unique resources and market information from relationships with business partners or local government officials. Second, share strategy aims to find a third party to identify and manage opportunities. Since RADTECH is doing business with not only domestic but also foreign companies, seeking partners who share the same objectives and benefits can maximize the chance of making opportunities happen. For example, RADTECH can contact construction companies and work with them in finding telecommunication projects. Both companies together can offer a package of construction and telecommunication benefits to the potential customers. Third, it is important for RADTECH to be flexible in order to adapt to the fast changing business environment. By being flexible, the company's managers are more likely to see opportunities and create more options for the company to grow. The company's owner has soon recognized that the product portfolio of RADTECH needs diversification in order to be able to serve different types of customers. Therefore, the company has been focused on developing market offering with certain core products but they are wrapped in flexible options for services. This strategy enables RADTECH to successfully meet customers' requirements as well as maintain good relationships with them. Finally, the company has been applying control strategy, which helps change the environment to possibly create positive impact on business. This strategy is needed in case of weak and ineffective institutional environment since it includes building and developing managerial ties, with the purpose of gaining institutional advantages. The
essence and effects of control activities at RADTECH will be realized later in this chapter.

7.3 Managerial Ties and Institutional Advantage

First of all, it was revealed that the manager of the company is aware of the problems caused by weak institutional framework. While discussing at the beginning of the interview about the current situation in Vietnam, the interviewee agreed that there is still a lot of space for improvements of institutions in the country, which have great impact on economic development and growth. The interviewee emphasizes on the low quality of formal institutions, considering sets of law, regulations and protection of property rights which lead to lack of support to private-owned companies like RADTECH. It has been also pointed out that the government's lack of experience in market economy and underdeveloped legal framework causes private companies various challenges. The company's owner agreed with the fact given by the thesis writer that market information is insufficient, non-state companies are treated less favourably even though there have been some improvements compared with the past years, laws on land and contract enforcement are among the highest concerns and costs of doing business in Vietnam are high due to administrative procedure. Informal institutions, on the other hand, contribute to business solutions to overcome formal institutions' voids. As the company's owner stated, "since Eastern culture focuses significantly on relationships, behaviours which tend to build and maintain relationships in business environment is accepted and necessary". Therefore, institutional support, according to the interviewee, is important and contributes to the company's success.

Secondly, the company is also aware of the importance of Managerial Ties and has been investing in these relationships. Doing business with partners from different countries with lack of market-supporting institutions and inefficient legal framework requires more effort on political ties and business ties. When asked about the company's strategies of investing in and improving relationships/connections with government officials, the CEO's answer is: "Considering the situation in Vietnam investing in and maintaining the relationships with government officials is important. In particular, the company has been building its connections with some local banks, commercial administration bureaus and industrial bureaus in order to make it easier for doing business". Interestingly, it is not considered as "bribery" in a negative sense when investing in these relationships but a business strategy to gain competitive benefits to the company. According to the interviewee, through these contacts, the company is able to gain important information in acquiring and implementing potential projects. As constructing telecommunication infrastructure contributes significantly to the company's profits, it is crucial to own political connections at local level in order to win beneficial projects over its competitors. In addition, the CEO also mentioned that the company has been focusing on relationships with other companies, including its suppliers and clients. He stated that: "By obtaining important contacts from suppliers and business customers, the company is able to expand its business as well as improve
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its products and services in order to meet market requirements, adapt to the environment and enhance its competitive advantages”. In particular, the company's activities towards this strategy includes:

- Relationships with suppliers: Regular meetings are set up with the aim of exchanging information, receiving feedback and discussing about the current market trend and potential customers. By coordinating with the suppliers of telecommunication equipments and solutions, the company's product portfolios are improved and meet higher requirements from its clients.

- Relationships with business customers: The company updates and maintains frequently its relationships with business customers by receiving feedback regarding products and services. Providing products' information and after-sales services are highly emphasized.

In summary, RADTECH has been investing great effort in managerial ties as an important management strategy. However, government support is considered as less effective. Even though, creating relationships with government officials is beneficial in solving problems related to taxation, capital and administrative burdens, support from government in finding reliable business partners, providing useful market information and technical support is missing. As a small, private-owned company, RADTECH is not willing to make a big investment in political ties. In fact, according to the CEO, these ties only receive focus when it is really necessary and beneficial and as mentioned, political ties are mostly at local level. The CEO expressed his expectations towards a better policy and legal framework in order to support private-owned companies in the market economy. RADTECH's case supports the first hypothesis that "If a firm is willing to invest in managerial ties, including political ties and business ties, it is more likely to gain institutional advantage”. It is also important to note that political ties, for small, private companies, may not be beneficial in some cases. Therefore, the company needs to consider its profitability before investing in these ties.

7.4 Cost Advantage and Differentiation Advantage

Operating in a highly competitive market segment which is dominated by state-owned enterprises, RADTECH has realized the importance of cost advantage and differentiation advantage in its long-term strategies. The CEO mentioned different solutions that the company has been focusing on to create its differentiation.

- Quality of products and services is constantly improved through tight relationships with suppliers and updates on market trend and demand
- Solutions on lower transaction costs are among the biggest concerns to generate cost advantage
- Internal resources, especially human resources and managerial capacity influence the company's effort to gain differentiation advantage

These solutions have positive impacts on cost advantage and differentiation advantage. However, according to RADTECH's CEO, without support from government and a more effective market-supporting policy, it is more challenging for private-owned companies to grow,
especially when competitors from outside of Vietnam are entering the market.

Findings from the interview support the second hypothesis that "The more advantage firm gains from relationships with institutions, the more benefits it can obtain from differentiation and cost advantage". By investing in business ties, RADTECH has succeeded to provide products with higher quality and better services in order to catch up with market trend as well as meet customers' expectations, which help the companies to stand out from its competitors. Furthermore, relationships with suppliers also help to acquire useful information at lower cost. Political ties make it easier for the company to receive financial support from local bank and reduce administrative burdens when conducting business with foreign business partners. However, for RADTECH, the benefits of political ties in acquiring cost advantages have not yet been realized. Transaction costs remain among the biggest concerns of the company when trading with its business partners. A higher level of institutional support from the government is predicted to contribute significantly to the company's cost advantage strategy.

7.5 Role of Organizational Learning

The first interview questionnaire asks the CEO to evaluate the degree to which he agrees with given statements regarding organizational learning of the company. The scale is defined from 1 to 5, with 1 is "Totally disagree" and 5 is "Totally agree". The results then are calculated by finding the mean of each category: Exploratory learning and Exploitative learning. The higher the mean is, the higher degree of agreement.

As the results from the survey, RADTECH's scores on Organizational Learning are shown as below:
- Exploratory learning: 3.75
- Exploitative learning: 3.20
That shows the company pays relatively high attention on organizational learning, especially exploratory learning. As a small company operating in a highly competitive and dynamic market, constant learning and improvement are important for the company's growth. Thus, the result is reasonable.

From the previous answers regarding Managerial Ties, it is realized that the company has been creating and maintaining its relationships with both business partners and government officials. Ties with other firms are stronger and more beneficial for the company. Through relationships with the suppliers, RADTECH is able to improve market portfolios and its products to clients, which would be more difficult without exploratory learning and exploitative learning. Survey shows that the company is not only acquiring new technology and skills from the supplier companies but also reviewing its existing knowledge and capabilities in order to utilize this new knowledge into improving its current products. Therefore, organizational learning enhances the company's ability to gain institutional advantage when investing in ties with other firms. This result supports the
hypothesis 3: “Organizational learning moderates the relationship between managerial ties and institutional advantage”.

However, as government support is not significantly realized for RADTECH and since the data collected is not enough, it is difficult to state the moderating effect of organizational learning on the relationship between political ties and institutional advantage. While theory suggests that exploratory learning positively enhances the effectiveness of political ties on institutional advantage, because government prefers firms with focus on new resources and exploitative learning firms are less favorable since it is only based on existing and available resources and competencies, the interview results are insufficient in supporting this statement. In order to clarify this effect, more data needs to be acquired.

7.6 Role of Market Orientation

With the same method used for Organizational Learning effect, Market Orientation is also evaluated by using a survey questionnaire with scale from 1 to 5. The results are calculated by finding the mean of each category: Customer orientation, competitor orientation and inter-functional coordination. The results are shown as below:
- Customer orientation: 3.8
- Competition orientation: 3.0
- Inter-functional coordination: 2.5

From the results, it is said that RADTECH is highly customer-oriented, as the CEO of the company mentioned "Customer satisfaction is a driving factor of the company's business". The result is reasonable since the business that RADTECH is engaged in requires more attention on customer's needs and demands. In Business to Business (B2B), customers prefer functions and quality of products and services rather than appearances. Thus, the company needs to actively seek what the customer and his company really need and improve market offerings accordingly. Especially, in case of big customers, if they decide to switch to another telecommunication company, RADTECH will suffer huge loss. Therefore, customer orientation is considered as one of the critical management strategies.

However, competition orientation and inter-functional coordination scores are lower than expected. It can be explained that even though RADTECH is operating in a highly competitive market, its competitors are big state-owned company, such as Vina Phone, Mobifone and Viettel, discussing about competitors' strategies and capabilities may not be a regular management job. Analyzing competitors' strengths and weaknesses is often done only when the company is competing over a new telecommunication project. However, the CEO agreed that the company is highly aware of its competitor threat and targeting on customers where they have an opportunity for competitive advantages. Thus, keeping good relationships with current customers and looking for opportunities for new projects are main priorities. Low score on inter-functional coordination can be explained because of the company's culture, sharing knowledge and
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coordination among different departments are not frequent. As a relatively small company, it was expected that the company has higher score on inter-functional coordination. However, its management strategy was not focusing on this issue but instead keeping business tasks separately among the functional departments.

RADTECH shows its attention on creating differentiation advantage and cost advantage as effective strategies to achieve higher performance. Considering the effect of market orientation in this relationship, theory realized that the more market-oriented a firm is, the higher performance it can achieve through cost and differentiation advantages. In case of RADTECH, the CEO agreed on the direct relationship between differentiation and cost advantages on higher performance and high score on market orientation leads to the company's ability to differ from its competitors. Positive effect of market orientation on cost advantage, however, is not fully supported. Also, the low score on inter-functional coordination does not contribute to cost advantage. In summary, market orientation positively relates to differentiation advantage but not directly to firm performance. In addition, differentiation and cost advantages lead to higher performance. Therefore, hypothesis 4: “the more market-oriented a firm is, the more likely it is to gain higher performance through differentiation and cost advantages” is partly supported.

8 DISCUSSIONS

8.1 Summary of Hypotheses Analyses and Results

The thesis proposed four hypotheses, concerning the interaction between firm and institution and its influence on firm's strategies, thus firm's performance. These relationships are moderated by two factors, including organizational learning and market orientation. The interview with the owner of the company, RADTECH, helps to examine the hypotheses, based on the characteristics of doing business in Vietnam and the current situation of the company.

The first hypothesis suggests that “If a firm is willing to invest in managerial ties, including political ties and business ties, it is more likely to gain institutional advantage”. As mentioned in the chapter five, even though there have been institutional improvements in providing firms with market information and protection on property rights as well as reducing bureaucracy issues, formal institutions in Vietnam lack of effective factors to support economic and firm performance. Furthermore, in the situation of risky business environment and lack of government support, entrepreneurs in Vietnam need to learn to be flexible and adaptive. As a result, managerial ties are said to play a key role in obtaining institutional advantages. political ties and especially business ties are beneficial for SMEs in Vietnam in term of providing support for survival and growth. While political ties are less developed by small firms, creating relationships with other firms is critical to reduce business risks and exploit new opportunities in an uncertain and less supportive market environment. The owner of RADTECH is aware of the problems
caused by weak institutions and agreed that building and maintaining relationships with other firms, including customer firms, supplier firms, is a critical strategy. The company has been investing great effort in managerial ties by networking with other firms. However, it was also revealed that government ties are considered costly and unnecessary.

The second hypothesis proposes that “The more advantage firm gains from relationships with institutions, the more benefits it can obtain from differentiation and cost advantage”. This statement was partly mentioned while the benefits of institutional advantage was explained in the last chapter. By investing in business ties, RADTECH has succeeded to provide products with higher quality and better services in order to catch up with market trend as well as meet customers' expectations, which help the companies to stand out from its competitors (DIFFERENTIATION). Furthermore, relationships with suppliers also help to acquire useful information at lower cost (COST ADVANTAGE). Political ties make it easier for the company to receive financial support from local bank and reduce administrative burdens when conducting business with foreign business partners. However, for RADTECH, the benefits of political ties in acquiring cost advantages have not yet been fully realized.

The third hypothesis suggests that “Organizational learning moderates the relationship between managerial ties and institutional advantage”. The survey shows that the company is not only acquiring new technology and skills from the supplier companies but also reviewing its existing knowledge and capabilities in order to utilize this new knowledge into improving its current products. Therefore, organizational learning enhances the company's ability to gain institutional advantage when investing in ties with other firms. However, as government support is not significantly realized for RADTECH and since the data collected is not enough, it is difficult to state the moderating effect of organizational learning on the relationship between political ties and institutional advantage.

The last hypothesis mentions “The more market-oriented a firm is, the more likely it is to gain higher performance through differentiation and cost advantage”. From the results, it is said that RADTECH is highly customer-oriented, as the CEO of the company mentioned “Customer satisfaction is a driving factor of the company's business”. However, competition orientation and inter-functional coordination scores are lower than expected. Positive effect of market orientation on cost advantage, however, is not fully supported. Also, the low score on inter-functional coordination does not contribute to cost advantage. In summary, market orientation positively relates to differentiation advantage but not directly to firm performance.

The summary of the interview results regarding the proposed hypotheses can be shown in the following table:
### Table 3. Summary of tested hypotheses' results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Independent Variable(s)</th>
<th>Dependent Variable(s)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>“If a firm is willing to invest in managerial ties, including political ties and business ties, it is more likely to gain institutional advantage”</td>
<td>Political Ties</td>
<td>Institutional Advantage</td>
<td>Not supported</td>
</tr>
<tr>
<td></td>
<td>Business Ties</td>
<td>Institutional Advantage</td>
<td>Supported</td>
</tr>
<tr>
<td>“The more advantage firm gains from relationships with institutions, the more benefits it can obtain from differentiation and cost advantage”</td>
<td>Institutional Advantage</td>
<td>Differentiation Advantage</td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td>Institutional Advantage</td>
<td>Cost Advantage</td>
<td>Supported</td>
</tr>
<tr>
<td>“Organizational learning moderates the relationship between managerial ties and institutional advantage”</td>
<td>Organizational Learning</td>
<td>Relationship between Business Ties and Institutional Advantage</td>
<td>Supported</td>
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<tr>
<td></td>
<td>Organisational Learning</td>
<td>Relationship between Political Ties and Institutional Advantage</td>
<td>Not supported</td>
</tr>
<tr>
<td>The more market-oriented a firm is, the more likely it is to gain higher performance through differentiation and cost advantage</td>
<td>Market Orientation</td>
<td>Differentiation Advantage</td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td>Market Orientation</td>
<td>Cost Advantage</td>
<td>Not supported</td>
</tr>
</tbody>
</table>

8.2 Contributions and Recommendations

The thesis's contributions are seen from both theoretical and practical points of view. First of all, by reviewing various literature on institutional theory, the thesis managed to develop a conceptual model of effective management strategies, which enables firms to exploit opportunities and gain competitive advantages, especially in a weak institutional environment. As institutions have been increasing its influence on firm's growth and success, critical knowledge towards the interactions between firms and institutions is important for managers. The conceptual model suggests that it is beneficial to investigate in building and maintaining managerial ties, including political ties and business ties in order to gain institutional support. Due to the shortage of resources and lack of market-supporting institutions, institutional support, in terms of beneficial policies and programs, information and technical support, financial support and reducing administrative burdens. It is also pointed out that institutional support does not directly lead to higher firm performance but through differentiation and cost advantages. In an ineffective and highly competitive market, differentiation and cost reduction are key factors to success. In addition, organizational learning and market orientation play important roles in enhancing the positive impacts between the variables in the conceptual model.
Secondly, the thesis answers the question that “Do established risk management strategies enable firms to enhance firm performance in a weak institutional system?”. Risk management research shows a gap in managing risks caused by ineffective institutions in emerging economies. The limits mentioned include imperfect risk managerial tool, insufficient supporting empirical studies and unreliable long-term risk measurements. As a result, the thesis suggests opportunity management as an effective strategy to deal with weak institutions in emerging economies. This strategy was then explored in the conceptual model.

From a practical point of view, the thesis provides a big picture of the current situation in Vietnam, concerning institutional environment, its relationship with entrepreneurship and the growth of Vietnam's private business sector. This knowledge can be useful for firms who are doing business in the country and researchers studying on the case of Vietnam's economy. Furthermore, the conceptual model developed in the thesis has significant implications on business strategies. It shows that in order to gain higher performance in a weak institutional environment, firms need to focus on ties with both government officials and other firms, which helps to gain institutional support and create differentiation and cost advantages. In addition, encouraging organizational learning and increasing market orientation help to enhance the positive impact of managerial ties on firm performance. Regarding implications for multinational companies (MNCs), it is important to analyze the economic environment before entering Vietnam. Due to weak and ineffective institutional system, doing business in Vietnam requires a high attention on political ties and business ties. On the other hand, it is also important to note that business ties, in most situations are more beneficial for firm performance. Business ties do not only involve sharing of operational resources but also strategic resources for firm's development at lower cost because of large network. Meanwhile, political ties, even though provide benefits, may induce more substantial costs and carry political complexity for SMEs. This knowledge is useful in defining firm's target objectives.

One of the objectives of the thesis is to give recommendations to the case company, RADTECH, considering the management strategies to deal with weak institutional environment. First, findings from the qualitative interview with the CEO of the company indicates that RADTECH is aware of risks caused by ineffective institutions in Vietnam and has been paying attention in managerial ties as a strategy to gain more competitive advantages. The results from this thesis suggest that the company can also enhance their business ties through closer relationship with supplier firms and customer firms. Becoming a member of business associations within the industry or business area in the country can be a good way to create more contacts with other firms as well as gain more knowledge concerning the market trend and customer requirements. Despite the importance of political ties, it is necessary to consider its costs and benefits before investing this these ties. Second, the findings also show that the level of inter-functional coordination in RADTECH is low. It is suggested that the company should pay more attention on this coordination.
in order to increase its efficiency in exchanging and sharing knowledge within the company, which in turn will lead to higher performance. Finally, one of the company's strategies is expanding its business to other countries in ASEAN, which is an important step for RADTECH's growth. The thesis suggests that, as the institutional environment in many of the ASEAN countries is similar with Vietnam, it is also important to investigate in this aspect of business environment in order to create the most successful strategies. The conceptual model contributes to the company's decision making process in achieving institutional support and differentiation and cost advantages, which improve firm performance.

8.2 Limitations and Potential Future Research

Despite its contributions, the thesis's findings have several limitations. As mentioned in the first chapter, the conceptual model is not tested thoroughly and the hypotheses are not supported fully because of three reasons: (1) unreliable translation of the interview results, (2) validation of interview questionnaire set and (3) representativeness of the commissioner company.

Future research can test this conceptual model at a larger scale for SMEs in different areas in Vietnam and compare the effects of managerial ties on firm performance through institutional support and management strategies in different parts of the country. In addition, the limits of risk management strategies in dealing with weak institutional environment is explained mostly from the thesis writer's point of view based on the lack of supporting empirical research. There is a lack of practical knowledge concerning whether or not risk management strategies are used by firms to cope with institutional risks in practice. Thus, future research can focus on this point to examine the current situation of practising risk management strategies in Vietnamese companies, considering the ineffectiveness of institutions. Furthermore, future research can also extend the conceptual model by including more variables, such as organizational behaviours, firm characteristics or motivation of the company's owners. Incorporating these variables will enrich our understanding of how different strategic choices are made in different organizational situations.

9 CONCLUSION

Emerging economies are more likely to face risks related to lack of market-supporting institutions and effective legal enforcement. Due to lack of literature support for risk management strategies in countries with weak institutional system, the thesis leverages opportunity management perspective by investigating how firms are able to gain institutional support and thus, competitive advantages. In particular, the thesis emphasizes on the roles of managerial ties, organizational learning and market orientation in the relationship with higher firm performance. It is shown that business ties and political ties are important in firm's strategies to enhance competitive advantages, which in turn positively affect firm performance. However, their roles are different in different contexts.
In addition, managerial ties do not affect firm performance directly but through institutional support and management strategies. Using the qualitative interview method, the conceptual model developed in the thesis was tested in real business case of the commissioner company, RADTECH. The results reveal the awareness of managers in issues caused by weak institutions in Vietnam and the importance of managerial ties in achieving growth and success.

Overall, the conceptual model has considerable managerial implications and impacts on future research on management strategies in countries with the similar weak institutional environment with Vietnam. The thesis emphasizes on the benefits of building political and business ties in a dynamic but ineffective institutional support market. The idea comes from literature on opportunity management, which results from entrepreneurial spirit in management. In order to be successful nowadays, managers need to be active in seeking opportunities, which may even arise in a highly uncertain environment. Building ties with political officials and other firms or in another word, networking is believed to be an important strategy in creating opportunities and thus, generating success.
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Last but not least, I would like to take this opportunity to express my gratitude to my parents and my boyfriend who supported and encouraged me through this venture.
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OECD/The World Bank (2014)
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Appendix 1

INSTITUTIONAL PROXIES (Kuncic, 2013, p. 8)

<table>
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<th>Legal institutions</th>
<th>Sources</th>
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<tr>
<td>EFW Index: Freedom to own foreign currency bank accounts</td>
<td>Fraser Institute</td>
<td>E5</td>
</tr>
<tr>
<td>EFW Index: Regulation of Credit, Labor, and Business: Credit market regulations</td>
<td>Fraser Institute</td>
<td>E6</td>
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<tr>
<td>EFW Index: Regulation of Credit, Labor, and Business: Labor market regulations</td>
<td>Fraser Institute</td>
<td>E7</td>
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<tr>
<td>EFW Index: Regulation of Credit, Labor, and Business: Business Regulations</td>
<td>Fraser Institute</td>
<td>E8</td>
</tr>
<tr>
<td>EFW Index: Foreign ownership/investment restrictions</td>
<td>Fraser Institute</td>
<td>E9</td>
</tr>
<tr>
<td>EFW Index: Capital controls</td>
<td>ICRG</td>
<td>E10</td>
</tr>
<tr>
<td>Investment profile</td>
<td></td>
<td>E11</td>
</tr>
</tbody>
</table>

Appendix 2

MEASUREMENTS OF INSTITUTIONS IN FOUR EMERGING ECONOMIES
(Meyer et al., 2009, p. 67)

<table>
<thead>
<tr>
<th>Macro-context</th>
<th>Egypt</th>
<th>India</th>
<th>South Africa</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (US$)</td>
<td>1490</td>
<td>460</td>
<td>3020</td>
<td>390</td>
</tr>
<tr>
<td>GDP (current US$ billion)</td>
<td>102.21</td>
<td>461.35</td>
<td>132.88</td>
<td>31.17</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>5.40</td>
<td>3.99</td>
<td>4.15</td>
<td>6.79</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (current US$ billion)</td>
<td>1.24</td>
<td>3.58</td>
<td>0.97</td>
<td>1.30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutions</th>
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<tbody>
<tr>
<td>Business Freedom</td>
<td>30</td>
<td>30</td>
<td>70</td>
<td>10</td>
</tr>
<tr>
<td>Trade Freedom</td>
<td>50</td>
<td>40</td>
<td>56</td>
<td>46</td>
</tr>
<tr>
<td>Investment Freedom</td>
<td>50</td>
<td>30</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Financial Freedom</td>
<td>30</td>
<td>30</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Property Rights</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>Economic Freedom, five-item index</td>
<td>42.0</td>
<td>35.9</td>
<td>29.2</td>
<td>25.2</td>
</tr>
<tr>
<td>Economic Freedom, 10-item index</td>
<td>51.3</td>
<td>45.7</td>
<td>61.3</td>
<td>39.4</td>
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</table>
INTERVIEW QUESTIONS (English version)

The following set of interview questions aim to support the Bachelor Thesis: From Risk Management to Opportunity Management: an Institutional approach”. The outcomes of this interview serve the academic study only, no commercial purpose involved.

1. To what extent do you agree with the following statements about organizational learning and market orientation of your company (1-Totally disagree to 5-Totally agree)

**Exploratory learning: Over the last 3 years,**

We acquired manufacturing technologies and skills entirely new to the firm  
We learned product development skills and processes entirely new to the industry  
We acquired entirely new managerial and organizational skills that are important for innovation  
We take the lead to learn new skills in certain domains  
We strengthened innovation skills in areas where it had no prior experience

**Exploitative learning: Over the last 3 years,**

We consolidated current knowledge and skills for familiar products and technologies  
We invested the resources into the mature technology skill in order to raise the productivity  
We constructed capabilities in searching for existing solutions to customer problems gradually  
We consolidated existing product development process skill  
We improved projects’ knowledge and skills to enhance efficiency of existing innovation activities

**Market orientation**

**- Customer orientation**

We constantly monitor our level of commitment and orientation to serving customer needs  
Our business strategies are driven by the goal of creating greater customer value  
Our strategy for competitive advantage is based on our understanding of customers’ needs  
Our business objectives are driven primarily by customer satisfaction  
We measure customer satisfaction systematically and frequently  
We pay close attention to after-sales service

**- Competitor orientation**

Our sales people regularly share information within our company about competitors' strategies  
We rapidly respond to competitive actions that threaten us  
Our top managers regularly discuss competitors' strengths and strategies  
We target customers where we have an opportunity for competitive advantages
- **Inter-functional coordination**

Our top managers from every function regularly visit current and prospective customers. We freely communicate information about our successful and unsuccessful customer experiences across all business functions. All of our business functions are integrated in serving the needs of our target market. All of our managers understand how employee in our business can contribute to creating customer value.

2. Please describe your company's strategy of investing in and improving relationships/connections with government officials in industrial bureaus, regulatory and supporting organizations. What do you think about advantages and disadvantages of this strategy?

3. In which ways your company has built and utilized personal ties, networks and connections with top managers at buyer firms, supplier firms and competitor firms?

4. How would you evaluate the impact of government support through personal relationships, in terms of beneficial policies and programs to your operations, provision of useful market information, technical trainings and support, financial support and licenses support (such as import license or technical license)?

5. Could you describe the benefits of building and maintaining personal relationships with other firms such as provision of market information, access to resources, knowledge transfer or searching trustworthy partners, to your company?

6. How would you evaluate your firm's ability to create product differentiation (unique, superior benefits, effective advertising) and reduce costs, compared with your competitors? To what extent, do you think, managerial ties play a role in increasing differentiation and cost advantages?