Capital Structure in Small and Medium-sized Enterprises: The Case of Vietnam

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Abstract

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Keywords: SMEs, capital structure, leverage, networking, banking relationships.

I. Introduction

Vietnam has been changing to a market-oriented economy over the past eighteen years, and there is growing recognition of SMEs' importance in the transitional economy. Consequently, the Government has introduced numerous policies in order to support this important business sector. According to recent statistics, 96 per cent of registered firms are classified as small and medium-sized firms, of which private SMEs account for nearly 82 per cent. The small business sector in Vietnam also generates 25 per cent of annual GDP. However, SMEs still face the difficult issue of access to capital for future development (Doanh and Pentley 1999). This raises a question as to what factors influence the capital structure of Vietnamese SMEs — an important concern in improving financial policies to support the small business sector.

There are only a limited number of studies on factors influencing capital structure among Vietnamese firms. Some of these studies just focused on an industry (San 2002) or listed firms on the Ho Chi Minh City stock market (Vu 2003). The financial sector in Vietnam is characterized by a bank-based system, where state-owned commercial banks (SOCBs) play an important role, with limited sources of long-term finance

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