

For a Better Competitiveness for HCMC-Based Companies

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Vietnam's accession to the WTO brings about both opportunities and challenges to HCMC-based companies. Realities of this situation should be studied profoundly with a view to working out measures to overcome shortcomings and improving the international competitiveness of local companies.

This paper aims at identifying and analyzing opportunities and challenges to local companies in HCMC when the domestic market is integrating more fully into the international one. The approach employed is to identify, examine deeply shortcomings in local companies in operation after their registration. By analyzing external and internal factors affecting their business performance gathered in my survey, the paper can present objective remarks on their operations. My analysis focuses on the following aspects:

- Internal problems with the companies after their market entry, especially their management and competitiveness, obstacles to their business development and support from authorities.
- The gap between their competitiveness at present and challenges posed by the international integration; and suggested measures to support its development.

1. An overview on factors of competitiveness of local companies

In this paper, the competitiveness is considered as the ability to build, maintain, employ and create comparative advantages by companies to satisfy better the market demand in comparison with their rivals, and achieve their business targets when competing against both local and foreign companies.

With this concept in mind, the measures needed for local companies should be based on external and internal factors affecting their competitiveness.

a. Internal factors:

Basically, the corporate competitiveness is affected by some internal factors, such as:

- Scope of their operation
- Business strategy
- Plan to build and protect their brand names
- Market research and selection of target market
- Managerial skills
- Outlay for R&D activity

- Technologies employed

- Human resource

b. External factors:

- Effects of economic institutions
- Ability to participate into and withdraw from the business world.

Of these factors, the paper pays a fuller attention to predominant and newly discovered ones. The analyses and estimates of these factors will serve as a basis for my suggested measures. Other factors are also mentioned to a certain extent because their strengths and weaknesses have been analyzed by other authors.

2. Survey of the competitiveness of companies in HCMC

The survey gathers data about machines and equipment, price, market share, brand name, and products of HCMC-based local companies, and shows that their competitiveness based on these aspects is poor. Main causes of this situation are as follows:

- Over 90% of them are of small and medium sizes. Moreover, many of them engage in the same industries with the same resources and advantages with the result that their only competitive edge is some lower price. The unnecessary price war between them, especially among producers of exports, reduces remarkably the quality, functions and designs of their products because they dare not spend more money improving these aspects.

- Financial strength, especially in private companies, is very limited. Their initial capital is small and working capital is much smaller. And as a result they have to produce products of low quality, and refrain from investing in modern machines and technologies that is necessary for production of high-quality goods – one of factors enhancing the competitiveness.

- Most companies have to depend on imported raw materials. When fluctuations in prices on the world market take place, their production cost rises, especially in 2008, which leads to higher selling prices and lower sales and competitiveness.

- Many previous surveys show that only a fourth of companies carry out market researches regularly while the rest think such researches are unnecessary, or need not be carried out regularly. They only



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registering their trade marks and other intellectual properties. Most companies didn't have their own distribution channels in foreign markets while the channels in the domestic market are very limited.

- Technological level, quality of human resource and managerial skills – important factor of the competitiveness – are very poor. Over 40% of companies are employing machines and technologies that are from 10 to 20 years older than the average accepted by foreign companies in Southeast Asia. Manual labor is widespread, especially in processing raw materials to make semi-finished goods. Poor managerial skills also affect badly the competitiveness. Many owners fail to realize the importance of management so they have no program to train their employees, recruit skilled workers, and help middle managers improve their expertise.

Backwardness of technologies, managerial skills and labor force make the quality of their good poor and inconsistent, and they find it hard to compete against both local and foreign-invested companies in HCMC.

- Production cost is high; ability of the management board is limited; the number of companies with their own quality-controlling system is small. Organization and managing mechanism in state-owned companies contain inadequacies, so they can't meet demand for renovation and access new technologies.

- Local companies in HCMC pay no attention to researches and development of new products and business strategies; and fail to adjust themselves to changes in the market demand, therefore they can't deal with challenges posed by the international integration.

- Productivity in local companies in HCMC is low, proportion of laborers with some training is small (60% in 2007) and many employees can't meet the demand posed by employers.

In the trend of globalization, HCMC-based companies should deal with these shortcomings to survive foreign competition and secure footholds in the markets.

3. What companies and authorities should do

Enhancing the competitiveness of companies should be considered as a joint effort of both companies and the government.

a. Measures for companies

- Improving the ability to get access to the market:

Theoretically, companies should proactively get access to the market, especially after Vietnam joined the WTO. This means that the companies should carry out marketing mix that includes such jobs as: carrying out market researches, identifying

carry out such researches when preparing to enter into a new market on the grounds that these researches cost a lot of money. If it is a foreign market, the company meets with greater difficulties because they face not only shortage of fund but also of experts in analyzing data, estimating and choosing new markets, especially when the target market is not so large. Decisions to select certain markets are usually based on experience, subjective judgment of analysts and company owners instead of scientific grounds, such as statistics, econometrics or informatics.

- Marketing campaigns are very ineffective. To market a new product or the companies themselves, companies usually use brochures or leaflets. Few companies can launch a trade promotion mix to make their goods or services reach the target market effectively. Outlay for advertising and trade promotion is very small, equaling some 1% of the sales. Only a few companies take part in trade fairs and exhibitions in big cities at home and abroad. They depend mostly on catalogs, brochures and leaflets, and only a handful of them place ads on newspapers and TV.

Many companies pay almost no attention to the brand building. Two years after Vietnam's accession to the WTO when some brand names have been lost to foreign companies, some leading local companies started building their brand names and

products and services in need, building distribution channels, launching advertising campaigns, and stimulating the market demand, etc.

To enhance the ability to get access to the market, however, requires capital and skilled employees. This is a shortcoming the companies should overcome if they want to do their business successfully. They should now develop strategies to access the market in a reasonable and professional manner instead of doing business according to old experience in an unruly manner.

In working out the strategy to access the market, companies should build and develop their brand names and consider them as instruments for protecting their interest. They should create original brand names and have them protected by law. Brand names should be seen as property and they should register them with authorities in spite of some cost, and refrain from copying and imitating brand names of others. This is also a requirement posed by TRIPs and RoO suggested by the WTO.

After Vietnam's accession to the WTO, companies still face non-tariff barriers to foreign markets. At present, these barriers include regulations about specifications, trade marks, safety for consumers, social responsibility, and protection for the environment, etc. Therefore, in doing their business, the companies should study these regulations in order to meet requirements, especially the ones posed by such demanding markets as the U.S., the EU and Japan. In addition, the companies should be careful when doing business with foreign partners in order to avoid disputes and lawsuits. In such cases, although Vietnam, as a WTO member, can get help from WTO agencies specializing in handling international disputes, companies have to pay large sums of money to lawyers.

- Developing and cultivating the human resource:

Supplying vocational training courses to laborers is an urgent and necessary task for companies. They can send employees to vocational centers or hold their own training courses based on national standards. In the globalization trend, managerial expertise plays a decisive role in the survival and development of the companies in both the public and private sectors, so they should give top priority to this task by reorganizing their managerial machinery and recruiting skilled managers, and pay high salaries to competent managers based on their performance. Thinking through, it's better to spend large sums of money on managers who can raise the corporate profit, rather than reducing costs and expenses and suffer poor performance.

Companies should set standards for each job with clear and detailed job description and use

them as a basis for recruiting new employees and assignment of tasks. Moreover, these standards can help companies build a mechanism for beefing up their machinery and getting rid of incompetent employees timely.

- Promoting the cooperation and combination:

Combination is a way for beefing up the competitiveness of lines of products and the whole industry as well. The combination can take form of a group of five companies or more with a legal entity and financial independence. These companies may be in the same or different industries, such as purchasing or supplying raw materials, making semi-finished products, exporting and importing, etc. and one company in the group has dominant position based on its financial strength, market share or technologies.

Combination and cooperation of companies in the same or different industries can also improve the productivity by investing more money in technologies, R&D, training, and development of brand names of international level. These groups should pay full attention to the distribution network with a view to maintaining and expanding the market share in the domestic and foreign markets.

- Blue ocean strategy:

Local companies had better learn more about the Blue Ocean Strategy introduced by W. Chan Kim and Reuë Mauborgne in their book of the same title. This strategy aims at building business strategies and controlling the competition without following traditional manners (enhancing the product quality and reducing production cost and selling prices) because the traditional way only reduces gradually the profit (when it approaches the marginal profit). The authors said that the only way to get rid of competitors is to stop defeating them. Similar to competing by combination, the authors suggest exploiting market niches, stimulating the market demand, and adding more value to products. By doing so, the company can control a bigger market share although prices of its products may be higher.

- Improving language skills:

Breaking the language barrier in communication is one of the signs of corporate professionalism and this could be done by various ways.

The traditional way is self education but one of faster ways is to use external service that can provide the companies with translators and interpreters when necessary. To employ effectively this service, the company had better take the following measures:

+ Discussing contents that will be exchanged with foreign partners, and providing the translators/ interpreters with necessary information and documents.

- + Repeating important and principal contents or points if foreign partners haven't understood or translators/interpreters failed to express correctly.

- + Refraining from using ambiguous words, argot and unnecessary terminology.

- + Avoiding replacing translators/interpreters at will, especially in jobs that requires continuity.

- + Asking the translators/interpreters to supply a minute or memorandum of the contents discussed and checking it with foreign partners.

The company had better make long-term plans to develop its own "language bridges." This task requires both money and employees with some potential. Dealing successfully with the language barrier means opening new business opportunities in foreign markets for the company.

- Accessing to sources of finance:

There are many sources of capital the company can get access to: loans from commercial banks, low-interest loans from governmental agencies responsible for controlling foreign aid and financial support (such as WB, ADB, and IFC, etc.), financial support from the Government and financial institutions; commercial loans from the public, immigrant remittance, and sale of shares and stocks, etc. the company can decide which source to approach based on its conditions, solvency, and scope of operations, etc.

Generally, the company should reform its book keeping department, make the financial statement transparent and observe all accounting regulations. Many recent surveys show that many companies, especially the small and medium ones, couldn't access formal sources of capital because they failed to ensure transparency of their accounting documents and financial statement, prove their ability to use loans effectively and safely, which make banks and other financial institutions feel unsure when extending loans for fear of high degrees of risk.

To get access to formal sources of loans, the companies should make their account books transparent and prepare financial statements as clear as required by laws and regulations. This means that they should spend some money on accounting and recruit competent accountants to manage this aspect.

Commercial banks should help companies to work out feasible business plans as a basis for securing low-interest loans. Financial authorities should publicize information about source of low-interest loans and conditions for such loans. In addition, authorities can help companies form fund for business development, especially funds for small and medium enterprises.

b. Measures for authorities

- Cooperation between companies – schools and authorities:

There must be a mechanism for supporting local companies established by local authorities. In my opinion, this mechanism must include companies, schools and local governments. This mechanism has produced good results in district of Sakaki (Nagano, Japan) as I visited there in August 2006. The Sakaki government established a center for business development with participation of the said three parties. Sources of finance came mostly from companies and local authorities contributed only a small sum. The center was equipped with modern facilities that allowed companies to test and measure their product quality with help from many universities. The center also supplied information about technical advances, new products, and demand from the domestic and foreign markets. Companies also formed some clubs where they could exchange experience and initiatives, or give support to one another. Entrepreneurship was cultivated by the center when it gave technical and financial support and advice to newly established companies. The center regularly held courses in business management with support from universities thereby providing company directors with new knowledge of management. The center staff comprised only four persons and they were paid by companies. They really succeeded in combining efforts of schools, companies and authorities to serve some 300 companies in the small district (Sakaki area is 54 square kilometers with a population of some 12,000 residents: there is one director every 40 residents). In Sakaki, there are two companies operating globally: Nissei Plastic Co. and Takeuchi.

- Information service for companies:

Ability to access necessary information is very important to the corporate competitiveness because:

- + Good information can help companies reduce cost of starting the business, work out exact business strategies, and make right decisions on investment and expansion of business.

- + Information about possible changes in economic policies and commercial laws helps companies make good preparations and adjust their operation accordingly.

- + Information about administrative and legal procedures can help companies complete them quickly and exactly.

- + Information about court judgments and decisions made by governmental bodies on business disputes allows companies anticipate new progress and future changes in their businesses.

- + Information about international commitments made by the Government, and foreign commercial

laws helps local companies get better prepared for cooperation with foreign partners and reduce possible risks.

- Standardizing and simplifying procedures:

All administrative procedures, especially the VAT refund and clearance ones, must be simplified and clarified because they are matters of concern to business circles. In fact, what investors worry most is not preferential treatment. They actually want three necessary conditions: transparent business climate; stable and discrimination-free policies; and supply of factor inputs (especially the human resource).

Authorities in such fields as customs, tax, and land must consider companies as their principal clients because up till now cooperation between authorities is very poor and their procedures lack consistency. This means that the administrative machinery and its mechanism need a stronger reform.

- Helping companies build and protect their brand names:

The Government should make companies understand the role of brand names and trade marks and establish a mechanism for recognizing and protecting local brand names or trade marks registered by the companies; and take strong measures to fight against fake goods and imitation of brand names in order to ensure a fair competition.

- Developing new products and target markets:

Generally, the Government should disseminate knowledge and support the companies in their efforts to expand the market shares by providing them with necessary information and facilities needed for market researches.

4. Conclusion

The globalization forces local companies to face great challenges, namely, technical barriers in developed countries, which requires better products and competitiveness. Estimating the competitiveness of HCMC-based companies, many experts thought it is poor because of various shortcomings (high production cost, low productivity, lack of necessary resources and infrastructure, imperfect legal infrastructure and administrative procedures, and discrimination).

To deal with these problems, the companies must consider the competitiveness as a dynamic of development. Each company should work out its own standards and use them as instruments for managing its business and encouraging employees to enhance their performance. This is the basis for the corporate competitiveness.

The 2-year period after Vietnam's accession to the WTO shows that foreign companies may find it

hard to kill HCMC-based companies. In fact, small and medium enterprises in HCMC enjoy their own advantages because they are still playing important roles in the HCMC economy during the globalization. They are flexible enough to deal with changes in the market and adjust their business strategies to preserve their financial strength and capital. With neat machinery they can take new directions to reduce overheads and move to new market niches. That is why they are present in all industries and make the economic development even.

To make the best use of their advantages, HCMC-based companies should adopt the globally-thinking way, absorb new skills and knowledge, and cooperate with and integrate into the international business community. ■

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