

RISKS IN BUSINESS AND MEASURES TO REDUCE THEM

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Risks are indispensable when doing business in the market economy. They are unexpected in an enterprise's process of production and business and have bad effects on its development.

1. KINDS OF RISKS OCCURRING IN PRODUCTION AND BUSINESS

1. Objective risks:

They are of macro-economic environment, making difficulties to the enterprise in settling risks.

Environmental factor:

The change in the government economic policy impacts the enterprise's production and business that cannot be foreseen.

For example: the Government's decision to raise the price of petroleum Mogas 92 from VND3,500/liter to VND4,500/liter in 1996 had great effects on enterprises, especially State-run and private carriers, forcing them to increase transport fees by 40%, taxi fees also rose from VND 5,000/km to VND 6,000 /km... This limited passengers' travelling and reduced enterprises' turnover and profit and obviously brought risks to enterprises.

Commonly State-run enterprises bear more risks than private ones, since private enterprises take initiative in settling these risks independently, actively and quickly. Whereas State-run enterprises are influenced by many ruling agencies which cause slow-down, loss of competitiveness to their operations because they have to wait for the superiors' approval. Finally they have to suffer risks.

When the Government decided to raise the salary of workers in the inner city to US\$50 per month, in

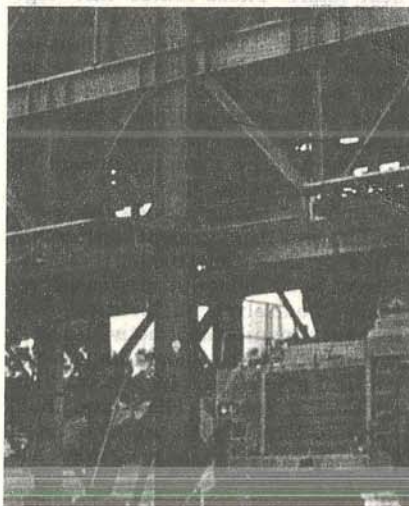
suburban areas US\$40/month, joint venture and 100% foreign-invested enterprises had to face with financial risks, that is, they had to pay higher salary to their employees, this difference must be included in the production cost and then product price went up, leading to the decline in purchasing power and in profit. This risk was not due to them.

Techno-scientific achievements and new inventions make existing machinery, equipment, technological process become obsolete, for instance, in information technology, in recent years, the market of computers changed vigorously from quantity to model. In 1985 HCMC had only about 100 personal computers, but to date this figure rose

hundreds of times, regarding models, from 286 to 386, 486 and currently 586. The fast development has made computers of model 286, 386 outdated, backward and depreciated.

Products derived from new technologies have more advantages than old ones in terms of quality, designs, technical features... and even prices, so they are attractive to customers and defeat the old products, causing risks to the enterprise. In the past years, HCMC has attained significant achievements in techno-scientific areas, but speaking frankly, although they are higher than other localities across the country, but lag farther behind other regional countries. The backward technological level exists in most of manufacturing sectors. According to statistics, in HCMC, backward technological level takes up 52%, moderate 38% and advanced only 10%. The shortcomings in technology have curbed the country's socio-economic progress and untapped internal potentials.

In the early stage when our country changed into the market economy under the State control, the State-run enterprises' operations are not as before, the producer no longer follows his superior's plans and consumers no longer buy low-quality goods. The fierce competition and elimination make many State-run enterprises encounter numerous risks since they cannot adapt themselves to and intergrade into the new mechanism. According to *Nghiên Cứu Kinh Tế*, No 220, September 1996, the number of State-run businesses has reduced



from 12,296 to 6,042 in 1994.

2. Subjective risks:

- Due to capital: Most of currently-used machinery, equipment and technological process in production are old, depreciated and backward. As a result, to win in competition, State-run enterprises have to make investments in new machinery, equipment and technological process, so they are lacking in capital.

Most of State-run enterprises secure only 10% of working capital, far lower than the requirement of 30%, many businesses have to borrow short-term loans with high interest rate because they cannot be offered medium- and long-term ones to expand production, so they can hardly perform effectively, refund their capital and pay debt when due. But if they do not take out short-term loans to invest, they will miss the train. Even though they meet risks, they also do it. For example, TRIBICO, a softdrink producer, had to shift into processing soybean milk due to lacking in capital to innovate its production lines, or many State-run companies have to enter joint ventures with foreign partners.

There are currently many argues about capital and tax of State-run enterprises. When allocating capital to them, the Government targets at its budgetary revenues. However, it imposes tax on capital while it is the enterprise's owner. State-run enterprises have to observe tax law more strictly than foreign-invested ones, including personal income tax which can be hardly collected from non-State businesses. This causes more risks to State-run enterprises.

- Due to managers: in the early stage of *đổi mới*, the role of managers is more important, his mistake, even small, can also bring the enterprise to the brink of bankruptcy.

In State-run enterprises, most of managers are appointed since they had merits in the revolution or close relations with their superiors. They do not have necessary qualifications. They lack in knowledge, experience but still take up their posts. When a director was brought to court, he said "I had to accept my post because it was assigned by the Party and the Government".

In 1995 and 1996, there were many bankrupt State-run enterprises. Their directors embezzled, violated laws intentionally, causing serious damage and loss to the State budget, amounting to hundreds of billion đồng (VNĐ200 billion in case of Trần Xuân Hoa, VNĐ550 billion

in case of Phạm Huy Phước...). These figures show us risks derived from the managers can be tremendous.

Most of private owners manage their businesses by their own knowledge and experience. They have not been trained through specialized courses and schools, so they know little about law and business management, they see only initial benefits and fail to know future benefits. This leads to deficiencies in the manager's attention to his employees. What he requests is more than what he brings to his employees. He do not really sympathize his employees, he expresses much interest in profits, so his employees feel disappointed. And he will not gain his employee's devotion, loyalty and responsibility.

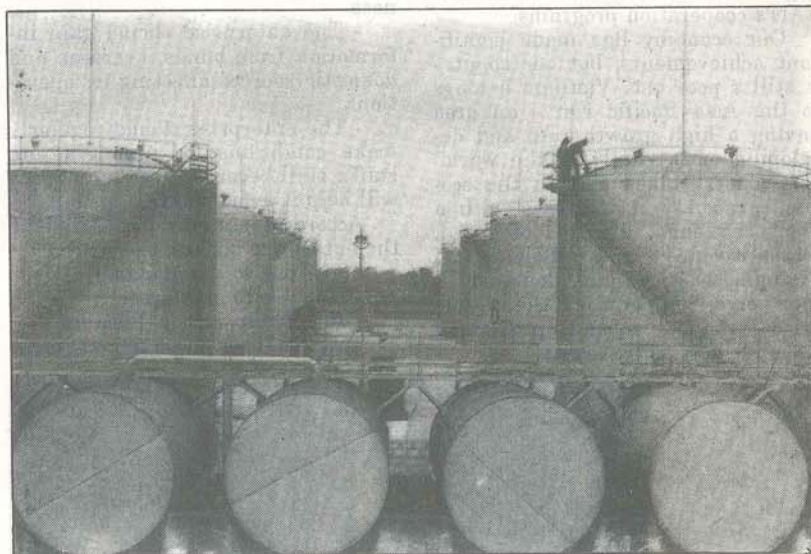
An employee, if not faithful and responsible, will make risks to the enterprise. His work will not attain good results. His prolonged holidays will produce bad effects on the enterprise production and business.

prise's products within five years, so the enterprise plans on production in this period. But the Taiwanese partner ends the contract without prior notification, making the Vietnamese enterprise deal passively with its inventory and operate perfunctorily.

3. Other risks:

- Risks occur in the overlapped regulations of higher levels when an enterprise is under management and inspection of many superiors. The Noodle Producing Establishment operates under the Food Shop No. 4, the Food Shop No. 4. under the HCMC Food Company, and the HCMC Food Company under the HCMC Service of Trade, not including Tax Department, the Environment Protection Center...Therefore in November and December 1996 it had to waste much time in receiving inspection teams and focused difficultly on production for Tết occasion.

Cumbersome administrative procedures also cause risks to the en-



Garment companies, for example, lack in employees seriously because workers usually prolong their holidays. If there is a strike, then the enterprise will meet more risks in finance, in addition the relation between the manager and his employees is broken.

Another mistake of the manager is to make no careful studies on selecting partners, when doing business they will cause risks to the enterprise. For example, a State enterprise contracts with a Taiwanese company as follows: the foreign party will consume all the enter-

terprise, for instance, the time for a business licence is above one year. The applicant has to waste much time and money. When his application is approved, the business opportunity is over.

- The ratio of capital contribution between a State enterprise with its foreign partner is disproportionate, causing big risks to the State enterprise. The foreign party usually contributes capital with machinery and equipment, but the local party cannot access these machinery and equipment (due to less knowledge or lack of funds to pay to the advisor

for evaluation), so the foreign party may appreciate its contribution. The foreign party's dominant shares give them more advantages than the local partner. If the joint venture fails in doing business, then the State enterprise suffers more losses than the foreign one, because it has enjoyed the difference when appreciating their contribution. If the joint venture succeeds, the local party enjoys less profits than the foreign one. The Vietnamese enterprise always suffers losses in a joint venture when it lacks knowledge and information about machinery and equipment and relevant issues.

- The staff's qualifications are very important, if their capability is low, they will make mistakes in their work and have bad effects on the enterprise's operations.

- Risks due to lack of information: The Vietnam's participation into ASEAN will result in difficulties to Vietnamese enterprises because Vietnam is a new member, it cannot hardly gain sufficient knowledge and information about ASEAN's cooperation programs.

Our economy has made significant achievements, but our country is still a poor one. Vietnam belongs to the Asia Pacific rim - an area having a high growth rate and developing most vitally in the world. Our country takes part in the economic race, so it will face with a great challenge in terms of speed, competitiveness and efficiency. If Vietnamese goods are defeated in the fierce competition, the enterprises cannot expand production and they may suffer losses.

Because of geographical conditions, ASEAN members also produce and export products like our country, but with large quantity, high quality and even cheaper than our products since they have modern technology and more advantages in the competition.

- The enterprise also suffer risks due to poor infrastructure, unplanned system of warehouses...

II. MEASURES TO LIMIT RISKS

- To reduce risks in production and business, the manager should have the bank's consultancy on financial issues, especially the auditing company regularly checks the enterprise's financial position (the enterprise should also have an internal auditing department), they will easily detect abnormal financial relations to regulate and settle on time because they work independently and impartially, they can easily see the enterprise's mistakes.

- The enterprise has to establish a system monitoring all information concerning its production and business.

- The enterprise should gain information from banks, overseas and domestic sources affecting its operations.

- The enterprise should regularly make conditions for improving its staff's skill because these employees will help it avoid risks.

According statistics, of 100 risks the enterprise suffers, there are:

- 30% due to the manager.
- 30% due to employees
- 40% due to external factors.

The loyalty is most important in

a personality. The manager should make close relations with, show permanent interest in his employees in terms of material and spirit. He should make his staff feel at home when they work in the office.

- To avoid risks in investment, the enterprise should:

+ Request its partner in the joint venture to present certificates of legal status and financial position, that is, the foreign enterprise must have enough business permit, investment licence, legal responsibility and be subject to the competent agencies' inspection.

+ Have a technique service company's consultancy to know what investment it should concentrate on, what it limits and what is feasible or not.

+ Have an auditing company check its financial position to decide on investment, have an advisor assess the foreign party's machinery and equipment in capital contribution with a view to avoiding its partner's appreciation.

+ Try to get foreign banks' long-term loans in order to contribute capital in the joint venture.

+ Establish a market research department whose staff really have enough qualifications and knowledge of market policy, they are wholly honest so that the enterprise can gain exact information.

+ Realize an intensive investment project to turn out new competitive products with the aim to reduce risks.

+ Rearrange the enterprise's apparatus and apply computers to management, streamline its staff to lower overheads.

+ Make business strategy and development plans, both long- and short-term ones, and implement them effectively to limit risks.

+ Have an army of managers who should incessantly study to perfect their knowledge and capability, forecast what may cause losses to the enterprise.

The Government should:

+ Maintain the stability of its macro-economic policies.

+ Take measures to make financial relations healthy so that the enterprise can set up its business strategy suitably.

+ Execute laws uniformly and publicize them widely.

+ Perfect the foreign investment and bankruptcy laws.

+ Always show interests in the army of managers to improve their qualifications, honesty and loyalty.

