

# Challenges for smes in vietnam and korea



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## 1. Recommendations for the government/policy makers

### 1. Properly aware and assess the roles of SMEs and start-up firms in the national economy system

The Korean government soon realized the roles of SMEs, especially start-up firms in economic reform after the financial crisis in 1997. They published some Law and Regulations on SMEs support since the end of the Korean War, some of which are the SMEs Bank Law (July 1961) and the SMEs Cooperation Law (December 1961). In addition, the governmental institutions and banks to support SMEs were born really soon, they were able to merge into a comprehensive and trustworthy “ system” to maintain the health of SMEs. This reflects the early awareness of the Korean government in the roles of SMEs. In Vietnam, the roles of new enterprises need to be further considered. Besides the measures to enhance the performance of state-owned enterprises, we need to have intensive measures to support SMEs, especially start-up firms because they are the strategic instrument in economic growth. Obviously, when joining WTO – an international playground, SMEs in Vietnam in its current state will find it hard to compete.. To fully aware of the condition as well as roles of these enterprises, we need to conduct surveys and researches to find out at which proportion SMEs have contributed to the country’s GDP and other growth indexes. Further, we based on these indexes to evaluate the potential and at what extent the establishment of new firms can reinforce the growth rate of the economy as a whole.

### 2. Create a suitable environment for SMEs and start-up firms

Since the very beginning state of economic reform, regulations concerning SMEs and start-ups activities were clearly and specifically declared. They were also improved through times to adapt to the economic and social conditions of each time phase. Besides the synchronized legal environment, they also own a set of solutions for SMEs: since they start the business till dismissal. The Korean government always tries to create favorable business environment for the growth of start-up firms and SMEs. To minimize the gap between chaebol firms and start-up firms, the government established many institutions and associations to support start-ups firms, namely SMBA, SMBC, KOTEC... as well as provide guarantee for these firms to receive funds from commercial banks with preferential interest rates. When SMEs encounter hardship during operation, the government also comes up with business incubators to help them overcome problems by legal consulting, opening fairs, malls to increase the chance of trading and finding business partners.

For any nation in the world, favorable business environment is the basic factor, not only for SMEs, but also for big corporations to grow. Vietnam is no exception. Nowadays in Vietnam, the business environment is thriving more than ever before. Business law, finance law, credit monetary trading, labor situation have been improved a lot with the foundation, adjustment, supplement of the Business Code 2005, Investment Code 2005, State Bank Code and Credit Institutions Code 2003... These Codes basically have no discrimination among different business sectors. Moreover, we also have other regulations concerning the operation of SMEs, namely Official Letter No. 681/CP-KTN on June, 26<sup>th</sup> 1998 by the Government Office on strategies orientation and SMEs development policies, Decree No. 90/2001/ND-CP on

November, 23<sup>rd</sup> 2001 on support SMEs. These regulations only emphasize on the most basic matters and have yet compete or consistent. Also, the management level is still not flexible in applying those regulations, leading to redundancy in procedures and confusion in dealing with the legal system.

Discrimination between big corporations and SMEs is another factor with negative impact on the business environment. Although the policies of the government clearly state that all business sectors needed to be equally treated, there still exists discrimination from some government officials in bank loans, access to preferential policies, land use, information access on exporting market, staff training... Moreover, the social environment also has strong impact on business operation of highly sensitive firms like start-ups and SMEs. That is because there still exists some obsolete prejudice on these firms such as counterfeited goods, smuggling or commercial fraud.

### 3. Support start-up firms in terms of financing

It is safe to say that funds is the most severe problem for entrepreneurs when starting their own business. There are already countless enterprises each year failing to come alive or going bankrupt since the very beginning of operation due to lack of capital. Therefore, support from the government is highly essential for SMEs, especially start-up firms. These support can be implemented by a number of ways, suggested as below:

- Develop finance investment firms and establish credit guarantee funds

It is clear that we soon need to establish credit guarantee funds for SMEs and start-up firms, for them to access to finance when they do not have enough resources for mortgage, pledge, or lend from banks and credit unions as

raised in Decree 90/2001. The credit guarantee funds like KCGF, KOTEC and SMBC in Korea are able to guarantee start-up firms for short-term, mid-term and long-term loans for the feasible ideas and business projects. At the same time, they share risks with credit institutions in case of default risk from SMEs

The lessons from Korea and other developed countries like America, Taiwan... show that credit guarantee is considered one of the most effective measures to improve the capital of an enterprise, and Vietnamese enterprises are no exception

- Loosen the lending requirements

Our government should adjust policies on mortgages for loans. Currently, most start-up firms find it hard to access to commercial bank funds because they own no or little assets. In addition, the requirements on mortgage is too high to meet. One example is most commercial banks use land use right as mortgage, which is quite impossible to afford for these types of firms. The recommendation for this is, in some specific cases, banks can assess the potential and value of feasible business projects to minimize their risks.

Banks in Vietnam can learn from KOTEC in Korea, where they have a set of technical and commercial criteria to rate a firm before providing funds. Firms guaranteed by KOTEC also have higher chance to survive in the long run, which means their assessment is highly effective and we can learn a lot from their system. Besides, venture investment funds should be encouraged to grow, especially foreign investment funds.

- Expand forms of financial lease

Expanding forms of financial lease is a useful solution for firms to overcome their own problems on financing for technology. Financial lease is an intermediate form of long-term credit, where those demanding funds do not receive cash to purchase equipment and asset but directly receive the demanded asset. The lessee periodically pays fee and buys the whole asset after a specific amount of time. However, in Vietnam, both the government and enterprises have yet aware the strength of this form, so it has not been fully developed. According to the studies “ SMEs development process” of the Development Loan Program for SMEs in Vietnam, there currently exists many obstacles in developing financial lease: (i) lack of legal procedures, regulations and policies for this matter. The funds of the lessors are also very limited due to the strict regulations of the State Bank of Vietnam, (ii) the enterprises are still short in full knowledge and awareness of this practice’s advantages, (iii) lack of complete agreement between the lessors and the government as the base to develop policies on this.

Towards the current state as mentioned above, the government needs to look into and adjust the regulations to ensure a competitive yet favorable business environment for the financial lease corporations, which can solve the financing problem for SMEs.

- Develop other financial services
- Commercialize the debt market: Currently, corporations have increasingly appropriate funds of others, making lots of SMEs fall into the “ artificial funds shortage” situation. Sometimes, commercial banks have to hold loans but cannot receive principal before maturity date. Commercializing debts will help SMEs escape from the pressure of

variable capital, for instance, through discounting financial instruments like negotiable certificate of deposit. In many other countries in the world, this practice is quite popular but it is fairly new for enterprises in Vietnam

- Boost the performance of financial institutions: we can do this by increasing the equity of credit institutions, creating capacity to improve performance and adapt to risks. Simultaneously, they can completely handle overdue debts by developing mortgage handling enterprises and buying back mortgages, collateral from commercial banks. This research applies a remote-monitored system towards the financial markets on the basis of international standards.
- Encourage the growth of financial consulting services, accounting, auditing and related services for financial problems of SMEs
- Preferential tax, charges policy

The government can also establish more preferential policies for SMEs on credit, tax... in a simple way. We should also avoid excessive yet inefficient tax policies, which leads to difficulties in manage and implement those policies.

## 2. Recommendations for start-up firms/SMEs

### 1. Build their own finance capabilities

Besides the government policies and support on finance, start-up firms also need to take advantage of this opportunity or else it will go to waste.

Currently, the roles of SMEs and start-up firms are gradually realized by the government and the society. The social development strategy nowadays also pays special attention to SMEs. Therefore, those firms need to take good

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advantage of these chances. In the meantime, start-up firms can have easy access to the credit funds from banks, financial institutions, financial lease firms...

The enterprises can also increase their funds by seizing investment opportunities from other sources. Through the foundation of feasible and persuasive business plans, firms can entirely raise funds from venture investment funds or crowd-funding.

By cooperating with other firms, SMEs can enhance their manufacturing process by solving the obstacles together with each other, best exploiting their capacity and cooperation, developing the domestic and foreign business network, as well as jointly combating the competitive pressure from big corporations.

## 2. Raise their management capacity

SMEs need to have their own business strategies to enhance the human resources and management capacity in a global economic context.

One of the weaknesses of SMEs in Vietnam is the human resources problems. They lack properly trained labor to meet the requirements of technology application, foreign language, business knowledge, Internet access... The business management system is pretty obsolete and incomprehensive.

Therefore, business owner and the management level need to apply modern management system, focusing on knowledge on market, the legal system, technology application and building their own business culture and ethics:

honest about the products, fair competition, compliance with the law, responsible for the customers and the society, and build trust with the customers.

For the labor force, we need to have scheme to train them properly with the most update techniques and information possible. The enterprises also need plans to attract highly-trained employees by their salary, bonus, allowance, promotion... policies. Besides, strong business culture is also necessary to establish and develop.

### 3. Actively access technology

Firms on their own should actively seek new opportunities to get access to new technology and equipment. Then, they can flexibly apply technology transfer to create more added value. Also, focusing on developing technology infrastructure to apply e-commerce business is popular in the recent years.

On material, one way to exploit this is to make full use of the global sources of material, another is to consider using existing materials, which means diversity and stability sources of materials for manufacturing.

On technology, SMEs need to go in full swing and use their existing dynamic spirit to grasp and seize rare opportunities on technology. One huge obstacle for enterprises in this matter is limited capital, however, as mentioned, SMEs have many ways out. They can use the government support, cooperate with other larger firms, transfer from foreign enterprises, participate in science fairs...

In specific, SMEs need to construct and develop their own information infrastructure to push information technology application and apply e-commerce. Investing in these is proved to cost reasonably but bring high efficiency. It can save energy and cost for an enterprise, which lifts the management efficiency but at the same time, it can quickly grasp and exploit the market's information, helping the business activities more professional and flexible.

4. Focus on market research, export promotion, brand and image building
  - Focusing in market research

Start-up firms and SMEs need to vigorously improve on market research after Vietnam has joined WTO. Only thorough and detailed market research brings a well-rounded business plan. In the context where resources and capabilities is limited, they need to cooperate with the authority and government in pushing e-commerce, searching for market information through the Internet, as well as joining in knowledge sharing in different prestigious association.

- Enhance brand investment

Almost SMEs in Vietnam are not fully aware of the importance of brand building and protection. In the next few years, when we penetrate more into the global economy, this can be a huge risk as there will certainly be many more conflicts and disputes on brand. Therefore, SMEs need to have their own strategy for brand right now. Those enterprises need to have well-rounded knowledge about brand. Training for staff to be aware of the importance of brand and reputation is vital. In the global context as it is today, when the

brand of SMEs in Vietnam have yet owned a strong position in the domestic and international market, support from the government and other large corporations in brand building in of great importance. Ignoring this stage in the business plan means they actively put themselves in difficult situation later. Their competitors may use this to destroy the company.

#### 5. Actively apply international standards in business activities

As analyzed, one of the biggest challenges for SMEs in Vietnam to penetrate into the international market is the international trade standards. Every countries and trade organizations in the world have their own set of regulations concerning the products' standards. During the integration process, it is compulsory that start-up firms and SMEs in Vietnam should compel with these regulations.

The lessons from Korea shows that, applying international standards in manufacturing and trading helps raise the export volume of SMEs in this countries. Therefore, it is essential for enterprises to actively apply these standards in their business activities. Depending on the requirements, the selected countries' rules and the firm's capacity, the firms can freely choose the standards like TQM, ISO 9000, HACCP, GMP, ISO 14000, SA 8000...

Besides, we need to understand and adapt to standards in hygiene, safety, rules on packing and marking...

These international standards can be an obstacle for SMEs in Vietnam in the short run but they will definitely bring practical value for them, helping them to strongly thrive in this most stable way.