

Improving the Profitability and Management Soundness of Subsidiaries in Vietnam

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We recently held a joint webinar with I-GLOCAL, which is an accounting firm in Vietnam, and received many responses. In this report, I would like to share the content of the webinar.

We established the Vietnam office in 2016 for the purpose of supporting the Vietnamese government and have since been providing consulting support & assistance to numerous Japanese companies. Especially in the midst of this pandemic, we have implemented plans to improve the profitability and management soundness of local subsidiary companies through proactive and customized business consulting services. Using this experience, we provided explanation and practical solutions on how to tackle the relating circumstances.

The relationship between Japan and Vietnam has become more solid over the past few years. In addition to the meeting held last October by Prime Minister Suga and Phu regarding supply chain diversification, the cooperation between Japanese local governments and Vietnamese government has strengthened. The amount of trade volume is steadily increasing and as in 2019, Japan's imports volume from Vietnam was valued approximately \$20.4 billion (US dollars) and the amount of foreign direct investment by Japanese companies reached \$8.3 billion (US dollars) in 2018. Furthermore, there is a growing investment demand on healthcare and construction sectors.

The activities of Japanese companies increased in Vietnam, which has led the challenges to be distinct. The following are examples of requests we have received during the COVID crisis:

- (1) Recruitment and cultivation of human resources
- (2) Establishment of governance system
- (3) Establishment of monitoring system

These queries and requests for consulting and support have increased since the pandemic.

Below are the summaries of our approaches to each challenge:

- (1) Recruitment and cultivation of human resource

It is crucial for companies to build a recruitment strategy based on the business model and come up with a plan to nurture those that are hired. It's especially important to define the

competencies of people to be hired. Currently, most of the companies have created a job description whereas only a few have defined the competencies. For instance, it is desirable for a CFO to have an achievement-oriented mind and ability to influence others rather than having a financial proficiency. Therefore, a talented Treasurer may not necessarily be appropriate for the CFO role in terms of being a manager.

(2) Establishment of governance system

The company has to select the leader through a valid process that is based on criteria. But it is also important to create the policy to dismiss the leader for a poor job performance. Therefore, this will guarantee that personal emotion is not involved in the process of decision-making. Additionally, in the initial stage the company should entrust the management to the local leader and impose restriction. At the later stage, they can gradually delegate the authority to leader which will help increase the success rate of the business.

(3) Establishment of monitoring system

It is important to centralize the management of administrative tasks at the regional headquarters and localize them as needed. Moreover, KPI should be set up to monitor business operations in order to avoid ambiguities. Due to COVID-restrictions, it is also effective to carryout surveys which would help discover problems regarding business processes, employee, organization and compliance, and allow for action to be taken quickly.

We hope you find the prior information useful for your business in Vietnam.

If you have any additional questions or require further clarification about our business consulting services, please feel free to contact us.

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