

# BUSINESS ISSUES BULLETIN

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BUSINESS INFORMATION CENTER AT THE VIETNAM CHAMBER OF COMMERCE AND INDUSTRY

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## BUSINESS DEVELOPMENT SERVICES - Key to the Growth and Functioning of Enterprises

Business development services (BDS) refer to a wide range of non-financial services used by entrepreneurs to help them improve the performance of their businesses, access to markets, and ability to compete. The role of BDS in the development of enterprises is widely recognized throughout the world. In more mature economies like Singapore, business services are at least 15% of domestic output. In OECD countries, strategic business services have an annual growth rate of 10% per year. In Vietnam, however, BDS are still at an early stage of development. Vietnam's business services are probably less than 1% of total domestic product and are growing at a slow rate of 1-2% per year<sup>1</sup>. Recognition of BDS as tools for enterprise development is low, both at the enterprise and the government agency level. The BDS market in training, accounting, financial and taxation advice, and especially management consulting services is weak both in terms of supply and demand. This bulletin provides a brief summary of the current development status of BDS and the constraints faced by BDS providers in Vietnam. Its aim is to promote better awareness and higher usage of BDS among the private sector, in order to help those companies grow.

### Relatively low awareness

Despite the fact that Vietnam has a growing business services sector, entrepreneurs are largely unaware of the potential benefits of purchasing the services. Entrepreneurs tend to be wary about disclosing confidential business information to outside consultants. Furthermore, small entrepreneurs in particular lack the needed resources to gather information on available business services. In general, many potential customers lack adequate and accurate information about the services currently being offered.

However, there is now a positive trend. Raising awareness about BDS has become a priority for the Government. Development of the BDS market has been listed as a priority in the country's Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Most recently, a Decree on the "provision and use of consulting services" was issued in order to formalize consulting services as a profession.

### Limited demand and supply

As SMEs typically have modest income and savings, they have low demand for and use of outside services, including BDS.

Most SMEs say that they cannot afford the business services that are offered on a for-profit basis. In addition, many SMEs are either unaware of the benefits of such services or do not see the potential value that BDS could bring to their firm. This is especially the case with services such as strategic management advisory services that do not promise immediate and tangible benefits.

The supply-side of the BDS market is also limited by several constraints. Service providers lack a clear understanding of the specific needs of local businesses. They also lack the expertise and ability to tailor their services according to these needs. Consulting firms in Vietnam are still very young for the most part, and Vietnamese consultants, in general, are still in the process of learning the trade. They lack developed consulting skills and experience, and in particular, are unable to articulate effectively the value of consulting services to clients<sup>2</sup>.

### Insufficient availability of information

A reliable and systematic statistical database on the Vietnamese economy and on specific industries and markets, does

not exist. Information on foreign markets and the world economy is not readily available, nor are technical books, documents and information related to the skills needed by BDS providers. This is a major constraint, as all of these are crucial for providing strategic advice to companies in a timely and thorough manner.

### Various legal constraints to BDS

An enabling environment is the key to paving the way for the effective development of the business service sector and a functioning BDS market in Vietnam. Recent legal reforms such as the Enterprise Law and the increasing liberalization of the economy, particularly of the service sector, have boosted many BDS markets in Vietnam in both supply and demand. Increasing efforts have been made to improve the investment and business environment and to strengthen the confidence of the business community. However, there still remains a number of legal constraints to the development of the BDS market<sup>3</sup>. Most notable are the excessively high market entry conditions for some business services such as vocational training, auditing services and intellectual property services. In addition, there are still inconsistencies between the Enterprise Law and other legal documents concerning BDS and restrictions on



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The "Business Issues Bulletin" provides those interested in business issues with a short summary and analysis of a particular topic affecting the business environment in Vietnam, and exposure to different opinions held by various stakeholders on the topic.

The statements and opinions presented here are only meant to provide additional reference material and do not reflect official opinion of the Vietnam Chamber of Commerce and Industry (VCCI) or the Mekong Private Sector Development Facility (MPDF)/IFC.

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(1) See MPDF, *Business Services in Vietnam, Private Sector Discussion Paper No. 5, December 1998*.

(2) See MPDF and GTZ, *Management Consulting: an emerging business service for the private sector in Vietnam, Private Sector Discussion Paper No.15, April 2003*.

(3) See GTZ, VCCI and CIEM, *The Legal Environment for Business Development Services in Vietnam, November 2003*.

## ...of businesses



● Business development services are invisible products, and it is not easy to judge their quality as we do with other goods. When we select BDS suppliers, we can only make a judgment on their quality of services based on the reputation of the firm and the presentation made by the consultants. The need for services on the part of Vietnamese firms is quite significant. In our case, we have been using various

consulting services including factory layout design, construction monitoring, legal advice for our trademark, auditing, financial services and HR consulting. To be very honest, however, we have yet to be fully satisfied by any of the services we have contracted. Take the auditing consultant as an example – we expected that their "management letter" (advice to the company's management) would make concrete recommendations on management issues, not just identify the accounting and bookkeeping issues that we had. Another example occurred with a well-known intellectual property legal consulting firm that we used. This company did not act professionally when dealing with conflict of interest issues among their clients.

One reason for the low quality of consulting services is the lack of professional training and experience among Vietnamese consulting firms. Many local consulting firms were founded by individuals who previously worked for foreign consulting firms based in Vietnam; as consultants, they often specialized in one or two areas. Now these individuals are running consulting companies that offer full services, but often they lack the expertise to do so. As a result, they cannot ensure the overall quality of a consulting project from project kick-off through implementation, monitoring and completion. Furthermore, in one of our experiences, the understanding about the scope of work was different between our company and the consultants, and thus we

were not fully comfortable with the results at the end of the project. Consultants often do not pay attention to after-sales service – they just go after short-term profits for each project. Perhaps they have forgotten that in this special services sector, it is important to satisfy the client because client satisfaction is the best marketing tool for a consulting firm.

In general, I think that consultants are not up to date with the development of the business sector. Consultants should improve their capacity both in terms of professional knowledge and business delivery to keep up with foreign consulting firms. They should have longer-term business visions and live up to high

● When businesses reach a certain level of growth, more management systems-related problems develop that are beyond their capacity to solve. In this case, the use of consulting services is a necessary and efficient solution. Even in cases where businesses may have the expertise to resolve the problems by themselves, they usually are driven by day-to-day business activities that are geared towards more short-term profit and may not necessarily be well positioned to carry out the needed changes. Furthermore, independent outside consultants have a more objective approach to solutions which are not biased by the internal politics of the business.

Taking our company, which has about 1,500 staff as an example, we have been using human resources consultants to develop a staff handbook, job descriptions, and company policy, as well as executive search services for key management positions, including foreign staff. In general, we are happy with the quality of these services. However, a very common shortcoming of consultants is that they normally do not fully understand, and then take into account, the need of a business to ensure uninterrupted operations while implementing the consultants' suggestions. In addition, as there could often be a number of options to resolve the same business issue, the consultants need to understand their clients very well to recommend the best solution.

## ...of BDS suppliers



● Our company has two major areas of activities – training and consulting. In 20 years of business, we have provided training courses for more than 21,000 staff and managers from over 1,000 enterprises in Ho Chi Minh City and the other southern provinces.

Businesses recognize the value of training services more easily than they do consulting services since they can see more immediate impact from training

activities. The demand for training, therefore, is higher and the supply is also readily available as market entry conditions are relatively low. According to Circular 35 of the Ministry of Science, Technology and Environment, the establishment of a training center or institution is quite easy and low cost. Therefore, low market entry conditions, coupled with an inadequate regulatory framework leads to unhealthy competition and disorder in this market. We have seen cases of newly established training centers copying our course outline almost exactly in their advertisements and then closing shop within a few months. This makes it difficult for customers to identify the good suppliers, and those who are doing business responsibly like us are negatively impacted.

However, the area of vocational training for example, welding skills, boiler operation training, etc is very strictly regulated with high entry conditions. Luckily we obtained our license for vocational training 20 years ago; today the conditions for obtaining this license are almost impossible to meet by a private enterprise. That is why there are very few private vocational training schools.

As for the consulting services area, we believe that the market has high potential. The coming WTO accession will increase pressure on businesses to undertake changes in their management system in order to become more competitive. However, currently the concept of management consulting services is quite new; it started to emerge in the 1990s when foreign investors began to invest in local private businesses and introduced consulting services. Many private businesses are not aware of the benefits of using independent consulting services, and their perceptions of the scope of consulting services are sometimes not accurate.

On the macro front, Government can play a more active role to stimulate the development of the BDS market through facilitating the creation and operation of a BDS providers' association, which then could establish professional standards for BDS services. The public socioeconomic information database should be improved and be made available to the wider business community as this information is a key input for BDS suppliers.

*Mr. Vo Sang Xuan Vinh Deputy Director,*



● In the last few years, the consulting market in Vietnam has grown very fast. When we set up our company in 2002, I had forecast that it would take three to five years before local private businesses were ready to pay for management consulting services. But in fact it has taken less time. In the past two years I have seen quite a large number of businesses hiring consultants at considerably higher fees. The demand

for consulting services, in both quantity and quality, has grown very fast, and it is a big challenge for consulting service providers to grow in tandem. Those businesses that are past the start-up period and are now in the growth phase tend to face new problems in their human resources or financial management systems, as well as in their long-term development strategy. This is where management consulting firms like ours can help.

However, despite the increasing demand and capacity to afford the cost of services, we as consultants still face the big challenge of proving the cause-and-effect relationship between the consulting services we deliver and a company's improved performance. Only when we can do this successfully will businesses, especially SMEs, be able to see and recognize the value of consulting services.

Our experience shows that the success of any consulting engagement lies more with the clients than with the consultants. Company directors who are open and who give direct and straightforward feedback will help the consultant significantly improve the quality of service. Conversely, directors who do not communicate their expectations by sharing information and providing feedback have a higher probability of being disappointed with the results of the consulting service.

To help the consulting market grow further, government agencies and development organizations can indirectly intervene

through awareness raising and training and information dissemination activities. But they should not intervene by directly providing services or giving subsidies, because that can distort



● In my view, the Government does pay attention to the development of the BDS market. For example, the Government provides financial support to businesses to obtain ISO certification. But on the demand side, businesses are often not proactive in seeking out business services – about 80% of our customers only seek ISO certification when they are pressured to do so from their buyers.

Low demand cannot be attributed solely to low awareness. It is due more to the low quality of services and the limited capacity of the consultants. I think in the consulting services area, quality is very important, but many Vietnamese consulting firms now rely largely on part-time staff who do not necessarily ensure high quality services.

A typical challenge that consultants like us face in consulting assignments is that top management in firms may be very committed to make changes but the middle managers and staff down the line are not so willing, as changes may result in more work without more pay. We overcome this challenge by being devoted to our work and expressing sympathy to the client in difficult circumstances. We are always ready to listen and try to understand our client's wishes. With this attitude, clients are more receptive to our advice and they are also more willing and open in giving us their feedback. Many businesses are not willing to use consulting services because they do not fully believe in the benefit of these services. I recently attended an MPDF consulting skills training course, where I learned how to communicate the value of consulting services to the client more clearly. This has helped me to win more contracts. Other consultants would probably welcome the opportunity to attend a

## ...of Government agencies



● Business Development Services have just become popular in the last few years. Decree 87 issued in 2003 is the first legal document that recognizes and regulates consulting activities. Government officials usually perceive BDS as a regular service industry like catering or tourism, and there is no clear development strategy. In my view, BDS should be considered a knowledge industry that provides inputs for other manufacturing and service

industries. The Enterprise Law issued five years ago has significantly increased the number of newly registered enterprises, but by now, the effect of this Law has started to decline. To give the corporate sector another impetus for growth and competitiveness, the Government needs to make another move. In my opinion, a BDS development strategy or paper could be the right tool. I strongly believe that the Government needs a policy to further develop BDS, perhaps by offering vouchers. Obviously, any support policies should be in conformity with commitments to AFTA or the upcoming WTO accession.

From the demand side, I believe that the majority of businesses understand the need and importance of using BDS, but the use of BDS is still limited because businesses lack confidence in the quality of services provided and are concerned about the risk of disclosing their company information. From the supply side, most consulting companies in Vietnam are not yet professional services providers. There are many retired officials now working as consultants; they rely heavily on personal contacts and relationships, but less on professional competency. For example, a retired official working as a consultant may have early access to information about upcoming

import-export policies or a new road to be built, and then give out this information to businesses as "consulting services".

To improve the BDS industry, the State should have regulations on professional and ethical standards. In addition, public information should be generally disclosed and available in a transparent manner.



● Many Vietnamese SMEs do not recognize the importance of information. For example, many export businesses have very little knowledge about quality requirements or packaging preferences in their product markets. To address this issue, the Government as well as BDS providers should pay more attention to awareness raising activities to introduce more BDS to businesses. For example, we actively marketed our services through

direct mail, fax and email to over 15,000 businesses last year. The most important thing in awareness raising is to avoid providing generic information and instead to communicate value and focus on measureable benefits.

The BDS market in Vietnam is growing fast and the State's management is lagging behind. Currently there is no comprehensive database of BDS suppliers and no one knows exactly how many consulting service providers, including local and foreign, are operating in the country. Thus, potential customers of BDS do not have sufficient information to select appropriate service providers. I understand that the Ministry of Science, Technology and Environment is going to issue a regulation on consulting services related to quality certification in an attempt to improve the quality of consulting services in Vietnam.

## ...of development organizations



● In the recent study MPDF and GTZ undertook, we found that 90% of consultants believed the reason that SMEs do not hire consultants is because they do not see the value of consulting services. I believe this is fundamental to understanding the current situation, as it highlights both demand and supply-side constraints.

On the demand side, while some SMEs may believe the absolute costs of hiring consultants is too high, we know that where they can see a good return on investment they do find ways to invest and grow their business. Consultants have to clearly explain the value of their services. In developed countries there would almost always be a clear business case, capturing the financial and non-financial benefits. This is rarely done in Vietnam, but I believe SMEs will start to demand this before they take on projects to change their business.

For some businesses, the perceived "lack of value" probably arises from a poor experience with consultants. This may be because the consultants did not do a great job, or because the client's expectations were not managed appropriately. Most consultants have been in business for less than five years, with little experience in marketing their services to SMEs, and often have limited experience in implementing projects through to completion. SMEs themselves may be inexperienced in selecting or managing the consultants effectively, and will be disappointed if they have unrealistic expectations or keep increasing the scope of work.

Throughout our 10-day Core Consulting Skills Course, we help consultants differentiate themselves by identifying where they can add value by helping the client make a sustainable business change, and developing a simple business case to articulate specific benefits in each project phase. By defining clear quality standards and acceptance criteria when setting up the project, the benefits can be measured and communicated as the project is delivered. Important disciplines like Change Control are needed to manage the inevitable changes in the scope of the assignment. By applying Change Control, consultants can deliver the benefits while managing client expectations so that both parties are satisfied in the end.

Another important element may be addressing the potential lack of trust of third parties. Most consulting firms in the developed world have an ethical code of conduct, setting out their standards and values around client confidentiality, conflicts of interest, fees, and the professional behavior they demand from their staff. I believe that it will be important for consultants in Vietnam to develop an appropriate code of conduct for their individual firms, and also to discuss and

work together to raise professional standards in both conduct and delivery throughout their emerging industry.

We hope that by raising the awareness of SMEs about how to work with consultants, the level of professionalism they



● While the overriding principles of BDS market development are easily agreed upon, there is no one single solution to the development of the BDS market. The problems in BDS markets are so diverse and unique, requiring market facilitators to be as innovative as possible. In this field, GTZ, besides doing research, is very committed to working to remove legal

constraints in BDS markets we have been doing this in cooperation with the Vietnam Chamber of Commerce and Industry, the Central Institute for Economic Management, the mass media and local partners. We also promote specialized and advanced services like quality management, management training, and the development of new products. Real impacts from our activities can be seen in the increase in the supply of consultants in selected BDS markets like quality management, business information, and management training. Our strong cooperation with the mass media and local partners also pays off with a higher level of awareness about BDS and the actions being taken by the Government to remove legal barriers to BDS market development. The road ahead of us is even more challenging and this will require us to work harder and in a more innovative manner. In this process, we are very open to new initiatives and cooperation with other organizations in order to make BDS markets work much better for SMEs in Vietnam.

● As a trade promotion organization and a representative body for the Vietnamese business community, the Vietnam Chamber of Commerce and Industry (VCCI) has been actively contributing to the development of a BDS market in Vietnam. VCCI plays a dual role as a BDS facilitator and a direct BDS supplier.

Our experience shows that BDS providers normally do not adequately assess and understand the BDS needs of businesses activities which are necessary to ensure high quality services delivered. In many cases, BDS providers did not conduct needs assessment before designing their BDS, therefore their services were not always satisfactory.

Using its advantage as a nation-wide business representative organization, VCCI has been undertaking various programs to improve the capacity of BDS providers through activities such as training of trainers, providing industry information and joint delivery of services.

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