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# Management Issues Analysis Team Research Report

Issues Related to Supply Chain Risk Management and  
Assistance for Small and Medium Enterprises in Vietnam and  
Corporate Ethics Risk Management Issues

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## **1. Surveys and Research on Vietnam – perspective from disaster risk management –**

Vietnam is buffeted by typhoons every year, and 100,000 people have perished in typhoons and floods over the past 20 years. In 2013, four typhoons and six floods led to 200 casualties and property damage totaling \$1.5 billion. In July 2014, a major typhoon hit land, causing high winds and heavy rains in the north and the evacuation of about 200,000 inhabitants from hazardous areas along the coast.

Swiss Re publishes global disaster damage risk maps based on data averages for 1970-2008. Vietnam places D rating, which is relatively low, for its disaster risk level based on the frequency of natural disasters and property damage multiplies. Compared with the United States, Chile, and Australia, which experience frequent natural disasters, natural disasters do not occur as often in Vietnam, and the amount of property damage relative to gross domestic product (GDP) is not enormous. In Vietnam, the typhoon season runs from May through January, the period when the Mekong River is flood-prone. The country is also susceptible to wind damage, drought, insect blight, landslides, and forest fires. Vietnam has been tightening its environmental standards year after year, and this in turn has strengthened environmental management activities. For example, as part of its environmental protection efforts, the Vietnamese government has drawn up a plan to strengthen the system of administrative assistance and is proactively implementing environmental infrastructure programs by studying and analyzing environmental risks.

As a case in point, Hanoi has analyzed aerial photography and satellite images and conducted tests of water quality, air quality, and noise pollution to come up with an environmental protection master plan, which is now being carried out. Regarding disaster risk management in collaboration with Japan, both countries are working on

initiatives to mitigate natural disasters. With its experience gained from the Great East Japan Earthquake of March 2011 and subsequent recovery efforts, the Japanese government has shared its recovery plan with the aim of helping to improve disaster risk management capabilities in Asia.

With regard to Vietnam, the emphasis is on safety procedures, disaster prevention education, and emergency drills in order to raise disaster awareness and understanding about what needs to be done in the event of a disaster or to prevent disasters from occurring. In addition, the following steps are being taken to minimize the effects of climate change in Vietnam. To strengthen disaster response by communities, cooperative efforts among central government ministries and agencies are being strengthened to enhance the sharing of information and promote the active participation of communities. The Japanese government established the ASEAN disaster information network so that it can provide relevant information, and arrangements are being made to provide timely information to ASEAN member states via satellite communications. In addition, Japanese companies located in the region taking the following activities. Sumitomo Heavy Industries (Vietnam) Co., Ltd., has taken action to reduce its environmental impact by constructing a new waste water treatment facility at the industrial park where it is located, and this facility went into operation in fiscal 2013. Also, since 1997 the Japanese Red Cross Society has been involved in a program to prevent damage to levees from typhoons and flooding through afforestation of mangroves. The environmental pollution caused by air raids and the use of defoliants during the Vietnam War and deforestation and other environmental damage caused by shrimp farms and similar facilities have shrunk the mangrove forests and caused salt damage to fields and rice paddies, thereby exacerbating typhoon damage. The program of mangrove afforestation to prevent disaster aims to reduce losses and the forests' susceptibility to disasters. The Japanese Red Cross has invested about \$3 million in this project since 1997.

Vietnam and the Japan International Cooperation Agency (JICA) are working together to strengthen the ability to respond to natural disasters and reduce and prevent losses resulting from natural disaster risk. These include projects in Quang Nam, Quang Ngai, Quang Binh, Thua Thien Hue, Quan, and Ha Tinh.

## **2. “Supply Chain Risk Management for Japanese Companies to Enter into the Vietnam Market” Report Highlights**

In general, the supply chain process aims to increase a company’s revenues through sourcing raw materials, processing them into products at the plant, selling the products to wholesalers and retailers, and finally selling them to the end user. This means that many people participate in the supply chain process. However, many risks occur as well. For example, there would be following risks: supply risk from the provider of the raw materials, issues of costs and quality of the raw materials, the risk that the process will not proceed smoothly, and various operational risks, including data system outages. In addition, global corporations have to contend with observing the laws of various countries and regions and the risk of breaking them. Many other risks are involved as well, including matters concerning intellectual property contained in commercialized products, relationships with various partners and third parties and communication gaps. In the broader sense, there are cultural, economic and administrative gaps as well as political and social risks. And ultimately there is the risk that a product may or may not sell, and issues of product appeal. Yet it is important to prioritize these items and not juxtapose them.

When we are considering how to implement supply chain risk management, what inevitably comes to mind is the question of how to prolong or manage business continuity. This is known as the concept of business continuity management (BCM) or business continuity planning (BCP). Business continuity is a matter of critical importance to companies. Quite a number of companies from Japan have entered the Vietnamese market, but many have pulled out or failed. This illustrates the fact that business continuity has not been sufficiently achieved in Vietnam. Because business continuity is extremely important, the main aspects of the concept of BCM are listed below.

First is that there should be one system to manage business continuity and it should be absolutely regarded as a system. Business impact analysis is the most important component of the BCM system, in that it analyzes the impact on management of various scenarios with an awareness of the vulnerabilities that could cause the company to lose control of its overall business. For example, when company A is making a product, which parts are so critical that the product cannot be finished without them? In other words, where are the problems in the products or parts that the company makes or in its systems?

Second is an understanding of the current situation, or current state assessment. This entails such things as the reason for entering a market. For example, what is the idea or vision behind the company's decision to enter Vietnam? What is the current state of affairs there? These are matters that should be considered at the outset. The company should also have sufficient insight, through the business impact analysis, into its own weaknesses and vulnerabilities and what kind of impact the materialization of such vulnerabilities would have on the management of the company.

Third is the need to formulate a strategy in advance that addresses such situations as how to recover in the event that the necessary parts or materials are not available or are damaged, or how to implement systems recovery. BCM should be adopted as a system that analyzes how and in what order to proceed, and then develops a strategy and executes it.

Fourth is the need to think ahead of time about what resources are available internally within the company. Risk management means to think proactively, in other words, to estimate risk and take action beforehand. This enables a company no surprise and economical response.

It is essential to prioritize these various risks in terms of their negative impact on management or sourcing. Prioritization should be considered in terms of both frequency and the scale of damage in the event of such impact. BCM should also incorporate stress tests to investigate what kinds of stress the management would be put under and how production would be affected. The general concept of BCM is critical for all companies regardless of the large corporations or small and medium enterprises (SMEs). We insist that the concept of BCM is more important for SMEs. This is because large corporations are already buffered in many ways. SMEs, however, do not have adequate resources to fall back on, so their vulnerabilities are immediately apparent. Therefore, the smaller the SME, the more critical BCM becomes.

BCM not only contributes to improve corporate value at the business level, but it can also contribute to the community and society from the standpoint of corporate social responsibility in many ways. For example, Fujifilm is involved in activities befitting a local company, in that it has decided to offer its athletic facility and the grounds of its Ashigara Factory as a community evacuation center and also to distribute food stored on the factory premises to nearby residents.

According to some research findings, Asia is the world's number-one region for hazard risk. The same is true of supply chain risk, so we should keep watching the overall vulnerability to these risks and figuring out how to mitigate them is important. How to build an order made approach to supply chain risk in the field of risk management will thus be essential at particular companies.

### **3. August 2014 Trip to Hanoi and Da Nang**

Visit to a business incubator in the Hanoi suburbs (Kobayashi, Ueda, Kazumi).

Plant visits at the incubator, presentations by and discussions with those in charge.

Date: August 21, 2014 (Thursday)

Survey Site: Hanoi Food Business Incubator

Hanoi City, Authority of Planning and Investment, Small and Medium Enterprise Assistance Center

Survey Details:

- Status of companies occupying the incubator.
- Whereabouts of companies that have outgrown the incubator.
- Details of measures for assisting SMEs.

Survey Results:

- Incubator occupants are local small businesses, particularly those involved in the development and manufacture of such products as canned goods, candy, and beverages.
- The incubator offers its occupants leased lab facilities for product development and testing, as well as seminars and advice on management issues.
- Companies that have grown so that they no longer require assistance leave the incubator and relocate to a nearby industrial park. The research team visited a company that manufactures and sells nutritional supplements. This company develops and manufactures powdered milk for children and health foods for adults in a tie-up with an overseas university.
- With the cooperation of the National Economics University, the SME Assistance Center offers courses for business start-ups, human resources development seminars for SMEs (600 sessions held since 2005), and seminars for managers (100 courses annually).
- The National Economics University holds seminars geared toward managers.

#### **4. Review of Effective Management of Corporate Ethics Risk**

Ethics risk encompasses not only corporate improprieties and scandals but also losses generated by actions that erode corporate trust. Japan has many laws that deal with corporate ethics risk, including the Financial Instruments and Exchange Act, the Companies Act, the Commercial Code, the Antimonopoly Act, and the Act against Unjustifiable Premiums and Misleading Representations. However, the prevention effect of these statutes is very low, and these statutes came into being as an ex post response to criminalize the actions of the parties who committed them. Even if a company were to avoid punishment under the law, corporate ethics risk would recur resulting in losses by many of those involved.

Also, even if companies make regulations, manuals, and check lists regarding improprieties and require compliance in observing them, corporate ethics risk will recur unless something is done to address the motivations, work environment, corporate structure, and corporate culture that generate ethics risk.

What needs to be taken into consideration are the ideal policies and management philosophy that can prevent ethics risk while enabling the entire organization—from employees to managers, supervisors and colleagues—to proceed along the vectors of the company's ideals and goals so that everyone shares in the results and is happy to work there.

After all, even though the company is an organization for shared happiness, when ethics risk can potentially occur because of the corporate structure or the lack of ethics on the part of management, employees are put under excessive pressure to commit ethics violations. Corporate management should receive adequate training in this regard so that they are qualified, and undesirable corporate cultures and corporate structures should be altered.

There are no extenuating circumstances for committing ethics violations for personal reasons, and any violations should be severely punished. However, if employees who are good people and are not malicious are placed under the influence of high pressure, they may also commit ethics violations. People are frail, so if the conditions exist for a certain ethics violation to be committed, it is likely that many people will commit such a violation. To prevent these ethic risks under these conditions and to create a company with an organizational structure that provides happiness, it is

essential to take steps to grow the company while minimizing losses from ethics risk.

## References

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