6

Study on the Current Conditions of Production, Management and Finance of the State Owned Enterprises in Viet Nam

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I . Introduction

1. Objectives of the Study

Reform of Viet Nam's State Owned Enterprises (SOEs) is one of the most significant issues facing its economy. Revitalising the management and operational performance of Viet Nam's SOEs is a requisite necessity.

As the Vietnamese government grants these SOEs more commercial freedom while putting in place the legal and financial framework essential to a market economy, the enterprises themselves face a tremendous challenge in developing competitive strategies, renewing their organisations, restructuring their financing and reacting to a fast-changing regulatory environment.

This study emphasises the analysis of some Vietnamese enterprises as examples. Implications from macro data, i.e., percentage of loss making enterprises, is important but not precise enough to draw any concrete policy. To argue on economic reform policy, it is particularly important to know the actual facts on performance of the enterprises and to analyse how these factors affect them and in what way. Without this knowledge, right policy recommendations cannot be driven at.

2. Study Team

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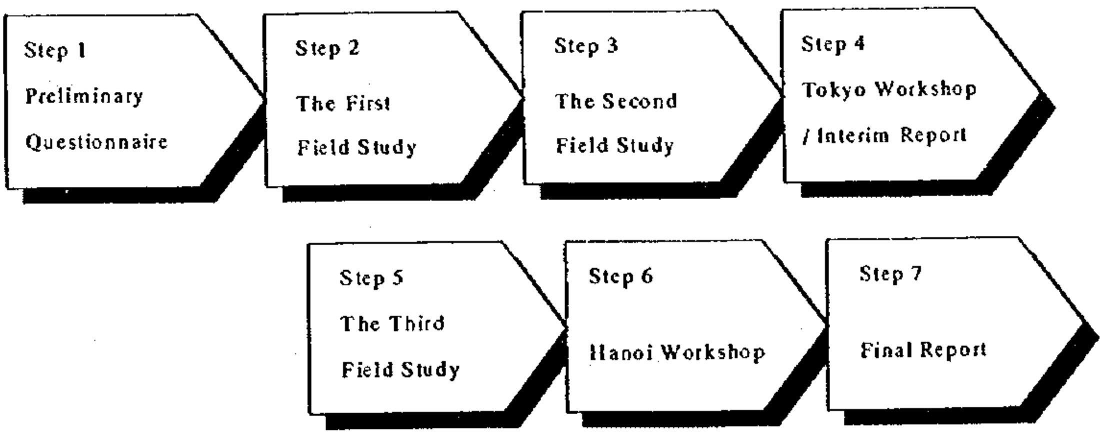
II. Study Approach

1. Study Steps

A case study approach has been employed here, on selected state enterprises versus a statistical analysis on a large number of enterprises. The purpose of doing so is to examine in depth and analyse the management situation of each enterprise.

As for statistical data, the Vietnamese team, constituting members of the Central Institute for Economic Management (CIEM), prepared and conducted a questionnaire survey on 200 state enterprises in Viet Nam, parallel to this study. The survey was conducted in co-operation with the Overseas Economic Co-operation Fund of Japan. This report will cite the results of their study in order for our analysis to be compared with figures of average Vietnamese enterprises. (For a more comprehensive analysis, please refer to their report dated, April 1997.)

The team conducted the study in the following sequence. For steps 2, 3, 5, & 6, the Japanese group went to Viet Nam.



[Study Steps]

Step 1 : Preliminary Questionnaire (Dec. 96 - Jan. 97)

The study team developed a questionnaire with 56 survey items. The team then sent the questionnaire to 17 SOEs of various industries in Hanoi.

Step 2 : The First Field Study (Jan. - Feb. 97)

The team had hearings with the relevant government authorities, reviewed relevant documents and collected the questionnaires.

Step 3 : The Second Field Study (Feb. - Mar. 97)

The team visited 11 of the 17 enterprises for interviews. The team also visited 3 General Corporations whose member enterprises are among 3 of the 11 SOEs interviewed.

Step 4 : Tokyo Workshop / Interim Report (Mar. 97)

The team analysed the survey results, made a presentation at the Tokyo Workshop and compiled an Interim Report.

Step 5 : The Third Field Study (Apr. - May. 97)
In order to conduct further detailed analyses of the SOEs, selected enterprises were revisited for additional information.

Equitisation is a timely issue. Although the Vietnamese government plans to establish a stock market in a few years, there are only eleven equitsed (joint stock) enterprises to date. The study team visited five such enterprises, and four enterprises preparing for equitisation. All these enterprises are located in Ho Chin Minh City.

As foreign investments can play an important part in the Vietnamese economy, the team also visited three joint venture companies to discuss management policies employed.

Step 6 : The Hanoi Workshop (Jun. 97)
The team analysed results of the surveys conducted during the three field studies and made a presentation of its findings and implications at the Hanoi Workshop.

Step 7 : Final Report (Jul - Aug. 97)
This Final Report is prepared as a conclusion to this study.

2. Profiles of the Enterprises Studied

The team initially sent questionnaires to 17 SOEs as a preliminary study, from which some were chosen for interviews.

Eleven SOEs and 3 GCs were visited for interviews in February and March. In most cases, interviews were conducted with the enterprise Directors (in their absence, Vice Directors) and Chief Accountants. Interviews lasted about six hours. The team made a second visit to three SOEs and one GC in April.

The study team also visited equitised enterprises and joint ventures to specifically review issues on equitisation and foreign investment. Interviews lasted about two hours with these enterprises.

A detailed profile on each SOE and GC is given in Chapters Ⅲ & Ⅳ.

Industries to which the studied SOEs belong to are shown below, without any bias.

SOEs by industry

	Questionnaire	Visit
Food and Food Processing	3	3
Textile & Garments	4	2
Electric Equipment	2	1
Construction Materials	1	1
Chemical Substances	2	1
Machine Manufacturing	5	3
General Corporations		3
Total Number	17	14

SOEs interviewed

SOE	Industry	Central			Local	
		GC91	GC90	Independent	GC90	Independent
HA Co.	Food and Food Processing					O
HB Co.	Food and Food Processing		O			
HC Co.	Machine Manufacturing		O			
HD Co.	Machine Manufacturing					O
HE Co.	Textile and Garments	O				
HF Co.	Machine Manufacturing		O			
HG Co.	Electric Equipment					O
HH Co.	Chemical Substances	O				
HI Co.	Construction Material		O			
HJ Co.	Food and Food Processing					O
HK Co.	Textile and Garments	O				

General corporations interviewed

GC	Industry	GC91	GC90
GA Co.	Construction Engineering		O
GB Co.	Textile & Garments	O	
GC Co.	Glass & Ceramics		O

Notes
GC 90: Established following Decision 90 with a Capital of 500 - 1000 bil. VND
GC 91: Established following Decision 91 with a Capital exceeding 1000 bil. VND

Equitised enterprises interviewed

EA Co.	Refrigerators and Air Conditioners
EB Co.	Food
EC Co.	Animal Food
ED Co.	Shoes and Baggage
EE Co.	Transportation

SOEs preparing for equitisation interviewed

EF Co.	Cosmetics
EG Co.	Tableware
EH Co.	Hotel
EI Co.	Cotton

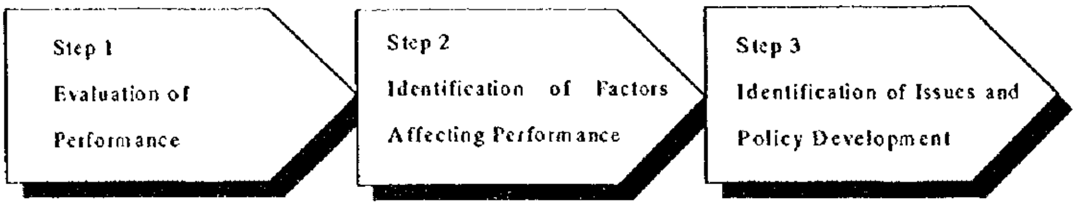
Joint Ventures interviewed

JA Co.	Confectionery
JB Co.	Automobile
JC Co.	Hotel

3. Analytical Framework

(1) Overall Framework

The team has taken a three step approach in analysing the study as shown below :



Step 1 : Evaluation of Performance

The first step in evaluating the performance of SOEs, is to identify whether it is performing well or not, and if so, to what degree. The national economy cannot develop to more advanced stages, without businesses performing well. To measure such performance, indicators which are both effective and available must be selected.

Step 2 :Identification of Factors Affecting Performance

The next step was to analyse main factors affecting their performance. We tried to make clear the interrelationship of each factor, and to distinguish between both internal and external factors.

Step 3 :Identification of Issues and Policy Development

Following these two steps, we were able to identify basic elements and the most significant issues affecting their performance. By constructing a structural analysis of such issues, we have been able to draw policy options to be dealt with by both the management and government.

After laying out our analyses on each of the 11 enterprises in Chapter III, using step 1 and 2, a presentation on the evaluation of Vietnamese enterprises will be made in Chapter V followed by policy recommendations in Chapter VI.

(2) Evaluation of Performance

How should we measure the performance of the enterprise? Since Vietnamese enterprises operate in quite different an environment from those of other developed market economies, we may not always be able to take the same approach as we would with other enterprises, when analysing Vietnamese enterprises. Another problem is limited availability of information, which has often been observed in countries going through a transition economy.

One critically significant issue requiring attention in conducting the analysis is the fact that Viet Nam has had only a very short history in this current economic system. Average annual GDP growth was as high as 8. 7% from 1991 to 1995. But the larger the Vietnamese economy develops, the more difficult it will be to maintain the same pace of growth. Moreover, Viet Nam, in committing to join the Asian Free Trade Area (AFTA) will cut import duties on inter-ASEAN trade to less than five percent by the year 2006. This would imply that Vietnamese products are almost certain to be threatened by foreign business in ten years. However, competition with foreign business will force Vietnamese business to conform to global rules and practices. It is thus rudimentary to be cautious when judging whether present performance reflects fundamentals of the enterprises or only a temporary phenomenon.

Business environment in Viet Nam

Short-term	Long-term
* Expanding Economy * Rapid Growth * Protected Domestic Market * Mild Competition * Vietnamese Rule	* Stable Economy * Moderate Growth * ASEAN Tariff Reduction * Severe Competition * Global Rule

With this in mind, the study team decided it necessary to evaluate not only performance in the past few years (short-term), but the fundamental capacity of SOEs to retain a competitive advantage in the future (long-term).

Judgement on long-term performance in this sense, is more difficult than short-term performance. This is not simply said, as analysis about the future is difficult to make, but more importantly because it requires the evaluation of qualitative rather than quantitative aspects of management.

1) Short-term perspective: Sales growth & profitability

As for short-term performance, we have taken growth and profitability as important features.

In the former centrally planned economy, the state guaranteed a demand for products manufactured by SOEs. But in a market economy, there is no guarantee of this demand. If the enterprise supplies products without any market demands, nobody buys them. Furthermore, there is competition. Even when there is demand, should a competitor attract customers better, the enterprise itself will lose the market. The Vietnamese economy has shown high rates of growth in recent years. However, except for the very few SOEs showing good performance from the beginning, stagnant sales records during this period remains a problem. Chapter III, describes how the enterprises performed in this general environment.

Profitability is definitely important. If the enterprise does not record profits for a period, it has no choice but to go bankrupt in a market economy. For the enterprise to make profits, it must have sufficient sales, and costs must be less than sales. A picture of the company's profitability is reflected in its Income Statement (Profit and Loss Statement). This statement shows how much money it took in through sales and how much money it costs to run the business.

Some enterprises in developed market economies choose not to be aggressive in sales expansion but rather increase profits by focusing on a select few products or customers. However, this entails an exquisite "niche" business, which is extremely hard for competitors to copy. This strategy may be suitable for select enterprises in a mature economy but not practical for the current Vietnamese economy.

2) Long-term perspective: Financial soundness & competitiveness

For long-term performance, we focused our attention on financial soundness and competitiveness.

The enterprises capacity to borrow is not limitless. If the company has loans already at its maximum level, it has to rely on capital increase in some way. If this is not available, it will bear on the company by loosing growth opportunity and missing out on the timely expansion of its production capacity. In this sense, financial soundness should be measured by debt ratio.

We add 'Competitiveness' as the fourth indicator in this performance analysis. Compared with three previous indices, competitiveness is rather an elusive indicator though it is important to judge its ability to survive in the future.

Performance indicators employed

Short-term	Long-term
* Sales Growth * Profitability	* Financial Soundness * Competitiveness

Information available has been limited. In conducting the survey, the team's time with most SOEs was limited to one day, one and a half days at the longest. During this period the team attempted to interview personnel and gather data in an effort to understand each SOEs' unique operating characteristics. Regarding financial data, to our regret, data made available was diverse in quantity and comprehensiveness, from SOE to SOE, and generally not sufficient to perform any comprehensive analyses. If it is possible, financial analysis as a part of performance analysis would be made more comprehensive by taking into account every detailed characteristic of the P/L (Profit and loss statement), B/S (Balance sheet) and cash flow.

Refer to Appendix A for a more comprehensive financial statement analysis. This appendix introduces the basic idea of financial analysis for profitability, liquidity & ability, growth, distribution and productivity.

As for quantified data, the following were available.

1) Financial statements collected directly from the SOEs management when our study team interviewed them. But we were only able to receive such statements from a limited number of SOEs. Most were reluctant to disclose financial statements. Some gave partial information, disclosing the value of several specific accounts.
2) Financial data included in replies of the OECF questionnaire as part of their survey. We obtained this for all the eleven SOEs in order to conduct the case study.

There were some cases where data in 1) and 2) did not coincide. In those cases, only data obtained in 1) was employed.

The degree of reliability of the financial data should also considered as it has not been audited by independent third parties.

This data was then compared with both the industrial average and the average of 200 Vietnamese enterprises from different industries, taken from the CIEM-OECF survey.

(3) Identification of Factors Affecting Performance

After knowing how an enterprise performs, good or bad, the next question is to identify why it performs this way. A variety of factors affect the performance of the enterprise, and that too, in a complex manner. Some of them are external factors and some internal.

Though clarification on relevant issues through interviews with the top management was attempted, facts were not always evidenced by objective data. Basic data, such as market share, plays an important role in analysing the business environment. Such statistical data would have detailed sufficiently, however, has not been available.

1) Major factors affecting sales growth

[Internal factors]

* Management ability
    * Top management qualification
    * Product/market strategy development & deployment for growth
* Capacity expansion owing to technology renovation

[External factors]

* Degree of market development
* Availability of market information
* Constraints in availability & utilisation of resources
    * Financial/monetary policy
    * Level of technology innovation

2) Major factors affecting profitability

[Internal factors]

* Level of added value of the business
* Existence of revenue not by product sales
* Cost management capability
  (material/labour/depreciation/financial costs)
* Resource management capability for reducing cost
  (human/financial/technology resources)

[External factors]

* Degree of price competition
* Constraints in availability & utilisation of resources
    * Financial/monetary policy
    * Level of technology innovation

3) Major factors affecting financial soundness

[Internal factors]

* Financial management capability

[External factors]

* Constraints in providing financial sources
* Financial/monetary policy
    * Degree of development of financial market

4) Major factors affecting competitiveness
[Internal factors]
* Management ability
* Functionality of operations
* Resources management capability

[External factors]
* Constraints in availability & utilisation of resources
    * Labour policy & labour market condition
    * Financial/monetary policy
    * Level of technology innovation

The following table, 'Summary of Factors used to Determine Performance,' on the next page, lays out relations between the above mentioned major factors

(4) Identification of Issues to be Addressed and Policy Proposals

After identifying issues and matters of concern at the enterprises and why they occur, the next step would be to identify measures to be taken to overcome them.

Some are the responsibility of the management while some are that of the government (or General Corporations).

In any case, policies recommended must be effective and adoptable. With respect to this, the study team has tried to be as concrete as possible with policy recommendation.

In Chapter V, suggestions will be made on the following areas.
<What the business should do>
- Management ability
- Operational functions
- Management process and systems
- Organisation management
- Human resources
- Financial resources
- Technology

<What the government should do>
- On SOEs
- On industry competitive environments
- On human resources
- On financial resources
- On technology resources

Summary of Factors used to Determine Performance

<Internal (Managerial) Factors>		<Related External (Environmental) Factors>		<Impact on Performances> Revenue growth	Profitability	Financial Soundness	Competitiveness
Management ability	Top management qualification Development of strategy Deployment of strategy	Government Policy on SOE	Evaluation sheme of top Management Appointment policy & procedure of top management of SOEs	◎	○	○	◎
Operational functions	Research & development	Government Policy on Technology Resources	Level of technology advancement and its availability Technical staff availability				◎
	Marketing	Market Condition & Competitive Environment	Domestic market conditions Understanding of target export markets Policy on export	○	○ added-value		◎
		Distribution channel structure (wholesale and retail environment)					
	Sales	Distribution channel structure (wholesale and retail environment)		○			○
	Distribution			○			○
	After-sales services			○			○
	Procurement	Market Condition & Competitive Environment	Domestic material availability Policy on material import	○	○ material cost		○
	Production	Government Policy on Technology Resources	Level of technology innovation and its availability	○	○ prod. cost		○
Management Processes and Systems	Accounting systems	Government Policy on SOEs	Accounting standards Audit system				○
	Performance measures Budgeting system Cost accounting & control etc.		Model management processes & systems of SOE		○ cost control	○	○
Organization Management	Organization structure Job responsibility Organizational approach etc.		Model organization of SOEs				○
Resources & their Management	Human resources	Government Policy on Human Resources	Labor market & policy Education systems	○	○ labor cost		○
	Financial resources (Capital)	Government Policy on Financial Resources	Financial market & policy Monetary policy	○	○ interest pay	◎	○
	Product technology (Level of technology utilized to decide product feature)	Government Policy on Technology Resources	Technology innovation and its availability	○			◎
	Production technology (Level of technology utilized for production)		Technology innovation and its availability Policy on equipment import	○	○ depreciation	○	◎

Legend: ◎ significant impact
○ so and so

III. Case Studies - SOEs

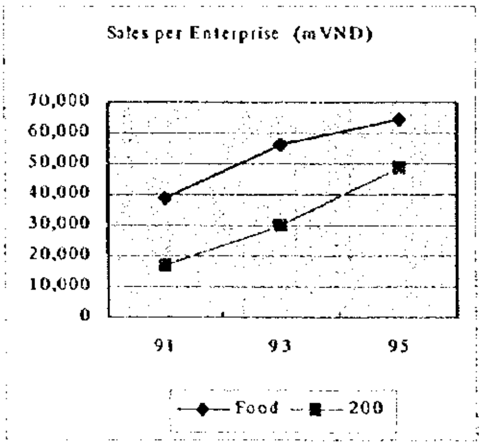
For the purpose of objective analysis and evaluation, it is necessary to know the relative performance of the SOEs visited within each industry in Viet Nam. Background information, was obtained from the Interim Report by CIEM/OECF, dated April 1997, based on their survey of 200 Vietnamese SOEs. Data compiled from this source is referred to at the beginning of each section throughout this chapter.

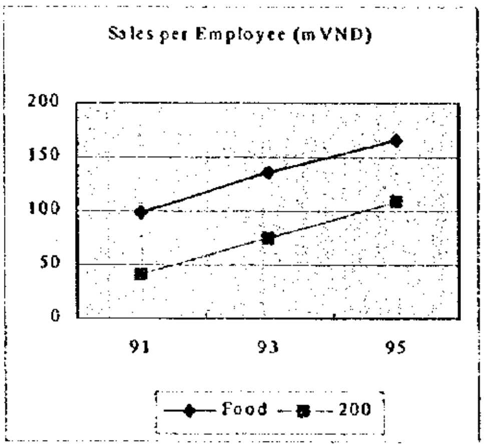
Charts and comments, however, were made by Tohmatsu. "200" in the explanatory notes of the charts refers to figures from the 200 SOEs in their survey.

1. Food

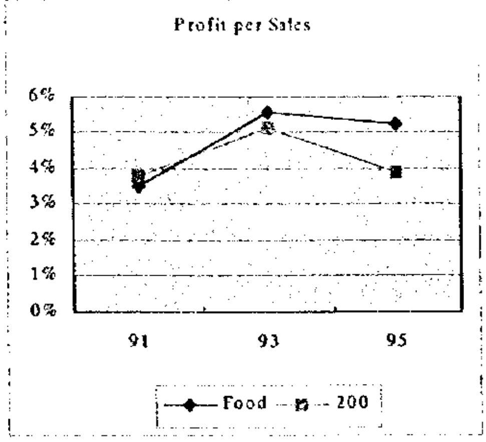
(1) Industry Review

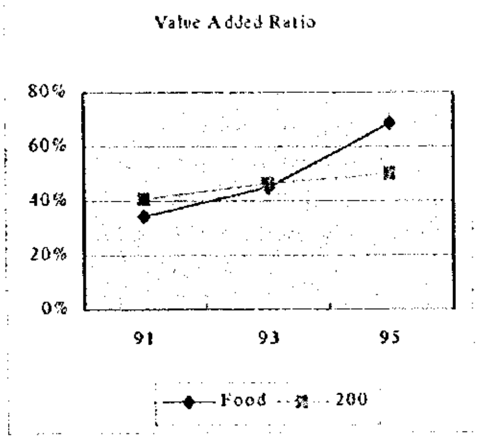
The average SOE concerned in this industry has recorded a high rate of sales. This also holds for the figure per employee.



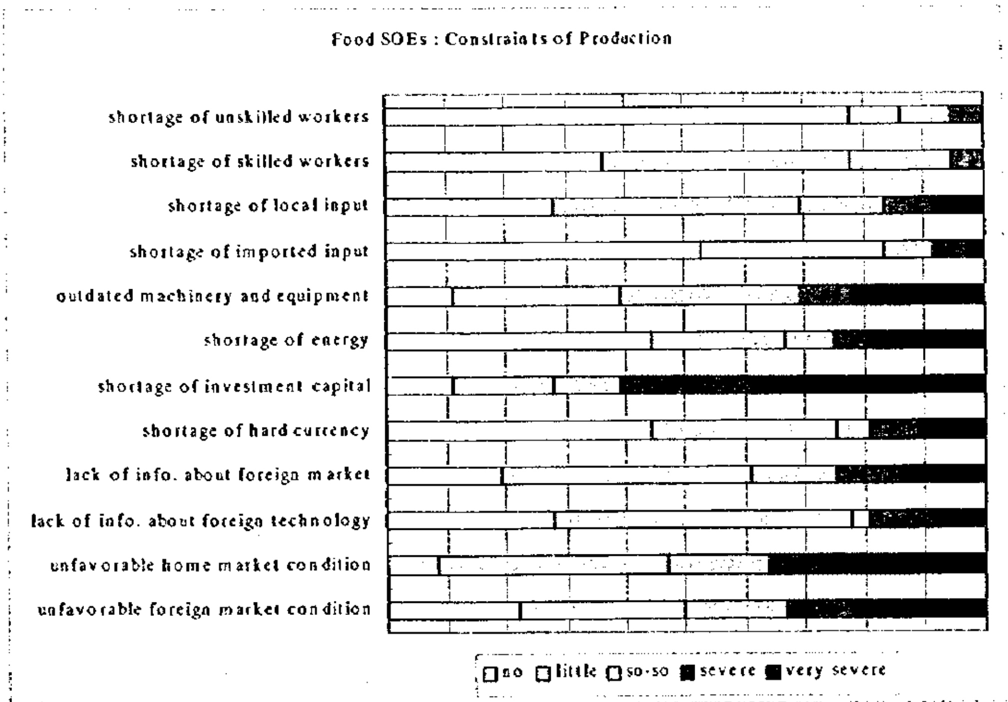


The industry has also shown good performance figures in its profit per sale ratio. A contributing factor is the high value added ratio. This is considerably high at 69% in comparison with the average figure for most Vietnamese enterprises being 50%.





This may result from the fact that procurement of raw materials is easier for this industry, i.e., agricultural products, versus industries where purchase of electronic parts, petrochemical products, steel and the like are required.



Unfavourable market conditions, both domestic and foreign, are considered to be severe here, more than in any other industry. This however, seems rather in contrary to the present high profitability being observed and may be related to their shorter product lives.

A variety of SOEs belong to the food industry. In such a situation, HA may be used as an example of a profitable business, representing the industries average performance. Issues caused by the difficulty in finding a right market to serve are also considered through analysis of HB and HJ.

(2) Enterprise Profile

[HA Co.]

- Current Business

  Confectionery (candies etc.)

  Mainly serving the northern part of Viet Nam, but some of these products are popular even in the south where competition is more severe. Steadily launched new products to meet market needs, resulting in stable growth. Set up a joint venture with a beverage manufacturer in the south in 1993.

- History

  Established in 1975. Divided into a cake and candy factory (predecessor of current enterprise) at the same time. Merged with a neighbouring food processing enterprise in 1989. Registered in 1993.

- Number of Employees: 800

[HB Co.]

- Current Business
  - i) Production and export of canned fruits and vegetables
  - ii) Leasing manufacturing facilities used in the production of instant noodles and beer, which this enterprise used to operate
- History

  Established in 1963 under the Ministry of Trade, exporting food items to East European countries. Also supplied food for the Vietnamese military. After the East European revolution in 1989, the industry faced a sharp decline in demand for its products. Entered the instant noodles and beer industry in1991, but had to pull out due low profitability and is now leasing these facilities to privates ventures. Interested in setting up a JV in order and as a means to improve on renovation of facilities

- Number of Employees : 450

[HJ Co.]

- Current Business
  - i) Beer and snacks

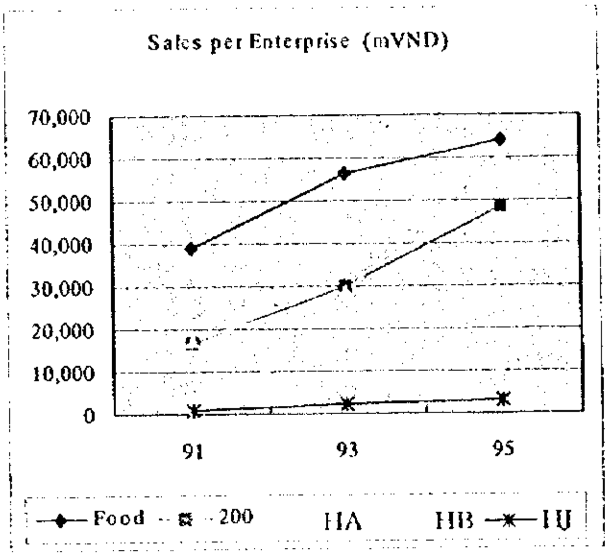
    Both these products have been the main source of sales and profits. This is especially so during the Tet season, when it produces bean cakes.
  - ii) Hotel operation
- History

  Established in April 1970. Produced food for supply to the Vietnamese military and for export to the former Soviet Union and East European countries. Converted to a beer and snack business in the early 1990s. Built a hotel at a neighbouring site in 1995 and started operations in 1996.

- Number of Employees : 289

(3) Performance

<Sales Growth>

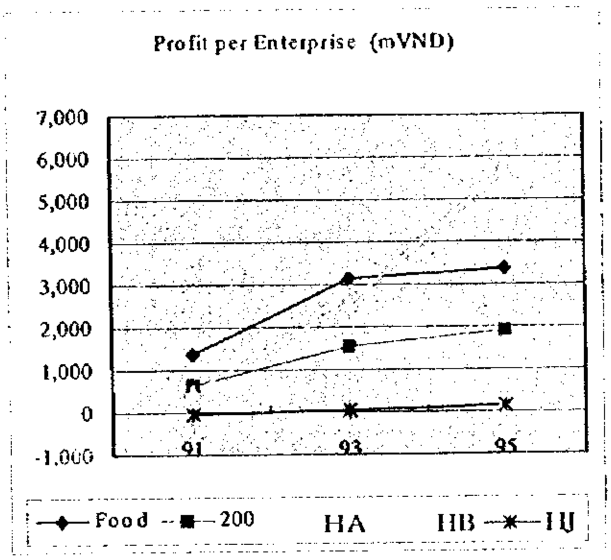


HA has shown healthy sales growth by penetrating into wider markets in Viet Nam and in a small way into China, while sales of HB and HJ have been stagnant at levels far below the industrial average.

HB sells most of its products (canned foods) to Russia and other foreign countries. Since selling prices are low because of terms of trade, sales and profits have been seriously affected.

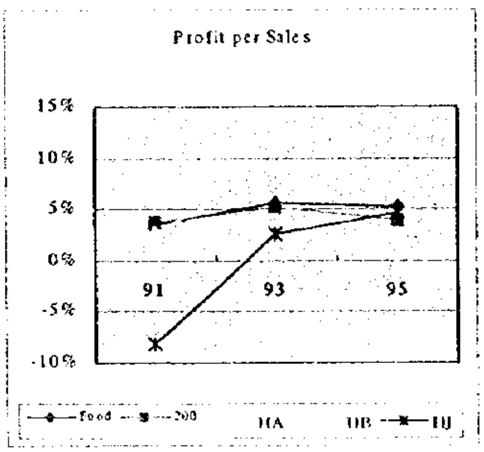
HJ has been producing 'beer hoi,' a cheap beer for local consumption and snacks since the early 90s. 60% of its beer production is sold at nearby restaurants reflecting the small size of the market.

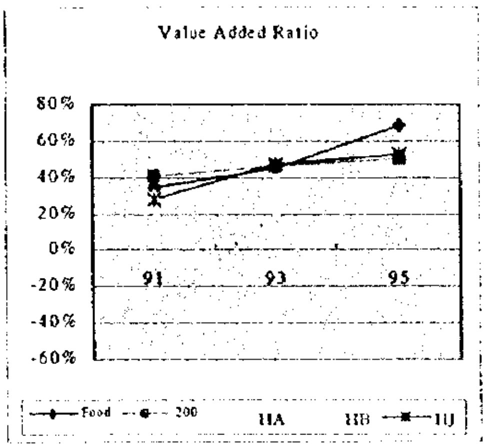
<Profitability>



As commented before, most enterprises in the food industry enjoy higher profitability and value added ratio. At HA, it is fact that the company showed higher profitability with profits growing at almost the same rate as sales.

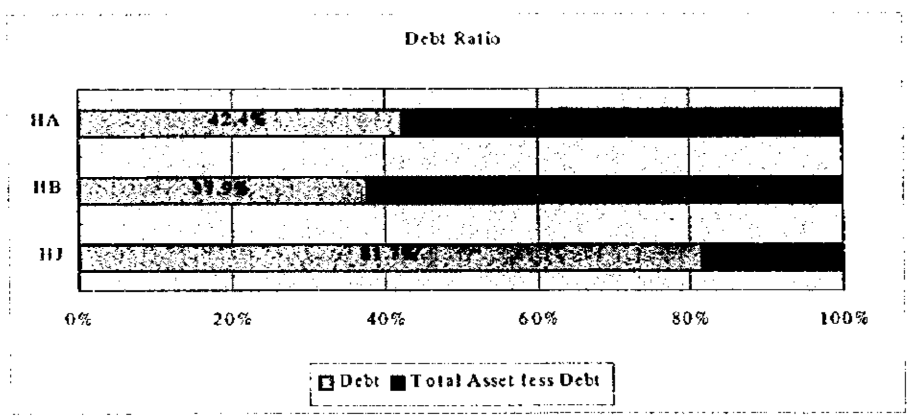
This however, is not so for HB. Since no profit was recorded in 1995, profit per sale was 0%. Its value-added ratio was a mere 4%. Both figures were negative in 1991. Consequently, its ability to continue operations as a separate entity is being doubted. It seems financially difficult to renovate the manufacturing facilities while the excessive number of employees also poses as a problem.





Though HJ shows a higher value added ratio of 18% when compared to HA, it's ratio of profit per sale is exactly half that of HA (4.7% at HJ vs. 9.3% at HA). This implies that HJ is spending more on expenses other than raw materials. Included among major cost burdens at HJ, other than raw materials, are a 50% tax on beer sales, hotel cost of 480 million VND in 1995 and other similar expenses.

<Debt Ratio>



Shortage of capital and limited financing (only bank loans at high interest rates are currently available) is the problem for HA. But it has managed to hold down taking loans on investments to a moderate level, for example by, purchasing discounted machinery.

Debt ratio is low at HB. However, this is not a result of skillful financial management but because they do not have the capacity to take sufficient bank loans.

HJs debt ratio is huge, due to its investments in hotel construction. As a result, they are now considering sale of the hotel business.

<Competitiveness>
Like in most other sectors, state food processing companies lack the capital to invest in sophisticated food processing machinery. This handicap prevents it from investing in better technology, and is thus unable to experiment and develop new food products for both the local and export markets.

(4) What Lies Behind this Performance

1) Business Environment

HA has served the needs of the market. It has even developed it. Though statistical data relating to the confectionery market in Viet Nam is not available, its demands seem to be big amongst the large populous of younger generation. HA has successfully attracted the customer in offering a variety of products at reasonable prices.

Lack of demand is the problem for HB. Its clientele has been East Europe. Export-oriented enterprises of this kind (the company name still includes the word 'Export') experienced a loss of customers under the international division of labour during the cold war. It used to sell products at fixed prices sufficient to record a profit. But now, as prices are determined by market conditions, HB is forced to sell at lower prices resulting in it being unable to earn profits. One obvious solution would be to decrease production costs too. However, this is difficult to carry out with its inefficient production facilities.

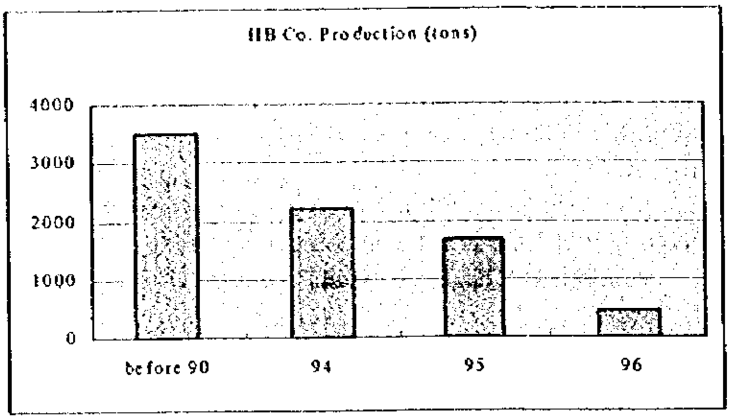
HJ also had a guaranteed demand from the military and East Europe in the past. It produced steam cakes, rice paper and noodles in the 80s and started producing beer hoi in the 90s. It is a quick means to bring about a cash inflow but difficult to operate on a nation-wide scale. If HJ is still to focus on the food business, it should look for an area where the economy of scale can be pursued.

2) Management

HA has maintained a steady sales growth by focusing on its core business of candies while developing original products. Although there are some competitors, including two foreign enterprises, it has succeeded in healthy growth by utilising independent wholesalers, mainly in the northern part of Viet Nam.

As for manufacturing activities, HA has introduced imported machinery and successfully improved productivity. It effectively manages the business with a product line of over 25. Further growth, would require it to take into consideration market trends and needs of the customer. Such information should be collected and analysed, utilising the network of retailers and wholesalers available. HA also has a soft drink business in southern Viet Nam. Though it is recording a profit at present, it should be careful when expanding or entering products like cola, where large markets already exist.

HB, to some degree, still follows the business practice of barter with the former Soviet Union, but is now facing severe competition within the Russian market. Taking the price to export to Russia at 100, production cost is between 105-115. Under such severe conditions, production is decreasing.



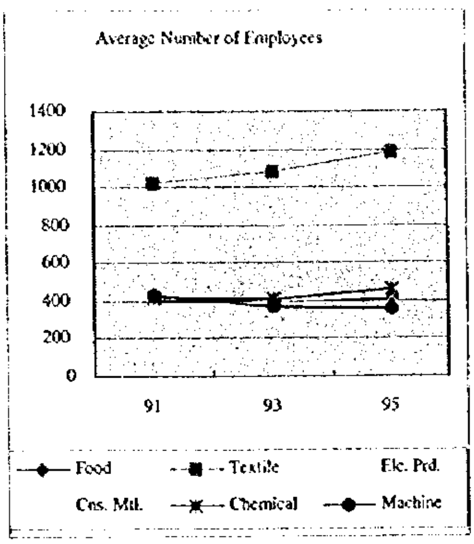
It cannot compete with Asian countries, in quality and price of its products. Canned food is not popular in the Vietnamese market at present. It produced beer and instant noodles in early 1990s but had to stop within two years. It needs drastic reform based on the director's strategic vision of the market and responsible direction from the GC in charge.

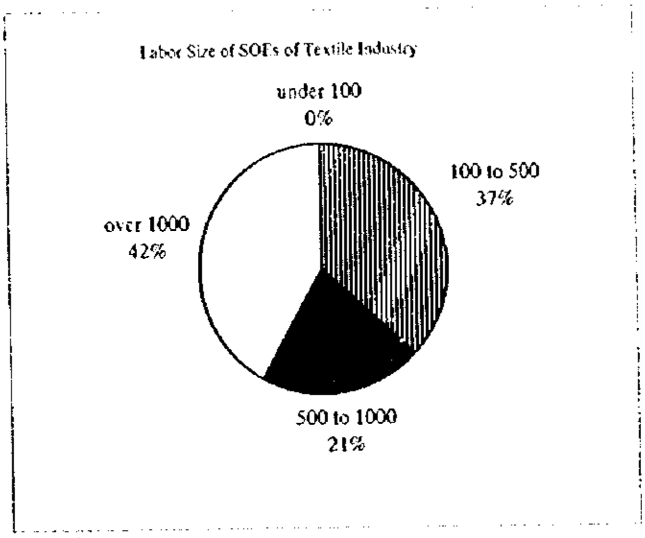
In order to survive, HJ diversified its businesses. The problem though, is to identify which the core business is. The hotel business, which they expected to be the main source of profit, does not seem to show good performance. Plans to sell and collect back on funds spent is underway. Further, a restructuring plan to sell a part of the food business and enter the amusement business is presently being considered. This would prove to be a very significant shift, as it means a transition from manufacturing to service.

2. Textile and Garments

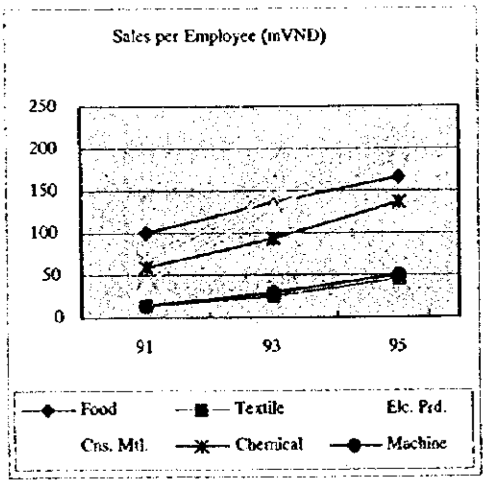
(1) Industry Review

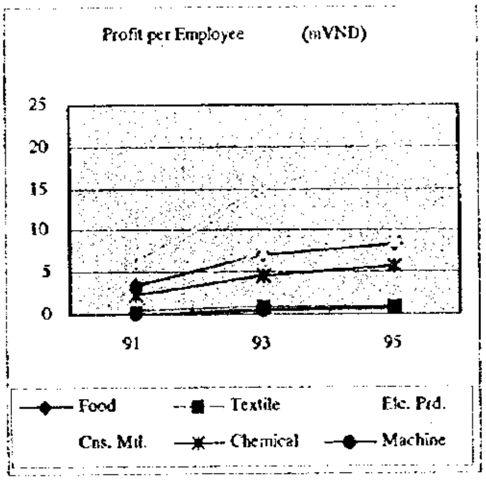
Several large-scaled enterprises of this industry remain, both in terms of assets and employees. Average fixed assets of this industry total, 22.7 billion VND, by far the largest among the six industries, from a national average of 15.5 billion. Since production procedures rely mainly on manual labour, many of them have more than 1,000 workers.



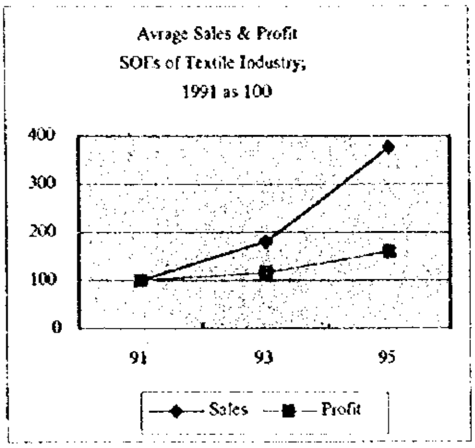


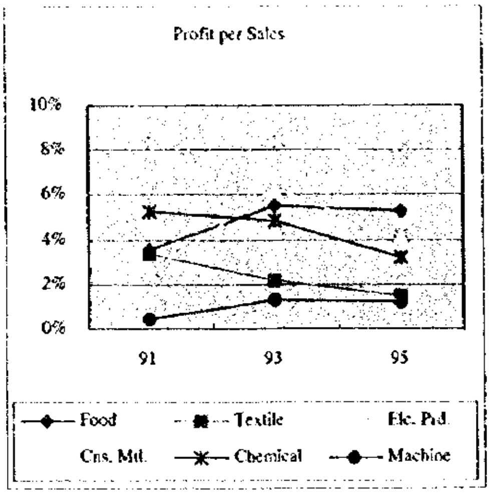
Although they are of such large scale their performance figures do not correspond proportionally. When measured in terms of figures per employee, they show the worst performance (compared to the machinery industry).



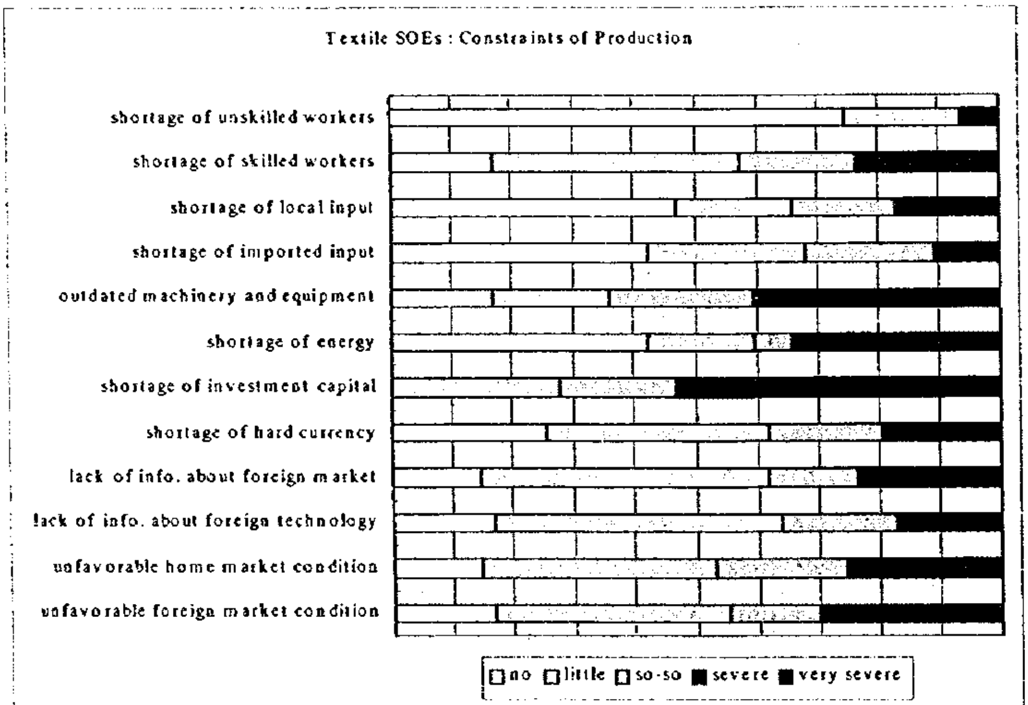


Worse, lies the fact that the pace of profit growth is less than that of sales. As a result, profit per sales is on the decline. Since 1995, this figure has been a mere 1.42%, second worst of the six industries, with only machinery behind.





Though Viet Nam now exports a large quantity of garments, shortage of currency is still a pending constraint on production. This is because the basic raw material, cotton, has to be imported. If sufficient cotton is not secured, operation is threatened. This is reflected in 'shortage of imported input,' considered as 'very severe' and 'severe' than other industries.



HE and HK are huge enterprises. Both have thousands of employees and extensive sites in the Minh Khai district, Hanoi. Likewise, they share typical features of this industry. When it comes to profitability, however, they show a stark contrast. Analysis on the difference of their profitability, however, leads to the heart of the matter.

(2) Enterprise Profile

[HE Co.]

- Current Business
  Production and sales of textile and garments (most made of cotton)
- History
  Established from the beginning as a state enterprise in 1965. Used to be a member of the Textile Enterprises Union and thus joined a group of enterprises under the Textile and Garments GC when formed in 1995. Current director was elected in 1996.
- Number of Employees : 3,600 (as of 1996)

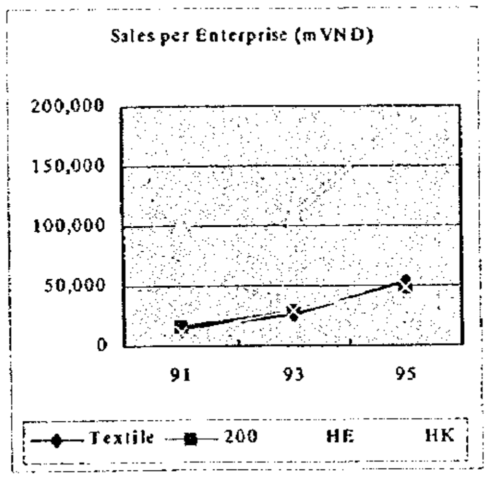
[HK Co.]

- Current Business
  Production and sales of garments (jackets, suits, shirts, jeans etc.)
- History
  Established in 1958 as the first garment manufacturer aiming to export its products. Used to serve East European countries. Shifted its clientele to Japan and other Asian countries in the early 90s. Started export to EU countries in 92'. Reregistered in 93'. Joined a group of enterprises under the Textile and Garments GC in 95'.
- Number of Employees : 2,200

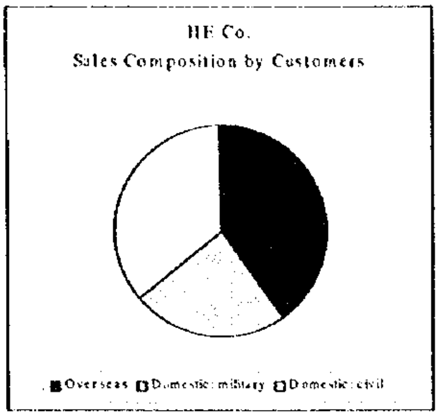
(3) Performance

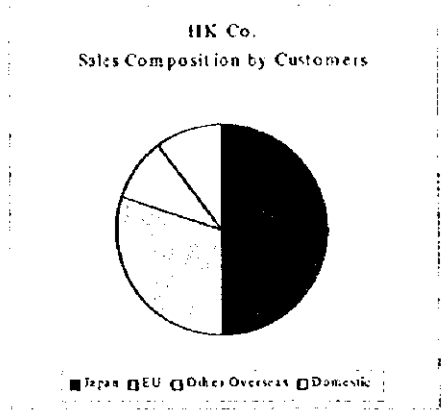
<Sales Growth>

HEs sales figure is extremely high, nearly four times that of the average. HKs sales are almost that of an average enterprise. Growth appears stable.



Both HE and HK export large quantities overseas, 40% of sales at HE and 90% of that at HK. A profile of their customers is as below. 24% of HEs sales is military uniforms for the Vietnamese armed forces. It also has a large contract with a South Korean enterprise. HK has strong ties with Japanese trading houses.

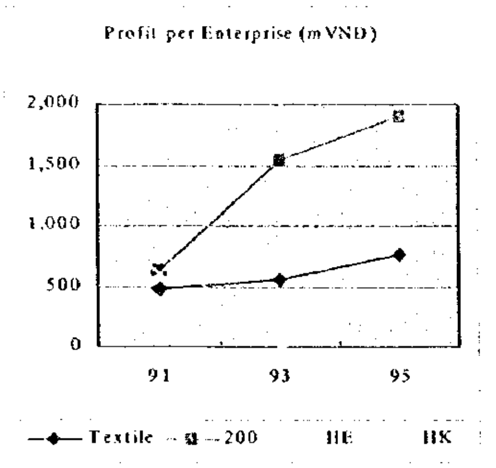


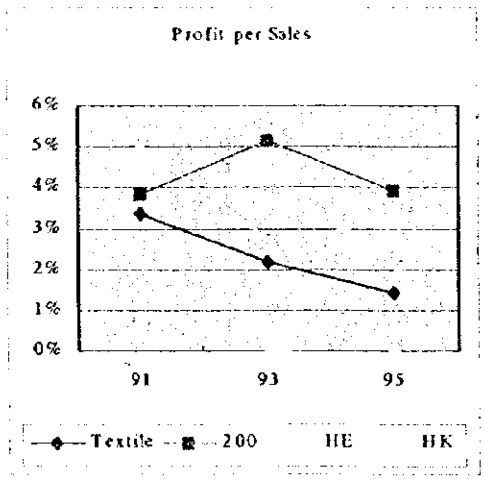


<Profitability>

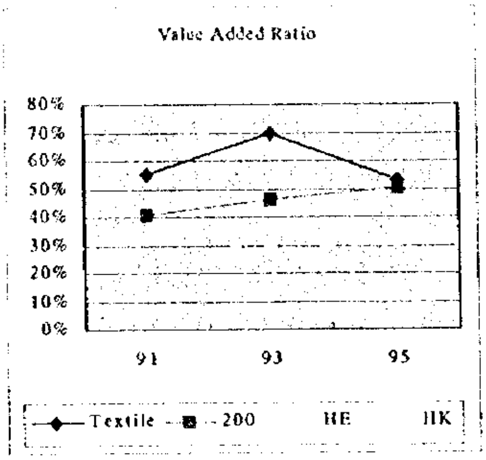
Although sales at HE is much larger than that at HK, the situation is reversed when it comes to profits. HE recorded a profit of 177 million VND, a mere 0.1% of its sales. On the other hand, HK recorded a profit of 1,523 million VND, twice the industrial average of 759 million. As observed, HKs sales were close to the industrial average, which implies twice the profit would result in twice the profit per sales ratio.

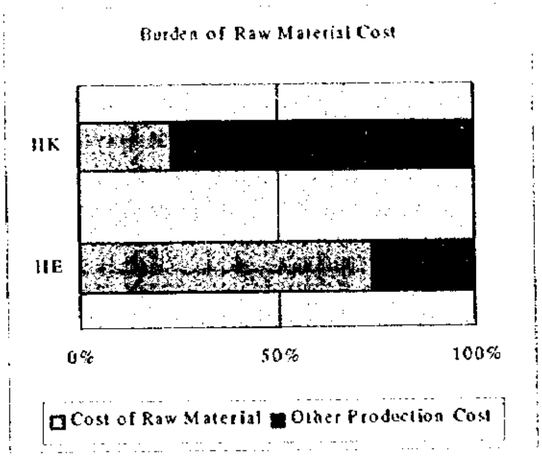
This difference is derived from two factors. One is the customer. Though HK's sales is smaller, 90%, as observed, is exported. HE, however, sells 60% domestically. They face unfavourable market conditions because of severe price competition with smuggled products and other domestic producers of military uniforms.





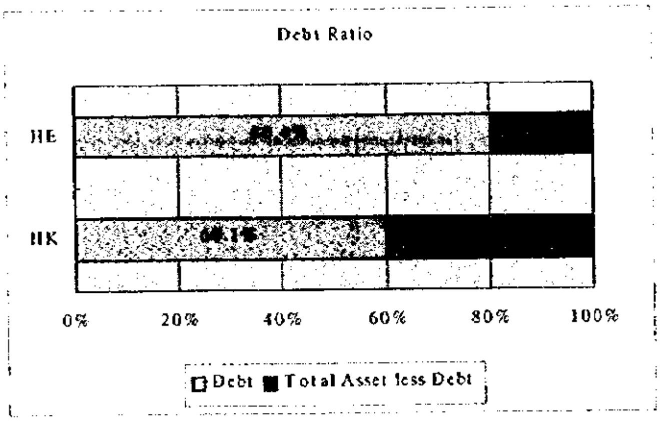
The other is cost structure. A comparison of their value added ratio clarifies this. It is 27% at HE whilst 76% at HK, 2.8 times that of HE. The low figure at HE is a result of the nature of its business, whereby the process starts with production of fibre from imported cotton flowers, weaving of clothes and finally production of the garments. Cost of raw materials accounts for 70% of sales at HE. This implies that 70% of the cash inflow from sales should be used for the payment of raw materials (overseas).





Of the 30% left, HE has to pay wages, interest on debts etc. Therefore, this shortage of capital places it in a very severe position financially. Since HE must import cotton flower, its cost of raw materials becomes a heavier burden than that at HK, which outsources clothes.

<Debt Ratio>



Both have unfavourable debt ratios due to large bank loans taken for investing in production facilities. As a result, interest payable on these bank loans has become a very heavy burden for both enterprises.

<Competitiveness>

Being a typical labour-intensive industry where low wages act as the international competitive advantage, SOEs in cotton products have some strength with respect to the global market. But they do not have any advantage over synthetic fibres, which other ASEAN countries are strong in. Vietnamese enterprises lack design capability, a critically important element in the garment business. Both HE and HK have only a few designers. Obsolete facilities are also a problem.

(4) What Lies Behind this Performance

1) Business Environment

Demand from overseas markets is the driving force. This industry as a whole has exported a little above US$1 billion in 1996. The Viet Nam Garment and Textile Corporation estimates exports will amount to US$2.5 billion by 2000 and 4 billion by 2010 (According to the Viet Nam Economic Times, Feb., 1997). Though Asia is the biggest buyer from these two enterprises, the European Union countries account for almost 50% of Viet Nam's overall clothing exports. A total of 227 companies export garments and textiles to the EU under the quota system.

2) Management

This industry still has the challenge of improving its profitability despite its large sales volume. As analysed for profitability, one of the reasons is raw material cost. In all, three managerial issues exist for profitability and are as follows:

1) cost of raw material
2) terms of trade with foreign buyers/partners
3) domestic distribution

This certainly does not imply that these are the only three problems. There probably are several other issues, but have only emphasised on these, being the fundamental issues of an enterprises in a transition economy.

[Cost of raw material]

As observed before, HEs profitability is handicapped by the manufacture of fibre and textile. However, if it does so with the strategic intention to pursue vertical integration with sufficient managerial resources, then it would not pose as a problem at all. Unfortunately, this is not the case here.

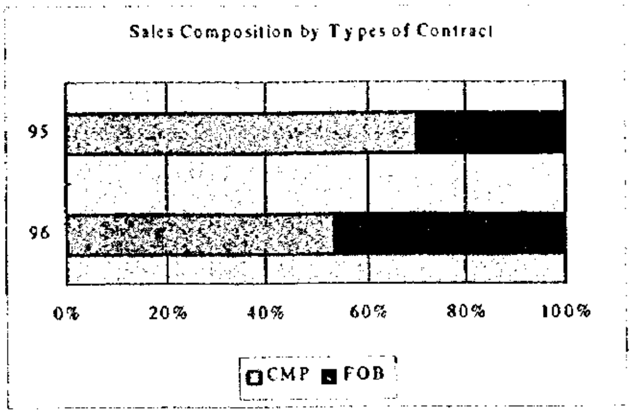
Some companies are better able to produce textiles while others are better at producing the garment itself. It is necessary to encourage sale of the fibre and cloth produced by HE to more Vietnamese manufacturers in order for everyone to benefit from the economy of scale.

[Terms of trade with foreign buyers/partners]

There are advantages in having a contract with foreign business. It allows for stable sales, improvement of product quality in adhering to their requirement, financing by the counterpart etc.. These merits should be enjoyed in the early stages of development.

But these advantages are not gained for free. When it comes to profitability, foreigners force Vietnamese enterprises to sacrifice on the margin. So, while relying on contracts with foreign enterprises to some extent, efforts should be made to promote product design, distribution, sales, advertisement etc. separately.

Bearing this in mind, HK is decreasing its reliance on subcontract sales. According to their terminology, CMP ('Cut, Market, Pack' for short) forms a sort of subcontract. FOB ('Free on Board') is the product produced and marketed on their own.



HKs increasing share of FOB products in its total sales leads to a higher value added rate. On the long-run, transition from 'made in Viet Nam' to 'designed (and made) in Viet Nam' should be the aim.

[Domestic distribution]

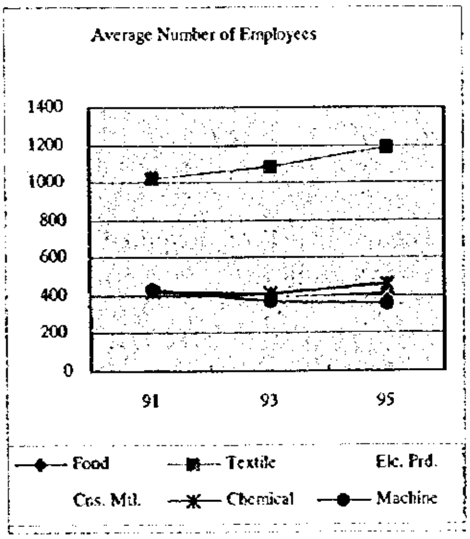
Both HE and HK rely too much on wholesalers and retailers to market their products. They should strengthen sales as a corporate activity. Organising dealer networks and running of boutiques by themselves are examples. This will give them more bargaining power and improve profitability.

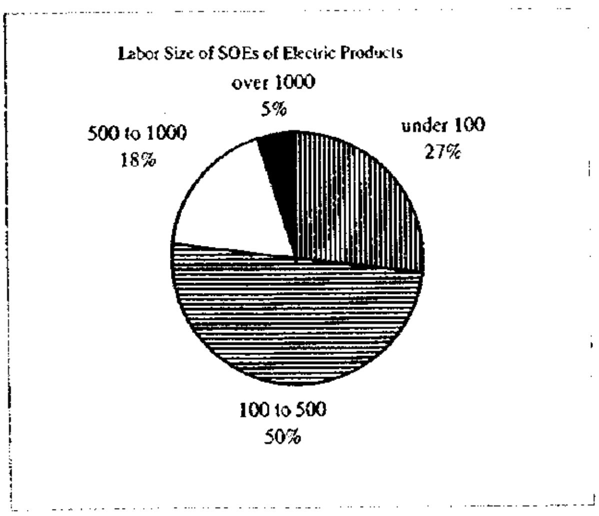
Another point that remains is sales is not a one-way communication. Not only is it the process of passing commodities to consumers, it is also through sales activities that suppliers will come to know what their customers need.

3. Electric Products

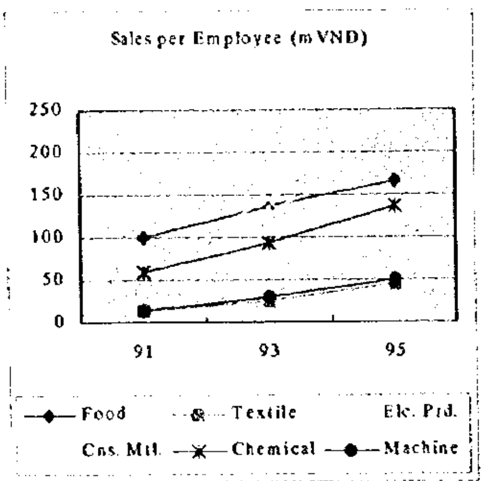
(1) Industry Review

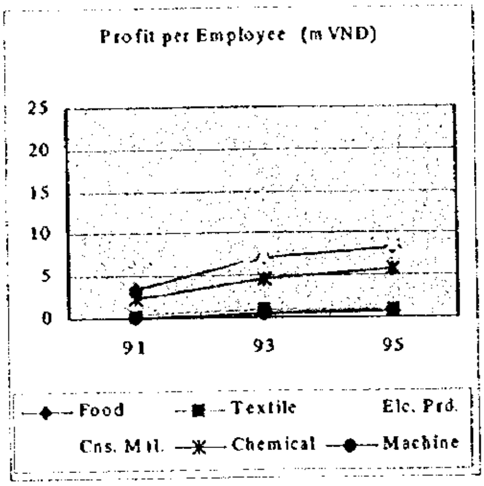
This industry in general, comprises of medium to small sized enterprises. The average number of employees per enterprise is smallest of the six industries, with 27% of them having less than 100 workers.



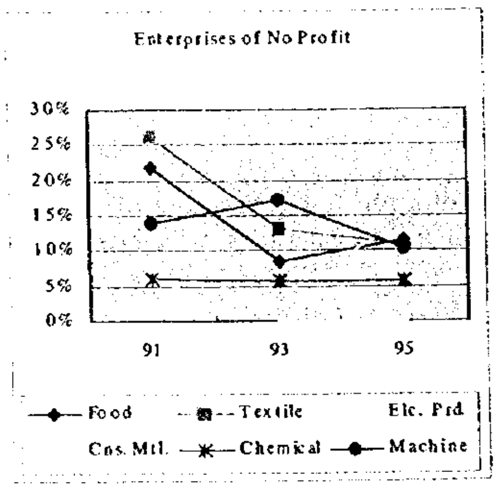


Though small in size, most have successfully managed to record good performance in both sales and profit. Measured for figure per employee, they have the second best figures amongst the six industries. Being small may assist adapting to the environment quickly, though evidence is not available here.

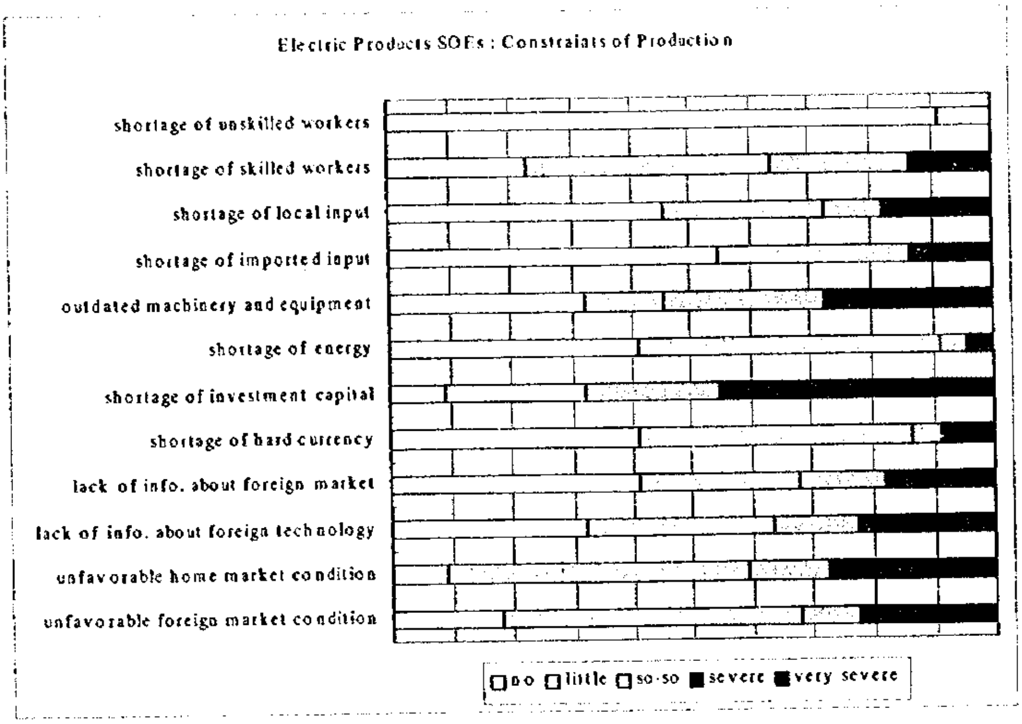




All enterprises in this industry recorded profits in 1993 and 1995. It can be assumed, they have successfully found suitable customers to serve.



Outdated machinery and equipment is a problem but less compelling here. Required funds for updating facilities might also be smaller considering their small size as entities.



HG mainly manufactures electric wires at present, but it used to produce machines as well. This case shows how they manage to serve the market and the problems they face.

(2) Enterprise Profile

[HG Co.]

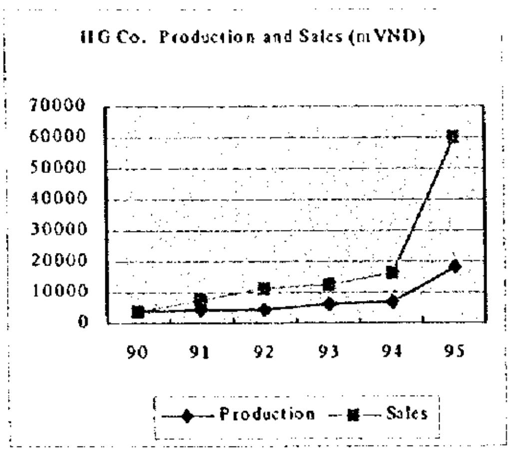
- Current Business
  - i) Production and sale of electric wires (made of aluminum and PVC coated copper)
  - ii) Production and sale of machinery and parts for electric devices
- History

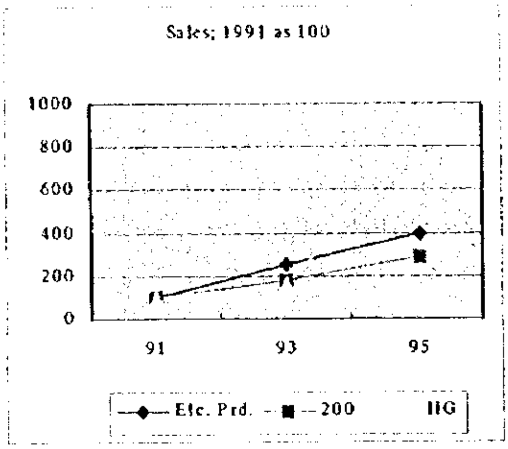
  Established in 1985 by the merger of two engineering companies. The current director has been serving since. Produced concrete mixers and other machines in the late 80s. Launched electric wire business (made of aluminum) for the first time in 1989. But still produced machinery like pumps in early the 90s. Reregistered in 1992. Started production of copper electric wires in 1994.
- Number of Employees : 206 (as of 1996)

(3) Performance

HG has been successful in its strategic change of domain (business compositions) with growth in both sales and profit. But the profit margin is so small, resulting in low profitability.

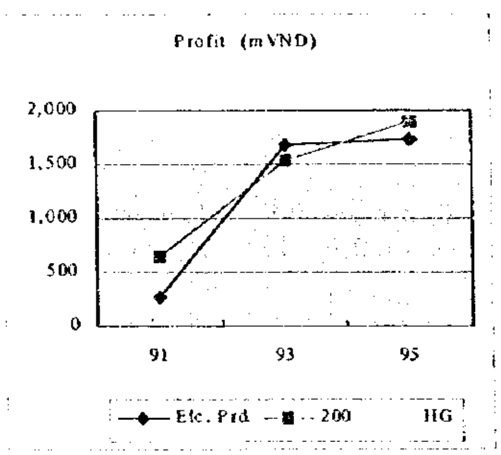
<Sales Growth>

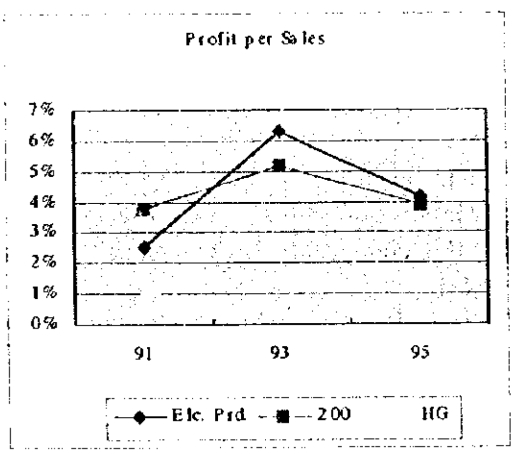




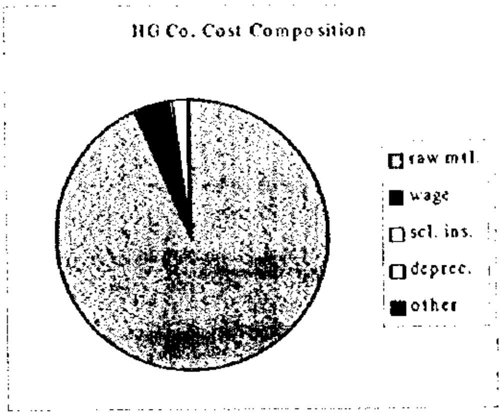
Entrance to the copper electric wire market in 1995 has brought great increase in both production (2.52 times) and sales (3.73 times) in just one year, compared to figures for 1994.

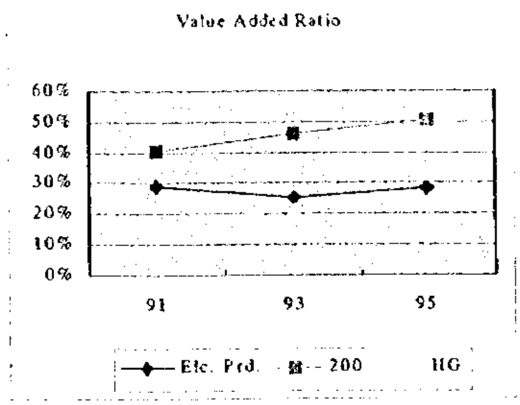
<Profitability>



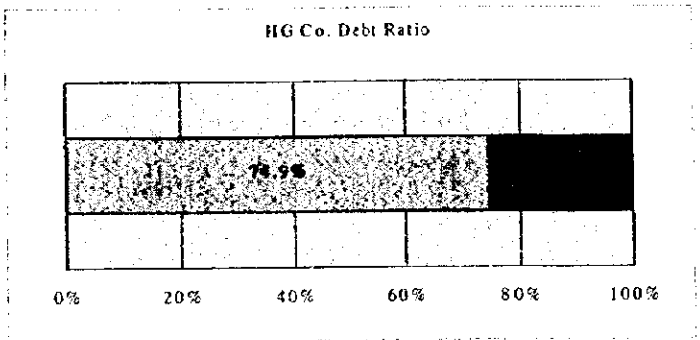


But profitability is low. Profit per sale is a mere 0.7%. The cost of raw materials, which accounts for as much as 90% of the total cost, and whose price is determined at international commodity markets is hard to cut. Still some measures must be taken for the survival of this company.





<Debt Ratio>
Unfavourable debt ratio due to large bank loans obtained for investing in production facilities.



<Competitiveness>
The director has shown excellent business sense in changing domains to more promising areas. It still, however, needs product proliferation for enhancing added value by investing in technology.

(4) What Lies Behind this Performance

1) Business Environment

Pulled by the construction boom in Viet Nam, there is sufficient demand for electric wires. HG has entered this business with good timing.

As explained for profitability, high cost of raw material is the most serious issue. Since the supporting (metal) industry is weak in Viet Nam, this company has been forced to import ingots from overseas. Worse, according to the Director, is the tax system, causing further disadvantage.

2) Management

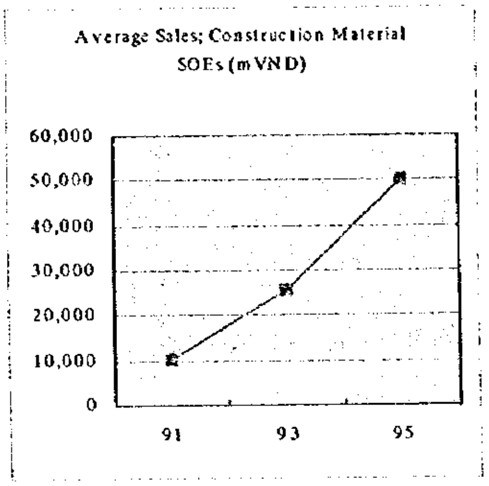
Top management assumes the role of sales and marketing themselves without any specialised sales force. Though this may work for frequent customers, its effectiveness is limited in acquiring new customers.

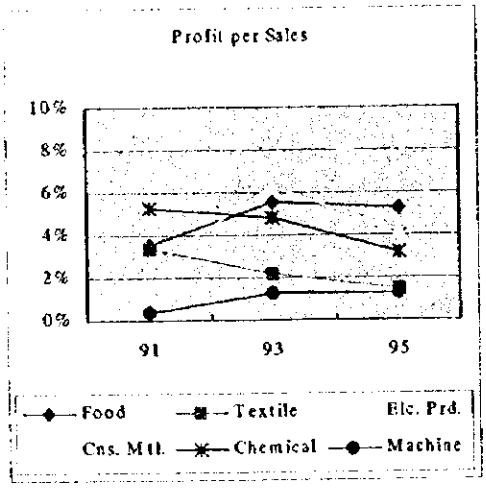
Competition with imported products is important. HG should focus on the right clientele by recognising characteristics of their own products versus imported ones. They should use the competitive advantages they have over foreign manufacturers, such as after-sales service.

4. Construction Material

(1) Industry Review

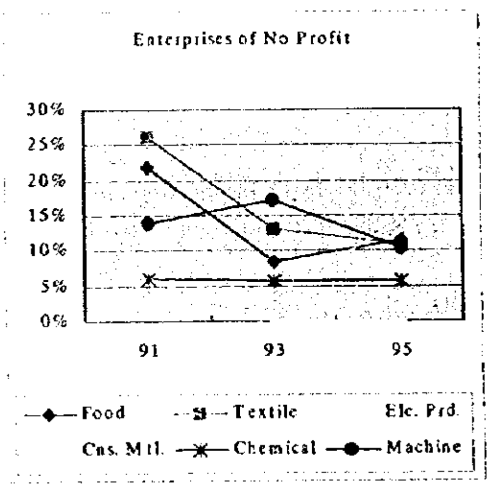
Average sales has grown five times from 1991 to 1995. Profit per sale has always recorded about 8%, enjoying the highest figure amongst the six industries.





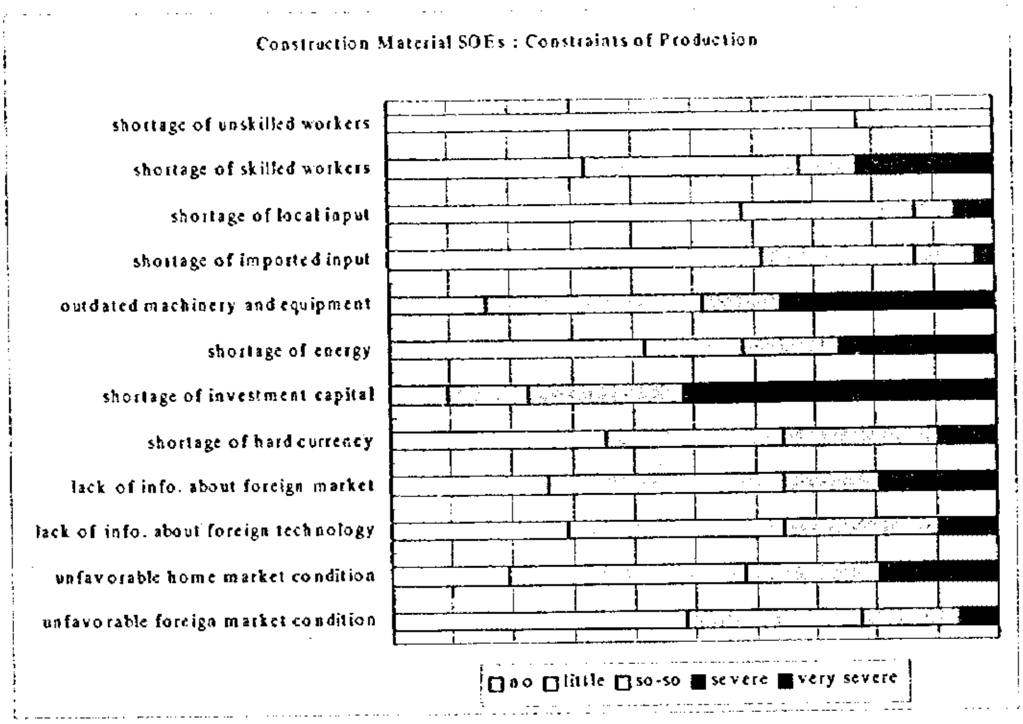
Viet Nam has experienced a construction boom in recent years, creating a substantial demand for products of the enterprises, in this industry.

However, 14% of the enterprises in this industry did not record profits in 1995.



This is the worst figure among the six industries and is a result of some enterprises having been over aggressive in making investments.

Good market conditions are reflected in the answer, not being a constraint. Shortage of input, both domestic and imported, is not serious either. Though they are relatively profitable, still more than half feel the shortage of capital as 'severe' or 'very severe' for further expansion.



In this context, HI makes a good case example with both high growth and heavy investment.

(2) Enterprise Profile

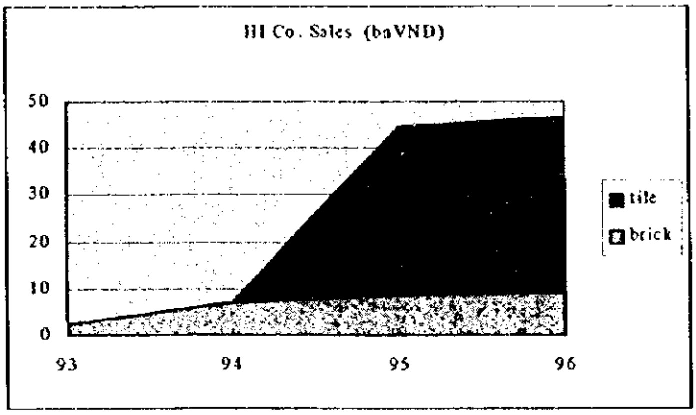
[HI Co.]

- Current Business
  i) Production and sales of ceramic tiles
  Entered in 1994. Met market need by supplying good quality tiles at inexpensive prices during the construction boom
  ii) Production and sales of bricks
  Have been in this business since its establishment in 1959.
- History
  Established in 1959. Reregistered in August 1994. Continuously refined its technology in the brick business and increased production capacity. Introduced an Italian facility in the ceramics business with a production capacity of 10,000m^2 per annum. Still planning to build other production lines of the same size.
- Number of Employees : 570

(3) Performance

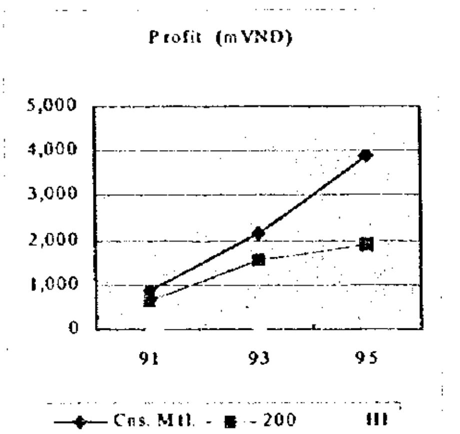
<Sales Growth>

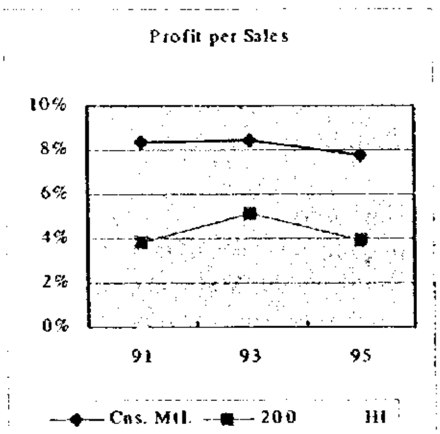
As the chart below shows, HI has recorded rapid growth in sales thanks to its successful entry in the tile business.



<Profitability>

Though the average enterprise in this industry is profitable, profit amount of HI is small.

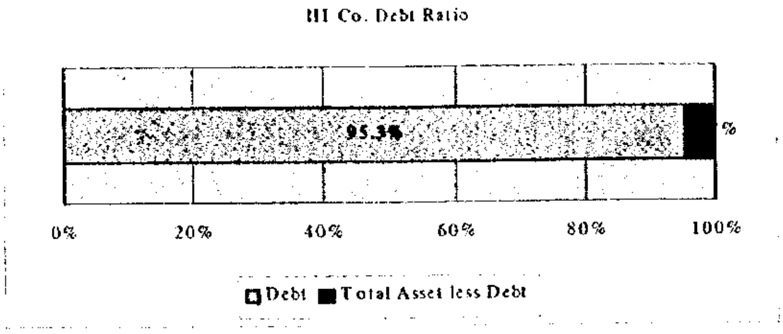




This low profitability is a result of heavy investment made when introducing the Italian facility for ceramic tile manufacturing.

<Debt Ratio>

The debt ratio of 95.3% is heaviest among the eleven SOEs the team visited. This seriously unfavourable ratio is due to huge bank loans obtained for intensively investing in production facilities.



<Competitiveness>
Increased production capacity as a result of aggressive investment. Since demand is rapidly growing, absorbing employees, who have become excessive due to process automation, during the expansion of product lines has become possible.

Have been recording losses, giving way to depreciation of huge investment costs over five years, being one reason. Raise of operation ratio, would take a 3 shift daily routine. To avoid excess inventory and secure an appropriate pace of facility expansion are major issues.

(4) What Lies Behind this Performance

1) Business Environment

Pulled by the recent construction boom in Viet Nam, there has been much demand for bricks and ceramic tiles. Brick demand in Viet Nam is expected to double from 5.3 billion pieces in 1995 to over 10 billion by the year 2000 (Viet Nam Today, Nov. 1996). The tile market is growing too. Since the demand is so large, it can be assumed that production increase has been more effective in sales increase than differentiation or cost leadership. The latter would be a competition issue when the market shrinks.

With the local market for floor tiles now saturated, companies are expected to try to increase quality to compete with top range imported brands.

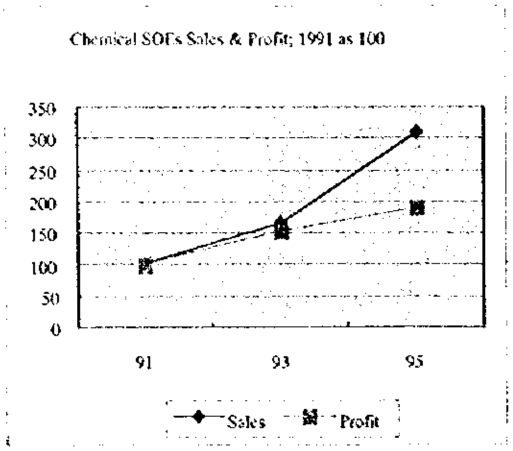
2) Management

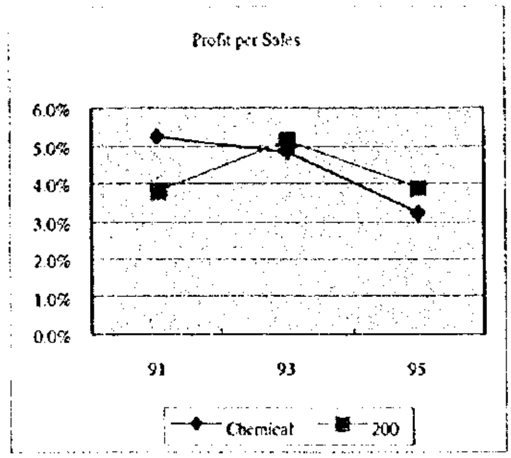
Success in industries of this sort, where facilities play an important role, is attributable to efforts used to invest in technological modernisation and application of up-to-date methods, as well as the upgrade and extension of production activities. HIs introduction of Italian facilities is a typical example of success. However, management of the financial side of the business remains the issue.

5. Chemical Products

(1) Industry Review

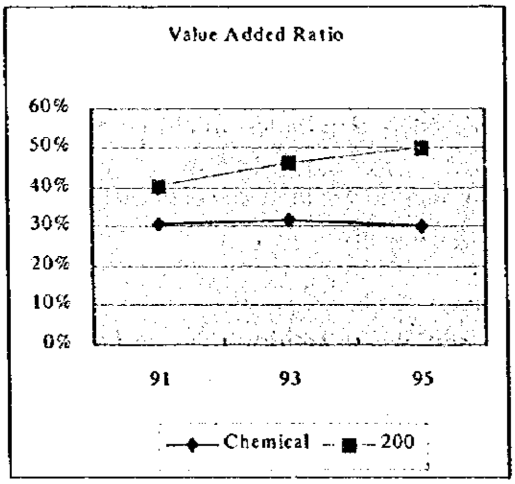
Though sales figures are steadily growing within this industry, profit growth is not keeping pace with it. As a result, profit per sale has continuously been on the decline from over 5.25% in 1991 to 3.22% in 1995. This implies SOEs in 1995 had to achieve 1.63 times sales in 1991 in order to record the same profit.



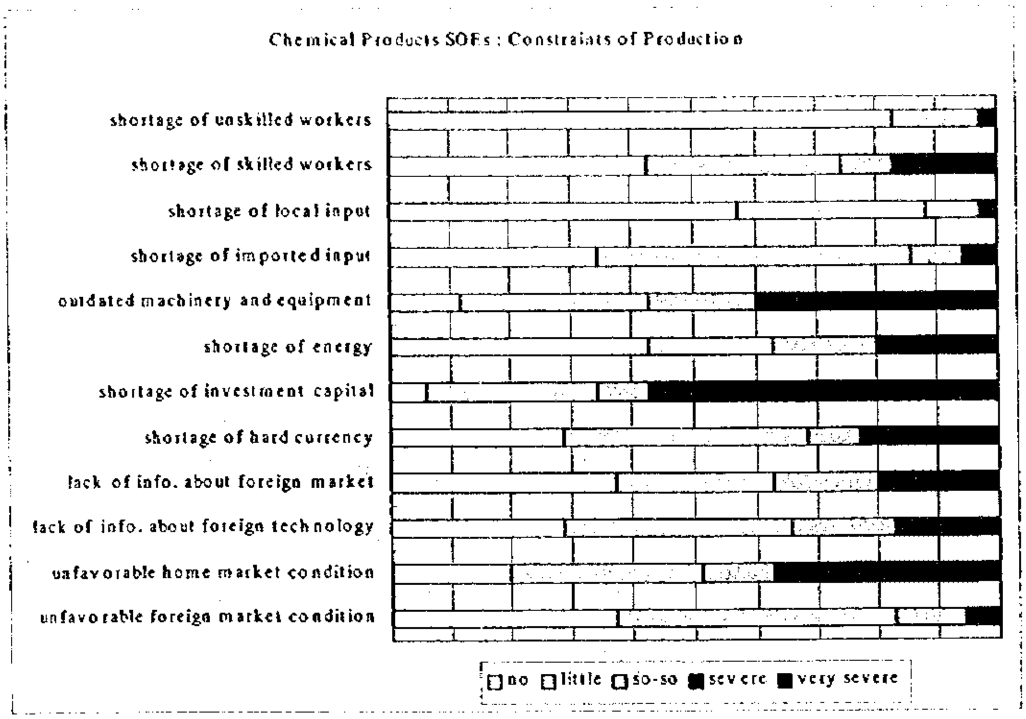


One piece of the data that explains the reason for this poor profitability is the low value added rate. It has been stagnant, at a considerably lower rate than the average figure for all sectors.

Lower value added ratio is caused, in standard cases, by either poor sales or expensive raw material costs. Due to the lack of sufficient opportunity to conduct case studies, the team could not obtain detailed information about the situation. Sales, however, has been growing, as noted. It can thus be implied, that most enterprises here are suffering from heavy raw material costs. Production of some raw materials requires 'high technology,' which is not always available within the current Vietnamese industrial structure, hence not domestically supplied.



The above comments are not so well-defined in the chart below. However, the fact that unfavourable domestic market conditions and a shortage of hard currency being felt more seriously than in any other industry, may support the argument.



As observed from this data, SOEs in this sector generally do not perform well. However, HH appeared one of the most successful cases among those the study team visited.

Therefore, although it has become the study of a rather exceptional enterprise more than a typical enterprise, we have tried to analyse where these differences arise from.

(2) Enterprise Profile

[HH Co.]

- Current Business
  i) Manufacturing and sales of phosphate fertiliser's (99% of sales). Mainly supplies FMP fertiliser, dominating 80% of the Vietnamese market.
  ii) Also supplies NPK fertiliser, but this constitutes less than 1% of sales.
- History

Established in 1960 with aid from China and started operations in 1963. Import materials, but has succeeded in developing materials made in Viet Nam through joint studies with universities and other institutions.

Reregistered in 1993. Joined the group under the Viet Nam Chemical General Corporation when it was established in 1995.

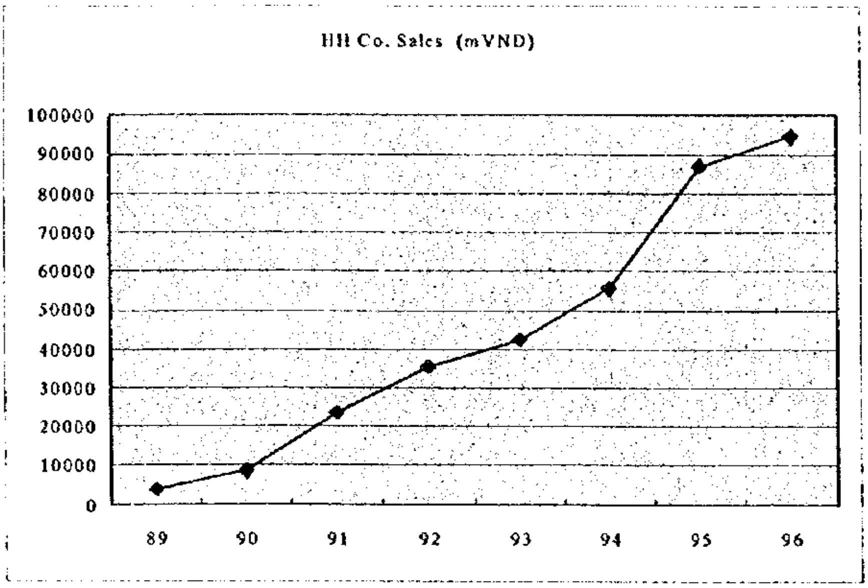
- Number of Employees : 600 (in 1995)

(3) Performance

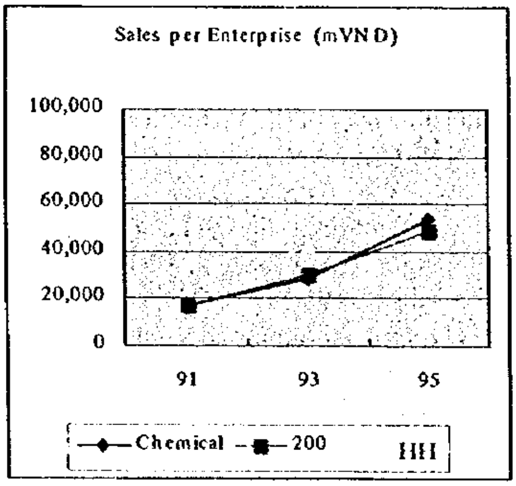
<Sales Growth>

Over the last seven years, the company has increased production capacity. As a result, HH's fertiliser output has increased from 1989 at an average of 10 ~ 25% per annum.

The company has recorded remarkable growth in sales, without any years of decrease, as is clear from the chart.

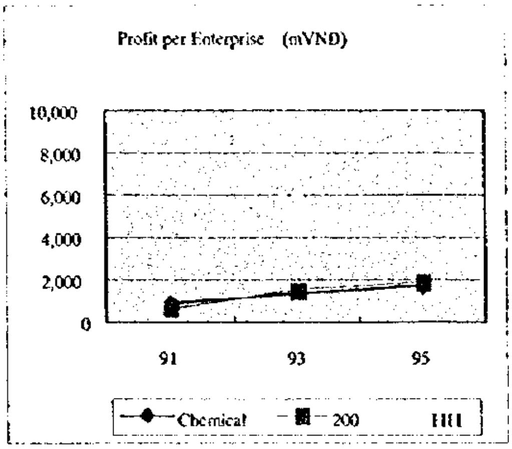


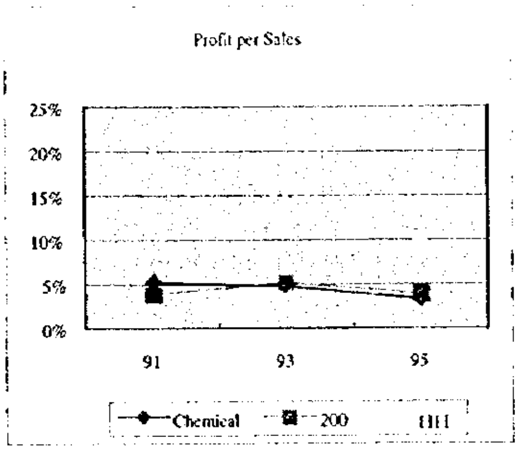
Compared with the average enterprise in this industry, sales figures are larger and still rapidly growing. Recorded sales of 88.4 billion VND is 1.7 times that of the industrial average.



<Profitability>

HH is outperforming the industrial average not only in sales but in profits, in terms of both absolute amount and ratio over sales.





It recorded a profit of 5.5 times that of the 1995 industrial average. Its profit per sale in the same year was 10.7%, exceeding the average within the chemical industry (3.2%) and all other industries (3.9%) by far.

<Debt Ratio>

Detailed balance sheet data of this company is unavailable. However, they have claimed not to have had any bank loans since 1990. Therefore, it is assumed, that the company's debt ratio is extremely low, with very efficient working capital management. This is the only one enterprise, out of the eleven we visited, which did not complain of difficulty in financing.

<Competitiveness>

Five competing manufacturers of fertiliser are know to have existed, however, two lost out and had to be closed. As noted before, HH is extremely strong in FMP fertiliser.

This company has done well in both serving the customer's (farmer's) needs and in updating production technology.

(4) What Lies Behind this Performance

1) Business Environment

Such good performance relies, to some degree, on the following favourable conditions when compared with other SOEs we visited. These include :

1) Raw material is supplied domestically without the need to import

2) Use of facilities built several years ago, due to a lack of demand for innovative products as yet in Viet Nam

According to the information we received during our interviews, 46 SOEs belong to the Viet Nam Chemical GC. Fertiliser manufacturers account for only a small number of enterprises, but contribute 70% of the entire group's profit. This fact may support the relatively favourable environment of fertiliser suppliers.

However, it should be noted that they have yet to face any threats from foreign competitors. Sometimes they are protected by governmental procedures or by their strong ties with farmers. Or is it simply because the foreign manufacturer has neglected Viet Nam as its market has not been attractive enough so far? As the Vietnamese economy develops further, there is bound to be the threat of competition (note: agriculture is a huge industry in Viet Nam, and will create more demands in the future).

2) Management

Director's ability and entrepreneurship have played an important role in achieving current standards. Some of their success factors include :

1) Competitive advantage in technology
   Updating of production facilities at the right time
2) Product quality
   Has been awarded four times in the past seven years, winning trust from the customers
3) Price setting
   A little bit higher than competitors but still competitive enough to reflect their products quality

An especially valuable example for other Vietnamese enterprises, is their marketing activity (in a broad sense, not merely sales promotion). They have successfully extended this business by educating farmers (= customers). In doing so, they have worked in co-operation with agricultural specialists mobilising their technical knowledge, and synthesising it with the customers wants, to develop products of good quality.

The following two paragraphs are taken from a written document HH prepared for the study team. Their customer-oriented activities and emphasis on ability in personnel management is reflected here. Both are a must for any enterprise to survive in a market economy.

Marketing :

- Studying crop patterns in each area to identify fertiliser demands for each season, and when there is a shift in crop pattern, how the demand will change.
- Co-ordinating with agronomists in order to identify the best methods of cultivation and increase of sales in traditional markets.
- Studying selling strategies of competitors.
- Reviewing price and selling strategies regularly.

Human Resource :

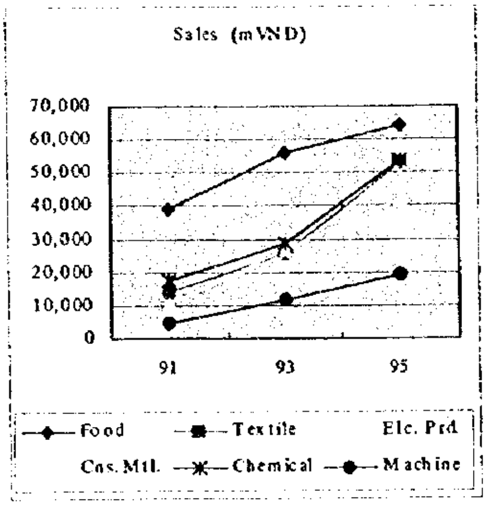
- The company evaluates staff according to their qualifications and ability to carry out assigned tasks (health, sense of responsibility)
- The company promotes training to improve workers professional skills: on-the-job training, attending professional courses at schools and training centres.
- The company has a policy to stimulate workers initiatives, by rewarding initiatives that help improve business efficiency and applying strict fines on those who waste resources.
- Use 'salary + bonus' mechanism of payment to increase workers productivity.

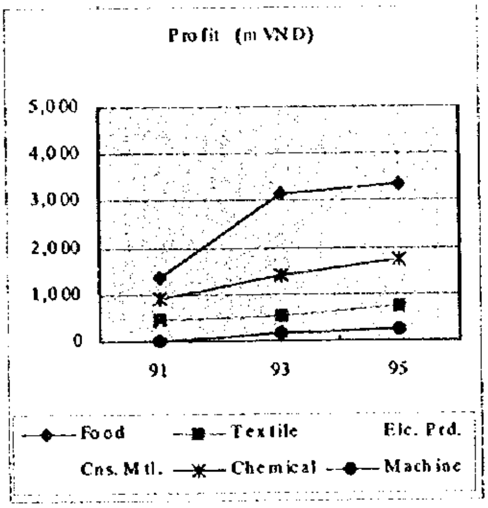
Their challenge for the future is to make further initiative to educate farmers on the use of fertilisers as part of an agricultural policy. This will require co-operation with the Ministry of Agricultural Development, Ministry of Industry and manufacturers of fertilisers, including HH, to ensure an effective industrial policy is drawn.

6. Machinery

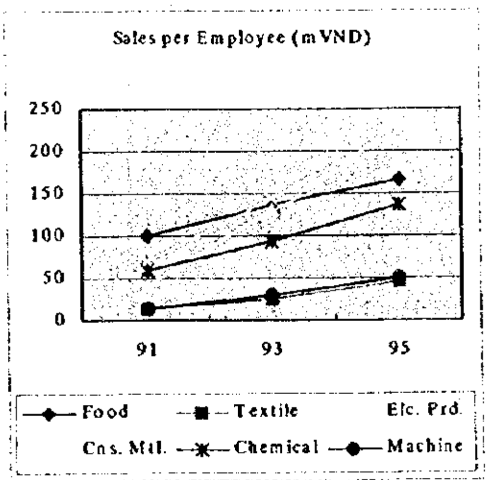
(1) Industry Review

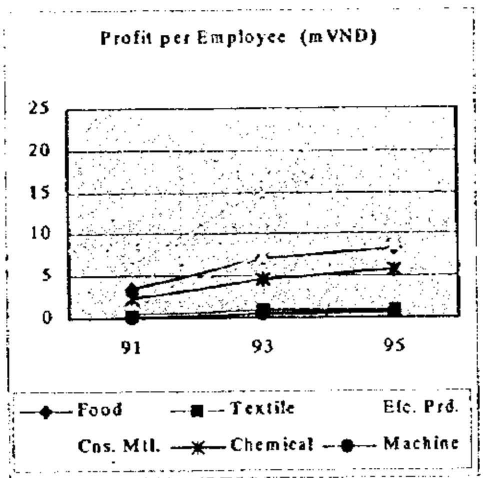
Both sales and profit per enterprise show the worst figures amongst the six industries.



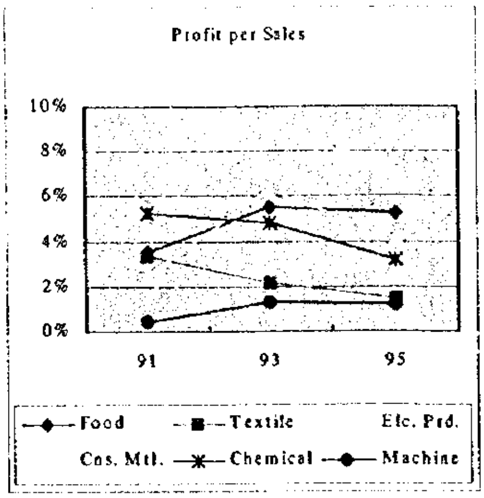


They also show the worst figures, along with the textile industry, when converted into figures per employee, too.

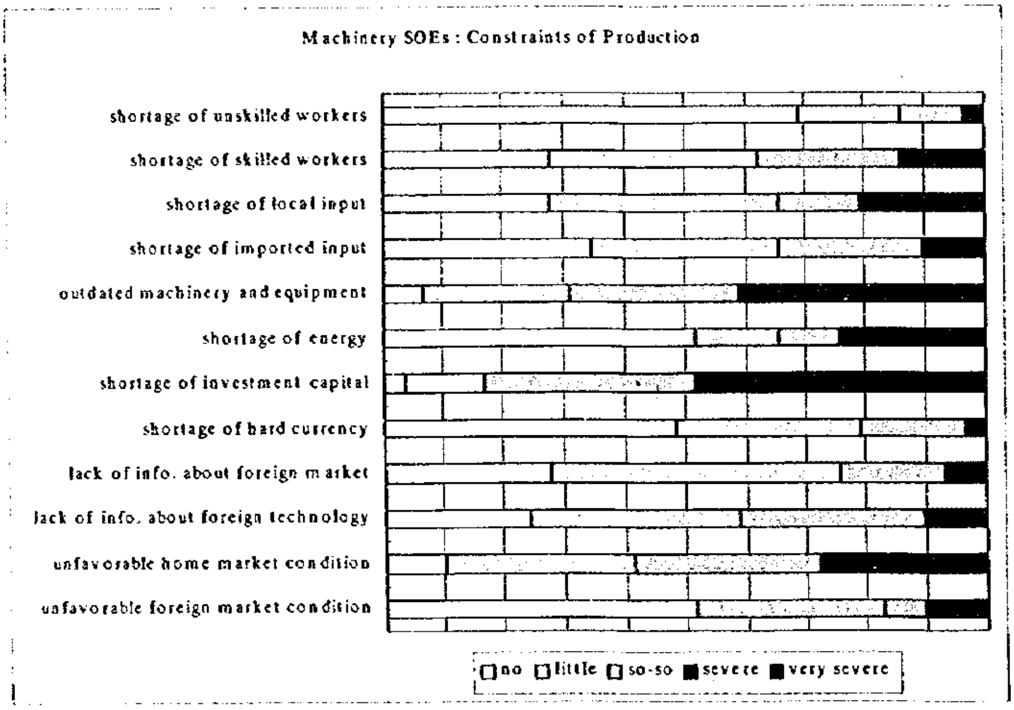




As a result, profit per sale is just over 1% (only 0.39% in 1991), indicating very severe conditions.



It is assumed that the disadvantage in equipment and technology is most evident and threatening performance most seriously. Outdated machinery and equipment is also a major handicap.



HC required drastic restructuring to continue operations as a large enterprise, one with more than 1,000 employees. HF however, is a small company focusing on conventional customers.

HD is rather an exceptional case relying on hotel operations for cash inflow.

(2) Enterprise Profile

[HC Co.]

- Current Business
  - i) Production and sales of lathe
  - ii) Production and sales of moulds (for machine parts) and steel
  - iii) Production and sales of parts, attachments and equipment for heavy machines (brick manufacturing, sugar refineries, electric power plants, etc.)
- History

Established in 1955 and started operation in 1958 as a manufacturer of lathe under the Ministry of Heavy Industry. Entered business 3 in the 1980s. Laid off a large number of employees from 87' to 93' (downsizing the organisation from 3000 to 1000 people). Following this, it has been recording an annual sales growth of 20 - 25 %. Business 1 and 2 account for 20 - 25 % while business 3 accounts for 70 - 75 % of current sales.

- Number of Employees : 1070

[HD Co.]

- Current Businesses
  - i) Manufacturing of engineering machinery for timber/wood processing
  - ii) Trading (import & export) of engineering machinery and others
  - iii) Hotel

    Hotel business is undertaken by their affiliated joint venture with other Vietnamese companies and a Canadian company. Capital share is 60% Vietnamese and 40% Canadian.
- History

Established in 1960 as a State Owned Enterprise by the Hanoi City Peoples Committee. Focused on the production of timber-processing machinery. Have been forced to narrow the target market/product due to competition from imported products since 1990 and hence forced to diversify into trading business and hotels.

Changed name of enterprise from Factory to Company in 93' and re-registered in 94'. Moved to its current suburban location using their originally lent land for the hotel in 94.

- Number of Employees : 86 (as of 1995)

[HF Co.]

- Current Business
  - i) Production and sales of brick producing machinery

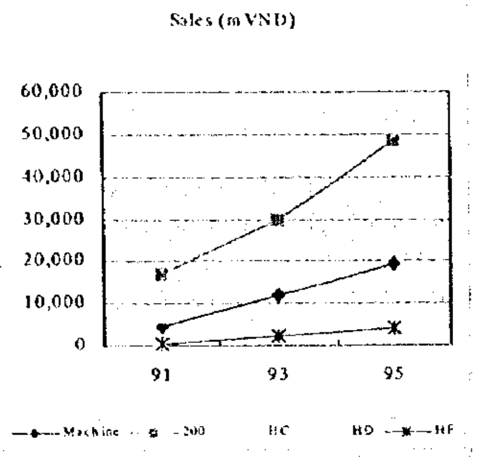
    Succeeded in providing high quality products and specialised as a provider of brick machinery in contrast to other machine manufacturers to whom brick machinery was only one of their diversified businesses. Though quality is lower than that of imported products, HFs products still have a competitive advantage with price. Production activity is based on order. Presently have many pending orders due to the construction boom
  - ii) Production and sales of concrete mixers
- History

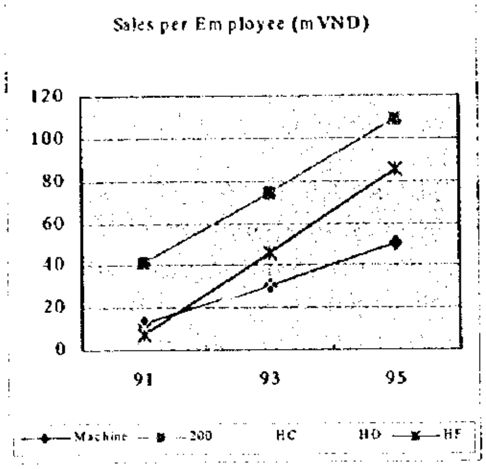
Established in 1978 as an R&D Centre under the Ministry of Construction. With transition to a market economy, looked to get into the profit earning business. Entered the brick machine producing business in late 1980.

- Number of Employees : 60

(3) Performance

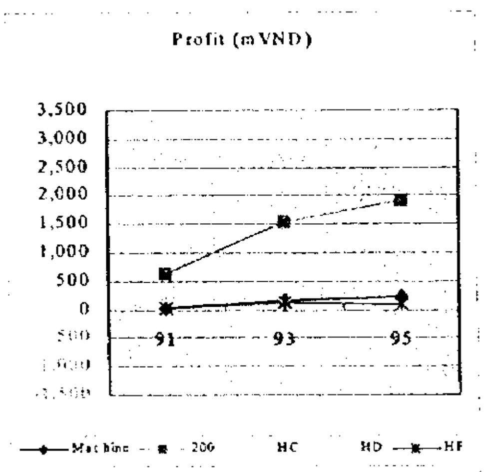
<Sales Growth>

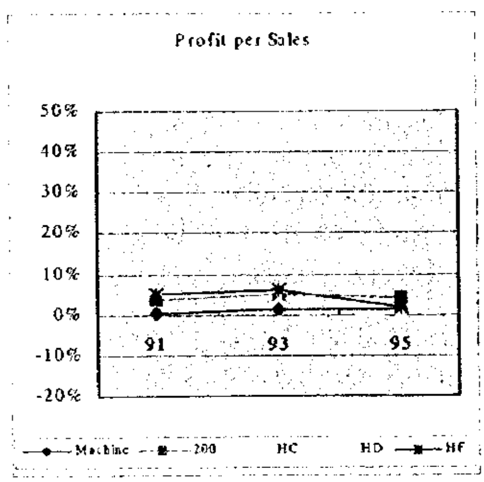




HC has enjoyed a steady increase in sales, thanks to the growth of business in parts, attachments and equipment for heavy machines. But when it comes to per employee figures, its growth is less than HD & HF. HF has shown constant growth in sales per employee. Sales for HD and HF seem close, but their basic nature is different. HDs sales rely on the hotel business.

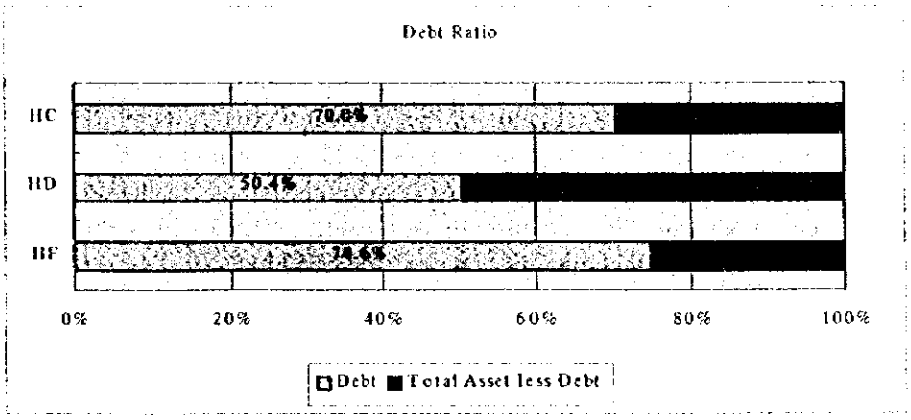
<Profitability>





HC recorded a profit for the first time in 1995, though very little, partly due to layoff of excessive staff. Having invested heavily on facilities over the last 2 to 3 years, it is believed that it could be suffering from interest burdens. But in reality this is not clear due to the lack of financial statements. HDs rapid profit increase from 1993 to 1995 reflects their income from the hotel business.

<Debt Ratio>



HD has a smaller percentage of liability compared to the other two, supposedly due to benefits of cash inflow from the hotel business.

<Competitiveness>

HC and HF have shown sound management ability with partially updated technology. They have a continuous need for investment in technology. HD has sound management ability with cash cow business, but obsolete technology is the disadvantage in its main business.

(4) What Lies Behind this Performance

1) Business Environment

They have disadvantages in production. Technical experts are short in Viet Nam. Materials such as steel, parts and devices are not always domestically available and often expensive. Furthermore, heavy industry tends to require more capital than light industry.

HDs main business, engineering machinery, is being pressured due to the following adverse circumstances in both turnover and profit :

- Market itself is shrinking due to the new forestry law introduced in 1996, which restricts new forest exploitation.
- Their products have a competitive disadvantages in terms of quality and technology versus imported machinery.

2) Management

HC has done a good job with its business expansion, strengthening sales/marketing and employee training at its own training facilities.

HDs performance seems to be remarkable in every aspect of revenue growth, profitability and soundness in terms of debt and credit structure. It is, however, absolutely due to contributions from side businesses, mainly hotel, while their main engineering machinery business faces serious unfavourable conditions.

HD focused on producing timber-processing machinery from the 60s to the 80s. It supplied 300-400 items with 300-400 employees at the most. Since 1990 however, it has been subject to narrowing of target markets/products facing stiff competition from imported products, due to its inferior quality and technology. It has diversified its business in order to survive and has been given the autonomy to do so. It started a trading (import and export) business of wooden products and engineering machines and equipment. The hotel business is run jointly with a Canadian company (40% ownership) and other Vietnamese companies, taking advantage of the superior location of their originally leased land.

The company's management thus recognised the urgent need for diversification, while maintaining financial soundness. It should be highly evaluated for its entrepreneurship and management sense and skills in terms of proper planning of business portfolios.

Improvement and upgrading of technology for both products and production equipment are indispensable and the most urgent issue. Currently co-operation efforts with :

- An Italian firm to introduce high quality timber processing products
- General Corporation of machinery and assembly to introduce parts and equipment for the sugar industry
- A private company to introduce cement brick processing machinery

HDs management thinks they should, and want to invest more heavily on acquiring advanced technology. They have managed to maintain the necessary level of investment, independent of bank loans, taking advantage of diversified businesses. They have accumulated 8 billion VND since 1993. External capital input of 1 billion VND was obtained as bank loans for setting up of the new settlement.

Though sales growth and profitability are modest at HF, it has managed to realise steady results. As a specialised provider of brick machinery, with comprehensive procedures from input of raw material to completion of final products, they have put emphasis on the products good quality and function. Faced with increasing demand, it needs to extend the site. However, how to finance the extension remains a question.

IV. Case Studies - GC

General Corporations were established, as a result of reorganisation of the former 'Enterprise Union', in accordance with the Prime Minister's Decision 90 and 91, released in 1994. Decree 39, released in 1995, enhanced the arrangement of their organisational structure and they finally started full operations in mid-1996. Thus, in order to strengthen international competitiveness it is now left to observe how they will achieve the implied goals of GCs, mentioned below.

A. Economies of scale by horizontal integration
B. Achieving higher added value by vertical integration
C. Industrialisation and modernisation of all sectors

The study team interviewed three GCs. There was found to be a difference in the degree of their leadership role. This difference stems from its historical background, basic characteristics of the industry and the GCs' Directors.

1. GA Co.

This General Corporation has just established its status as a group

- Industry: Machines for construction
- Organisation: Ministry of Construction, GC 90
- Member Enterprises: 8 independent, 6 dependent
- Total Number of Employees in the Group: 1,918

- This GC needs to take a stronger leadership by clarifying the group's vision and strategy, setting appropriate guidelines, and co-ordinating the functional activities of member enterprises.
- It should also enhance collective procurement, whereby strengthening their bargaining powers and realising low price purchase.
- It has yet to carry out R&D activities at the group level in order to enhance organisational skills.
- However, it has increased its frequency in getting bids as a group, by co-ordinating interests of each member. This may be noted as a step towards strengthening the group's management in developing new business opportunities.

2. GB Co.

Plagued by the difficult business environment, GB has yet to show leadership with a distinct intention of becoming the directing body within the industry

- Industry: Textile and Garments
- Organisation: Ministry of Industry, GC 91
- Member Enterprises: 44 independent, 10 dependent
- Total Number of Employees in the Group: 90,000

- This industry is regarded as one of the most important for export promotion, causing a dilemma between following governmental directions over the strategy of each enterprise. The domain of the state and the GCs however, is unclear.
- This GC hasn't taken much initiative in enhancing co-ordination and co-operation between member enterprises functional activities, i.e., marketing, procurement, production, R&D, finance etc.

- Most member enterprises are in dire need of financing. However, no clear plan has been set to strengthen the GC's financial activities, despite this urgent necessity.
- Though there seems to be room to increase the added value by strategic redesign of the group structure, it has not made any such efforts yet.

3. GC Co.

GC appeared to the most aggressive General Corporation in pursuing the 3 objectives shown earlier, by showing leadership in the form of a General Corporation head-quarter for its member SOEs

- Industry: Glass and Ceramics, mainly as construction materials
- Organisation: Ministry of Industry, GC 90
- Member Enterprises: 25 independent, 2 dependent
- Total Number of Employees in the Group: 8,000

- Most advanced among the three, as a leader to take over the group. This GC, particularly, has aggressively enhanced business operations of member enterprises in the following aspects.
  1) Showing strategic vision
  2) Evaluating and controlling market needs
  3) Collecting information on overseas technology and delivering it to member enterprises
  4) Enhancing co-operative activity among member enterprises in fields like technology, marketing and management
- It also plans to establish a finance company to serve the financial needs of member enterprises when making investments.
- It has already launched joint ventures with some SOEs under local governing bodies.
- It has entered into contract with foreign enterprises to form joint ventures.
- It plans to acquire mines as a source of raw material, and thus advance vertical integration.

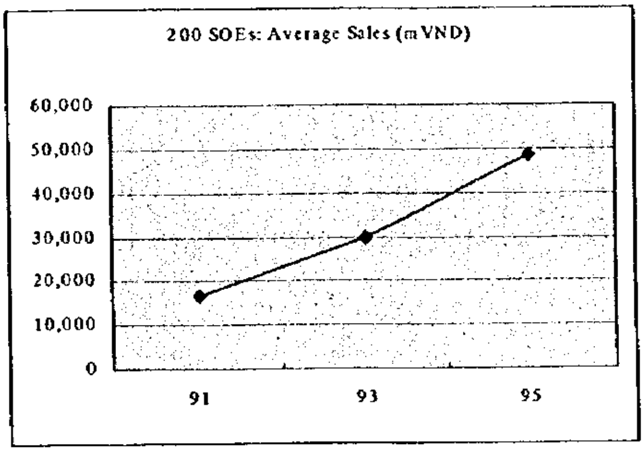
V. A Summary and Implications of Results of the Case Studies

1. Performance

(1) Short-term Perspectives

1) Sales growth

We have observed in Chapter 3 that sales of most Vietnamese enterprises has been growing rapidly at annual growth rates from 25% to 110% for the period 1993 - 1995/1996 (with one exception of a food processing company, which lost its market competitiveness due to negative growth). This is consistent with OECF survey results, of data compiled from 200 enterprises, showing the Vietnamese enterprises high rate of sales growth.



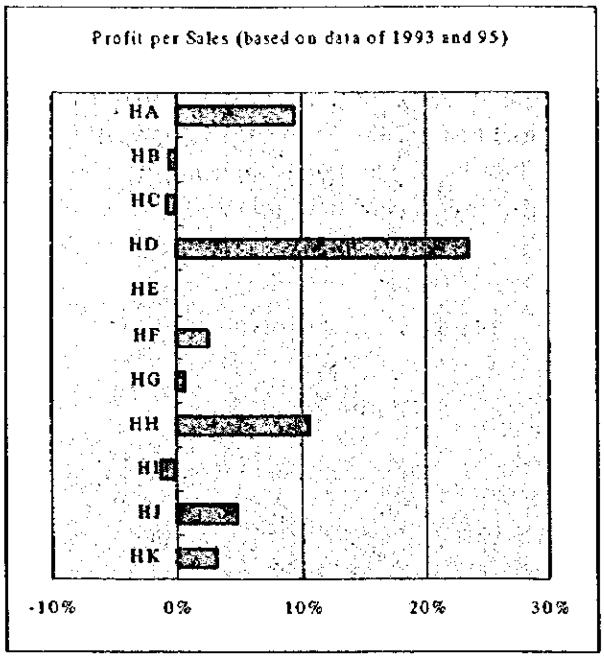
Growth rates of sales for a trading company selling power lines (HG) and a ceramic company (HI) nearly doubled with the construction boom. Other targeted companies operating in the fields of machinery, textile, food processing and fertiliser have also shown steady growth even after reconciling the effects of inflation.

Although remarkable growth is observed in the this market, it has to be noted that the success of each company, is not the result of an appropriate strategy and action plan but rather the result of an unbalanced market, with high demand and low supply.

2) Profitability

As for profitability, three enterprises among the eleven have shown profit margins in excess of eight percent. One had 4.8%. The remaining seven enterprises reported profit margins of less than three percent with some entities reporting losses. In general, the profitability of Vietnamese enterprises seems low. Two of the above four enterprises, with high or middle level profit are manufacturers of fertilisers and confectioneries. The remaining two companies earned profits through side businesses such as real estate (hotel, leasing) despite its dormancy.

However, the seven lower or negative profit earning enterprises, which operate in the textile, food and construction materials market, have experienced hard times under tough competitiveness with market prices (including smuggled items) in both the domestic and international market. Presently, they continue to experience difficulties in introducing a differentiation strategy in the market. Lack of differentiation is blamed as a major reason for the loss in market share being experienced. As regards cost control, it is understood that the reasons outlined below seem to reduce profitability. However, it is difficult to generalise the reasons for poor performance, due to a difference in cost structure as well as insufficient data in terms of cost accounting:



1) Enterprise HGs trading power lines have been negatively affected by imported material costs (90% of total cost), affected by international market prices.
2) On a comparative basis, labour cost is not expensive in Viet Nam. However, in labour-intensive industries such as textiles and machinery, continuous increases in wages over the last few years as well as the burden of residual labour forces (e.g., HC converting their operational field from food processing to real estate) have resulted in the enterprises reporting low profits.
3) With the exception of enterprise HH who invested in modern equipment, the share of depreciation cost in relation to total cost is comparatively small. This is mainly due to Vietnamese enterprises facing financial difficulties, limiting modernisation of facilities and equipment.
4) Cost spent for social security services and pension for employees paid by the enterprise, and accounted for under social welfare costs, ranged from 1.0 - 4.4 percent of total costs with the average falling between 1 - 2 percent. Financial statements did not provide concrete information with respect to cost incurred for housing, school, hospital etc.. In general, most enterprises have not paid the entire expenses due for the social service operations mentioned above. (Yet, it should be noted that the 11 surveyed SOEs are located in Hanoi City where social service systems are more severely implemented than in local areas.)

(2) Long-term Perspectives

1) Financial soundness

From the viewpoint of financial soundness, Vietnamese enterprises have fallen upon hard times, which is supported by a review of financial indicators.

As explained in Chapter II, the enterprises capacity to borrow is not limitless. If the company's debt ratio is already at its maximum level, it is faced with the risk of missing out on timing of expansion of its production capacity. Needless to say, a very high debt ratio would imply a higher risk of bankruptcy. Thus, observation of financial soundness, measured using debt ratio, is important.

Debt service ratios are considered to be high. Specifically, the ceramic enterprise (HI), which operates 24 hours a day, can afford to keep investing in automated production systems and it is believed that they will sustain continuous growth as long as the market keeps growing. However, it appears inevitable that one food processing enterprise (HJ) will sell its hotel because of difficulty in covering the debt burden resulting from the hotel's construction. Internal reserves for depreciation provide a positive effect on financing, however, it is thought that all Vietnamese enterprises will take a reasonably long time to improve their financial position. Additionally, if the current financial market in Viet Nam sustains its demand-pull position, enterprises will become further dependent on indirect financing such as borrowing from banks.

2) Competitiveness

Competitiveness is bound to become increasingly important for each industry in the future. As pointed out in Chapter II, Viet Nam has committed to join the Asian Free Trade Area (AFTA) and will cut import duties on inter-ASEAN trade to less than five percent by the year 2006. This implies, Vietnamese products are certainly to be threatened by foreign business in ten years.

There are several problems yet to be solved with respect to both price and quality. The fertiliser (HH) and confectionery (HA) enterprise, both of which are evaluated as showing sustainable growth, profitability and financial stability, are expected to keep or strengthen their competitiveness during a positive growth phase in their respective markets. In the case of most other enterprises, drastic reform has to be accomplished first in order to sustain their operations. A major reason for this unbalance within Vietnamese enterprises is assumed to be the lack of mature customer-oriented marketing strategy.

Many SOEs have faced difficult times surviving this period during which little appropriate leadership or strategic policy existed, since the Doi Moi policy was implemented following the overthrow of the former USSR. Directors who led their enterprises are expected to have the experience required to survive this period, with its demanding operational conditions, as well as be capable enough to manage their enterprises. However, they lack this experience required for competing in a market economy, especially in the international free market under a planned economy. Therefore, the most important issue for survival in a market economy includes making Directors more market-oriented, improving their ability and strengthening of the SOEs business capabilities.

(3) General Comments on Performance

From the above observations, it can be seen that Vietnamese SOEs in general have increased their sales at a rather rapid pace during the first half of the 1990's. But not every SOE has shown good figures of profitability. Further, some cases of high profitability have been a result of side businesses.

When it comes to expected performance in the future, we have more negative information than positive. The high debt ratio is obviously a problem. It will continue to cause heavy interest burdens in the future. If more competition with enterprises of the other ASEAN countries develops, the average Vietnamese enterprises will not be in an advantageous position. The next section will explain the problems they face. However, ten years does not seem time enough to improve both product and service, as competitors are also making equal efforts.

Short-term	Long-term
Most SOEs have * Managed to grow but * Profitability varies * Some do not rely on their original main business as a source of profit	Some SOE 's financial soundness is in dangerous condition due to * High debt ratio Competitiveness would be threatened by the * ASEAN Tariff Reduction

2. Determinants of Performance

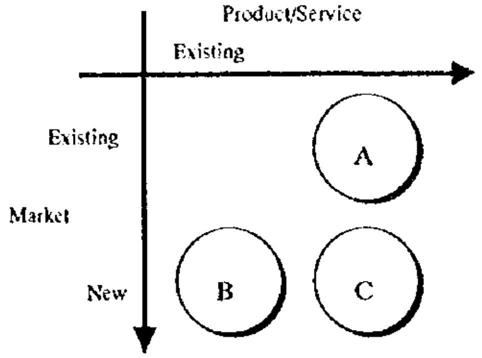
(1) Internal (Managerial) Factors

1) Management ability

Management ability is one of the most essential factors. Every Director, who has survived this major change to a market economy, expanding his/her business, must possess fundamental qualities of a manager. They have shown good business sense and leadership, taking the right direction towards business opportunity, product line extension, conversion, market development and diversification.

<u>Efforts on Business Expansion, Restructuring and Diversification</u>

Most enterprises we visited showed a rather aggressive attitude towards business expansion. Growth is nothing but the fruit of their own and independent efforts, under conditions where the government found it difficult to device appropriate measures to boost enterprises.



A: Product line extension / conversion
B: Market Development
C: Diversification

[A: Product line extension / conversion]

HA Co.	Line extension with a focused product category
HC Co.	Extension from lathes to a wider range of machines and parts in energy and other sectors like generators, cement kiln
HD Co.	Extension from timber processing machinery to a wider range of engineering machinery, including construction machinery
HF Co.	Enhancement/improvement of product features and quality, responding conscientiously to individual user needs
HG Co.	Shift from engineering machinery to aluminium/copper wires
HI Co.	Extension from brick to tile products Positive expansion of production capacities by aggressively investing in production facility responding to market condition (construction boom)
HK Co.	Shift from CMP products to FOB products

[B: Market development]

HE Co.	Shift from Eastern Europe to Asian markets including Japan
HH Co.	Enlightening farmers on proper selection and usage of fertiliser which naturally resulted in market expansion
HK Co.	Shift from Eastern Europe to Asian markets including Japan

[C: Diversification]

HD Co.	Import and sale of foreign made timber processing machines Concurrently runs a joint venture hotel , providing land

[Attempts that caused problems]

HB Co.	Unable to break out of conventional products and Russian market
HJ Co.	Aggressively invested in hotel business, however, poor performance (forced them to consider selling out the property)

But when it comes to skill and ability as a general manager, in comparison to those at Japanese or American enterprises, it must be noted, that they are less skilful at making decisions with respect to general business functions. In this context, the management mentality can be equated to that at the factory level. Although there is a common understanding among the management, that quality and cost are key factors for success, the functional target for improvement in both cases is narrowed down to 'production,' and more precisely, 'equipment for production.' They need to enhance management skill, procurement sales and other skills, bearing in mind the concepts of total cost and total quality management.

2) Operational functions

Marketing activity is a weakness among Vietnamese enterprises in most cases.

At most SOEs, core business functions with the exception of production, aren't properly established, including marketing, R&D, sales, after-sales services, and distribution.

- Marketing

  Marketing is essentially a function of approaching (whereby a customer is approached /constitutes a functional approach) to the customer, and normally constitutes inter-related activities such as market research, customer need analysis, product planning and design, pricing, advertisement, sales channel design and promotion. Most top management of SOEs seemed to be unfamiliar with these concepts of marketing and consequently are incompetent in essential activities for a manufacturer. One remarkable exception is the HH Co. They directly approach their customer, i.e., by enlightening farmers on the proper selection and usage of fertilisers.

- Sales and distribution

  This issue is particularly serious, for SOEs whose distribution is entrusted in full to agents (wholesaler). As a result, they are unable to grasp movement of their products, how many and which retailers sell their product and at what price.

- After-sales services

  After-sale services typically consist of response to claims from the customer, maintenance of sold products and supply of parts. For most SOEs these activities are also delegated to third parties. It should be remembered that offering good service can be a measure to win the competition, that leads to attract more customers.

- Research and Development

  R&D is also seriously defunct. This is primarily because of weakness in technology infrastructures and the lack of input form the market. One remarkable exception again is HH. They work in co-operation with several research institutes and Universities with respect to product development and quality improvement.

3) Organisation

i) Structure

A firm and simple top-down management with a functional organisational structure prevails. There is no formal collective decision making body like a management board. The Director is the sole decision maker as well as executive officer. Under the Director there are two distinctive organisational groups, i.e., administration and plant. The administration group is divided into functional departments like planning, financing, personnel etc., while the plant is divided and controlled by the factory which is defined by the product and/or production process.

ii) Functional Specialisation

At most SOEs, business functions such as marketing, sales, after-sales services, distribution and

R&D are not established well enough, as described earlier. Rather these functional activities are performed at the so-called planning department and are not functionally or organisationally specialised enough.

iii) Organisational Approach to Uplift Motivation

Coinciding with the organisations structure, are two distinctive employee groups, the white collar group, who engage in planning and control. and the blue collar group, who are solely expected to perform physical labour. There are no organisational approaches applied to uplift the employee's motivation, as in calling forth on their creativity, i.e., cross-departmental project teams to solve issues, or collective activities under the workers initiative like QC (Quality Control) circle activities at the factory level.

4) Management process and systems

A coherent management cycle (plan-do-see cycle) hasn't been established properly, especially with regards to mid-to-long term perspectives. At most SOEs, operations or activities in resource (human and financial) management and other functional areas didn't seem to be performed in a satisfactory, strategically co-ordinated manner. An integrated performance matrix, covering all functional and resource management areas has yet to be developed or implemented. Computerised management information systems have not been introduced at all.

5) Labour surplus/shortage

	Labor size	Surplus		Shortage	
HA Co.	800	200	(25%)		
HB Co.	450	150	(33%)		
HC Co.	1,070				
HD Co.	86	6	(7%)	4	(5%)
HE Co.	3,600	600	(17%)		
HF Co.	60	0		0	
HG Co.	206	0		0	
HH Co.	600	0		x	(? %)
HI Co.	570	0		0	
HJ Co.	290	90	(31%)	xx	(? %)
HK Co.	2,200	200	(9%)	500	(25%)

Classification

1. Appropriate labour capacity: 4 SOEs
   HC: Significant downsizing since 93 (from 3000 to 1000).
   Own re-training centre
   HF: Business expansion has soaked up surplus labour
   HG: Business expansion has soaked up surplus labour
   HI: Business expansion has soaked up surplus labour
2. Large labour surplus: 3 SOEs
   HA: Unskilled female workers
   HB: Unskilled female workers
   HE: Unskilled female workers, male clerk sand servicing workers
3. Mismatch labour supply-demand: 3 SOEs
   HD: Surplus (7%) - administration staff,
   Shortage (5%) - skilled workers & technical staff
   HJ: Surplus (31%) - unskilled workers,
   Shortage (?%) - skilled workers, technical staff & sales
   HK: Surplus (9%) - unskilled workers,
   Shortage (25%) - skilled workers, technical staff & sales

4. Shortage of labour: 1 SOE
HH: Technical staff and sales

Summary of observation

- Surplus labour has been observed in many SOEs with the general tendency of manual labour being replaced by modernised machines. Some SOEs have successfully coped with the situation by gradually reallocating workers with necessary retraining in the business expansion environment. Others have tried to cut excess workers by lay-off or taking advantage of early retirement plans.
- Among them, one SOE (HC Co.) successfully managed significant downsizing within a short period. They also made efforts to retrain the remaining workers at their own training centre in order to adapt to their new product lines.
- However, surplus labour is still a serious problem for SOEs in industries such as food processing and textile and garments, where most of the excess workers are unskilled females.
- The most relevant and serious issues in labour/human resources is a mismatch in supply and demand, i.e., a surplus of unskilled workers and shortage of skilled workers (those who can adapt to a modernised machine work environment), technical staff and marketing/sales staff.

6) Human resource management

At all the SOEs we surveyed, rigid basic human resource management systems were developed and implemented covering grading, evaluation and salary/wage determination. Some SOEs also offered training opportunities on a voluntary basis, based on evaluation results.

However, there are two concerns in this area.

One is salary/wage determination for factory workers. Some SOEs have adopted a so-called piecework payment system. This system certainly has some advantages. It is simple and can stimulate the workers motivation hence their productivity. It is particularly useful when there is a remarkable shortage of the product. The production process, however, should be flexible in a market economy, enough to allow the output volume to be determined and controlled by considering essential market conditions and level of inventory throughout each production stage. Managers need to make decisions to curtail or enhance production volume according to each case. If the piecework system limits room for such flexibility, then there is the danger that it will cause problems like excess inventory. Consequently, managers should be cautious as to whether they are applying the system in the right managerial situations. An incentive system for salary/wage determination must be developed from a comprehensive managerial point of view. It should be based not only on output volume, but also on contribution to improvement of product quality, profitability, business process, new product development etc.. This is related to the next issue, workers motivation.

The other concern of human resource management, is the psychological aspect (motivation) of workers, closely related to observations described earlier. Considerable discrimination exists between administrative and factory workers, which might negatively affect the aspiration of such workers. There are a few exceptional cases though. HA has introduced a reward system for those who contribute towards the development of new products. This company and HJ encourages and motivates employees to go to evening schools. Approximately 10% of the workers at HA have already benefited from this system. These attempts are important in enhancing motivation.

7) Financial resources

Most SOEs, except for one, claim shortage of capital for both investment and working. The primary financing source available to these SOEs are bank loans at high interests. Consequently, profitability is detracted by interest payment, resulting in financial soundness deteriorating. It is noteworthy, however, to mention that there are some SOEs who are quite efficient with their working capital management.

With proper inventory control, account receivable and payable, one SOE has managed to secure required working capital without any bank loans. Hence, it is indicative that there might be certain improvement opportunities in the area of working capital management for the other SOEs.

8) Production facility

Due the shortage of capital explained above, most enterprises are forced to operate with outdated machinery. Renovation at HI and HK are still exceptions. Some SOEs still rely on equipment introduced in the 60's and 70's. This causes constraints in developing products and improving their quality, as well as in enhancing production efficiency. The OECF-CIEM study also indicates this point, "outdated technology and equipment" being recognized as one of the three most serious obstacles. Furthermore, this problem of obsolete facilities hinders other functional activities such as R&D or logistics.

9) Technology

Outdated facilities would imply a defect in "product technology" to design products characteristics. Even HI and HK, both having successfully installed new equipment, do not have technical skill sufficient to develop new products. The Director of HI admitted they were just imitating design and characteristics of products manufactured abroad. The issue of less advanced product technology is extremely serious, especially in industries like industrial machinery, where high technology is required, threatening their capacity to stay in with global competition. Introduction of computerized data processing and communication systems are also definitely inadequate.

(2) External (Environmental) factors

Analysis here is not as detailed as "Internal (Managerial) Factors". The study team focused most of its attention on managerial issues. Moreover, as commented in Chapter 2, statistical data needed to analyse business environments, such as market shares, was not available. However, reports by other members of the SOE Reform Group, on legal aspects of SOE reforms and on governmental policies, give profound analysis about these external (environmental) issues.

1) Constraints in availability/Utilisation of resources

i) Labour (Human resources)

- There might be regulatory conditions when coping with surplus labour situation especially for unskilled female workers.
- There are a very limited number of vocational training/retraining facilities available to cope with the supply-demand situation for workers, technical staff and marketing/sales staff

ii) Capital (Financial Resources)

- Financial resources for SOEs are primarily available in the form of bank loans only. They are required to go through a cumbersome procedure in order to fulfil strict conditions set by the bank. Hence, it is sometimes quite difficult to get a loan, particularly long-term loans. High interest rates are another unfavourable factor for the SOEs.

iii) Technology

- The domestic availability of advanced level technology is significantly limited.

2) Market condition and competitive environment

i) Market condition

- The development of the market for most products is quite immature. The distribution system is less developed.

ii) Competitive environment

- For most product markets, competition is quite intensively mixed with domestic, imported and smuggled products. Frequently, smuggled products are dominant, particularly in the consumer goods market.
- In some cases, as in wire products by HG, where raw materials are imported, producers are placed at a disadvantage with respect to price competition versus imported products, due to double taxation.

VI. Issues to be Addressed and Policy Options

(1) What the Business Should Do

1) Management allity

- In order to brush up the general managerial ability, top management and subordinate executives should learn and acquire knowledge on the modern theory of enterprise management which includes competitive strategy development, marketing, organisation management, management processes etc.

2) Operational fnctions

- Core business functions such as marketing, R&D, sales, after-sales services and distribution should be established. Functional missions and activities are to be defined and organisationally specialised.
- Particularly, to build a direct access route to identify market needs. Marketing policies should be based on a grasp of the actual state of distribution channel structures and retailing environments.

> **Basic Marketing Mix Tools: Four P's**
>
> Marketing is not just advertising. It is a series of activities aimed at determining customers wants and needs and creating a means to attract the customers attention by pursuing the best mix of the four "P's".
>
> - Product
>
> Goods or services offered for sale to a customer, that help the organisation achieve its goals. Issues include product features, quality and reliability. Activities include development of product, such as planning and R&D, and activities after sales, such as installation, service and maintenance.
>
> - Price
>
> How much the product costs — the money exchanged for the product. Issues surrounding determination of how much to charge. Customer must perceive the benefits of the product to be greater than the price in order to want to purchase the product. Companies either lower prices or increase value, or perception of value, to entice customers to buy.
>
> - Place
>
> Distribution — getting the product where customers can purchase it. Issues include inventory, transportation and location.
>
> - Promotion
>
> Communication — includes advertising, sales promotion, selling and public relations.

3) Management processes and systems

- Plan-Do-See management cycle should also be implemented for mid-to-long term perspectives. Firstly, the overall corporate business plan should be strategically developed, including a product-market plan, other functional, financial and human resource plans in a consistent manner. Individual functional operations should be carried out, monitored and controlled based on those plans.
- Define a systematic and integrated set of performance measures for planning and control of all functional activities of the enterprise.

4) Organisation management

- Introduce a formal decision making body, i.e., a management board, in order to avoid risks of mistake by the Director's arbitrary power. The Director is to be positioned as the chief

executive officer who is responsible for executing what is decided by the board.
- Devise and implement organisational approaches like project team activities and QC (Quality Control) circle activities for uplifting motivation of employees.

QC and TQC in Japan

One of the most important principles of Japanese management is to gather wisdom from people within the company, and use it to build the strength of the company. In order to use the wisdom accumulated on the job-site, employees should have enough ability to use their wisdom and generate new ideas, and a system has to be devised to motivate, draw out and use such wisdom.

This has been done through small-group activities, often called the QC Circle. Quality control is a management technique, which originally developed in the United States. It was introduced into Japan in 1950. It has since undergone unique development such as quality control in small groups. It has developed to such an extent that it is now said that, "The source of strength of Japanese products on the world market is this quality control."

The primary goal of quality control was to assure product quality. The manufacturing department alone can not achieve this. Based on the idea that it can only be attained by company-wide activity including all related departments, the term Total Quality Control is later also used. Rather than fixing individual quality problems, TQC seeks to improve the quality of work and thereby to achieve company goals.

5) Human resources
- For those SOEs adapting the piecework payment system for factory workers, a wage system taking results of evaluation on the level of skill, basic ability and achievements in terms of productivity or efficiency into account should be devised. It should also take care to give proper incentives.
- Provide various training opportunities such as:
  - Training of managers to acquire practical skills for functional management;
  - Training of specialists in technical and marketing/sales; and
  - Retaining of shop workers who can adapt to a modernised machine work environment or new product line.

Design Effective Performance Appraisal System

Employee motivation and effort are particularly determined by compensation and rewards. The reward system itself impacts behaviour. The fulfilment of employees' expectations can greatly affect the level of performance. If employees believe they are being treated fairly and recognise they are being valued through equitable compensation, openly tied to their performance, they will be more motivated to continue performing well. Inequity and unfair treatment breed discontent, which lowers motivation and leads to poor performance.

6) Financial resources
- As for financial management of investments, plan and control of mid-to-long term strategic perspectives, consistent with the overall business plan.
- As for working capital management, more strict control over inventory, account payable and receivable.

7) Technology
- To seek various opportunities, i.e., overseas imports, co-operation with universities or other enterprises to introduce advanced technology for both product and production technology. In the latter case, the need to understand and obtain not only equipment but also process

engineering and operational aspects of the relevant technology

(2) What the Government Should Do

1) Government policy on SOEs

Among options described below, items iii) and iv) are directly related to the enhancement of management ability of SOEs while items i) and ii) are definite preconditions for those three items. Item v) is proposed because this concept seems to be a natural consequence of the performance evaluation of SOEs.

i) Improvement of Reliability and Accountability of Financial Conditions

- Expedite the enforcement of a new accounting system.
- Introduce an audit system performed by a third party auditor in order to secure accuracy and reliability of financial statements prepared by SOEs.

ii) Performance Measures of SOEs

- Establish a comprehensive set of measures for SOE performance taking into account the following aspects:
  - Short-term and long-term perspectives;
  - Combined characteristics of P/L (profit & loss), B/S (balance sheet) and cash flow;
  - Competitiveness; and
  - Contribution to the State in terms of both budget contribution and capital accumulation, and recompense to employees including salary/wage, bonus and welfare
- Corresponding to the invented performance measures, the contents and forms of business plans of SOEs for both mid-to-long term plan and annual plan should be comprehensively standardised.

Use of Pro Forma Statements for Financial Planning

Pro forma statements can be used for predicting what the financial statements will look like at the end of a specific period. They are a good means of financial forecasting, providing information in a consistent and logical manner. They help in forecasting the company's need for external financing as well as offering a way to evaluate alternative operating and financing strategies. Using pro forma statements, managers can systematically change one assumption and see how the change alters forecast. For example, what happens if the cost of goods as a percentage of sales increases? What happens if it decreases? Knowing the degree to which one variable impacts another enables managers to focus on critical paths.

iii) Appointment Policy and Procedure of Top Management

- Based on the above mentioned performance measures, a strict system of appointment/dismissal and evaluation of top management with an appropriate incentive program should be established (a kind of 'Management by Contract' system). The following issues should be addressed:
  - Evaluation criteria of top management;
  - Incentive program; and
  - Fair procedure of implementation (responsible body and auditor)

iv) Support for SOE Management

- Establish a kind of research institute specialised in SOE internal management. The mission of the institute would be to support SOE management, to improve their management ability by conducting research & development and diffuse of the enterprise management know-how. The institute should take the following initiatives:

① Development of *Models(Manuals)* of Management Processes & Systems and Organisation

- Develop an advanced management processes & systems for SOEs after a thorough case study of them, including the following:
  - Comprehensive performance measurement system within the enterprise;
  - Management planning and reporting processes based on the aforementioned system;
  - Budgeting system; and
  - Cost accounting system.
- Develop a model of organisational management which includes the organisational structure and human resource management.
- Implementing of such processes into SOEs taking advantage of the training opportunities mentioned below.

② Training of Top Management

- Set up various training institutions for top management by co-operating with the relevant Governmental research institutes, Universities or other educational institutions and industry associations. Top management is expected to acquire knowledge and skills of modern enterprise management theories including competitive strategy development, organisational approach, financial management, management reporting and control etc., from this training.

v) Portfolio of State Capital Investment

- Among various performance measures, there must be indicators, which indicate the return efficiency of invested capital. Given the strategic positioning of the industry, optimise the portfolio of capital investment/allocation based on those indicators.

2) Government policy on industry competitive environment

For some industries a certain protection policy might be necessary to survive the increasingly severe competition. Based on industry prioritisation/positioning, it is worthy of the Government introducing a protection policy as well as devising other appropriate measures to encourage domestic enterprises. Further discussions would better to entrusted to the Industrial Policy Group. At least, smuggled products should be strictly controlled, without which growth of domestic enterprises under a sound market economy will not be secured.

3) Government policy on human resources

i) Labour condition

- Take necessary measures to simplify the in- and out-flow of human resources to and from SOEs. Resolving the issue of a surplus of unskilled female workers needs to be carefully but decisively addressed.

ii) Training/retraining

- Along with the training of top management, the following educational/training needs should be fulfilled:
  - Training of middle managers to acquiring practical knowledge and skills for effective functional management in marketing, sales, distribution, after-sales services, procurement and production planning and control under machine work condition.
  - Training of specialists in technical and marketing fields.
  - Retraining of shop workers to adapt to a modernised machine work environment.

4) Government policy on financial resources

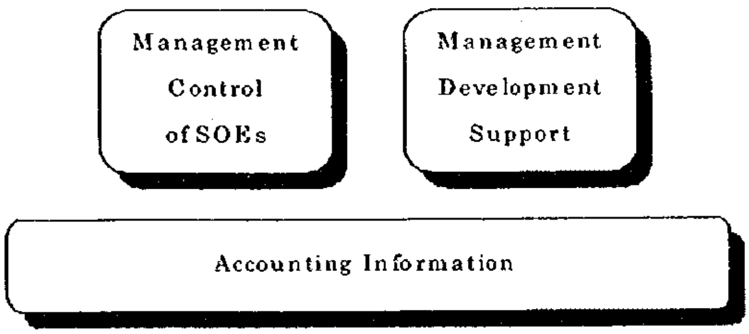
Reform of financial institutions is also necessary. It is better to entrust details of such matters though, to the Financial & Monetary Policy Reform group. However, the government should take measures to strengthen their capacity in allocating capital based on accurate evaluation of the borrowers' credit worthiness.

5) Government policy on technology resources

- Prioritise and specify the target field of technology to be reconstructed, then promote various activities such as:
  - Import of technological know-how from overseas;
  - National projects involving Government research institutes, Universities, industry associations and SOEs;
  - Industry-University co-operation projects; and
  - Inter-enterprise R&D projects under the initiative of GC etc.

(3) Reference for Preparing Action Plans

After the government officials concerned decide to introduce some policies to SOEs, it is important to prepare suitable action plans, considering their feasibility. The following three describe essential points in making action plans over the three major areas of policy options



1) Secure reliable accounting information through an auditing system

As suggested before, performance should be the base of top management selection. It should also serve as the basis of computation of their rewards. If these decisions were made based on wrong accounting information (wrong performance data), it would result in distortion of the evaluation of managers and nomination of wrong persons into managerial positions. Thus, correct accounting must be stressed again.

Accounting gives the organisation a means to measure the competence of charge. As a control function, it provides a scorecard which reflects the company's performance. Accounting also enables decision making through the analysis of data for both day-to-day cash management and long-term planning and it acts as an internal control, documenting records, account books and taxes. The company's annual report contains financial reports previously outlined and provides an overview on the financial health of a corporation. It serves for a variety of public needs.

Auditing assures that accounting is accurate, and is recorded according to correct accounting rules. Financial statements audited by independent professional auditors are considered reliable documents.

New accounting standard for state and non-state enterprise in Viet Nam were prepared based on the International Accounting Standards in 1995 and should have been introduced to all state enterprise since 1996. The study team, however, found that a considerable number of enterprises have neither filled nor submitted financial statements several months after the due date.

Following activities are important.

- Training of accounting clerks

  It appears that one of the principle factors causing the delay in the compilation of the financial statements is the lack of skilled accounting staff in Viet Nam.
- Establishment of an auditing standard and audit procedure manuals

  Though Viet Nam has accounting rules, the government should prepare and release practical auditing standards soon.
- Training of external auditors (CPAs)

  In developed market economics, there are examinations conducted to certify qualified accountants. They are also required to take follow-up training.
- Rules of the role of internal auditors

According to Vietnamese auditing practices, financial statements of SOEs are to be audited by either external or internal auditors. The study team believes it should be made compulsory that SOEs have audits by external auditors. If it is impossible within the current resource of Viet Nam, the government should at least set rules on the task and responsibility of internal auditors.

Assistant programs by European Union should have been implemented in preparation of accounting standards and training of auditors. In order to develop these programs, Ministry of Finance should continue to take initiative in preparing action plans including activities mentioned above.

2) Management control based on contracts

The state, as the owner of enterprises, must establish a system, whereby capabilities of the Director may be brought out and the improved performance as a result is clearly exhibited. The mission of the Director and managers of an enterprise is to make the best use of its resources.

In a developed market economy, there are many ways to evaluate performance of an enterprise. Disclosure of financial statements allowing investors, suppliers and journalists to identify the rate of improvement or drop in the value of the corporation. They can benchmark performance with competitors of the industry. Enterprises showing good performance are rewarded in many ways. Share prises go up, financial institutions give bank loan or issue bonds at lower interest rates. Under the current Vietnamese economy, however, such a mechanism is not always available. Instead, some surrogate mechanism should be considered, one such possible alternative being the performance contract system.

With the introduction of the performance contract system, an SOE's performance is objectively measured and is reflected on the treatment of Directors and employees. Excluding subjectivity or discretion in evaluating performance is paramount for the successful management of performance contracts. The following three areas must be clearly defined to avoid ambiguity that would destroy the merits of this system.

(a) Responsibility and authority of an SOEs' top management

- business plans
- (new business, new product development, forming JVs, etc.)
- financial management
- (facility investment, financing, financial control, etc.)
- human resource management

(hiring, change of positions, firing, evaluation, etc.)

(b) Responsibility and authority of regulating bodies

- methods to monitor how an SOEs' assets are managed
- rules in target setting and performance appraisal
- policies in securing fairness in the treatment of each SOE

(c) Standards in evaluating the SOE performance

- balanced use of quantitative (accounting) and qualitative standards
- long-term and short-term targets
- procedures in setting targets
- definition of data utilised to benchmark such performance

Example of performance contract

Items	Target Level	Weight
Gross Profit	XX,XXX (m VND)	30 %
Export	XX,XXX (m VND)	10 %
Product Output	XXX (m pieces)	10 %
Sales per Employee	XXX (m VND)	10 %
------	-----(----)	----

Reform in accounting and auditing methods should be carried out as described above. Ensuring all SOEs follow new accounting rules and implementing compulsory audits by independent bodies, is particularly important. This will provide the fundamental base for the performance contract system to be carried out. Experience in other countries (like China, Singapore, etc.) should be referred to when necessary. Related regulations should also be adjusted.

There is no universal rule in choosing the targeted items. Parties of a contract should be caution in the relations between the target items. If the profit target for the current year is set at too high a level, then the enterprise could decrease its investment. Launching too much of a detailed standard on all SOEs would make them unable to adapt to the market. Since the economic and social environment is expected to change greatly, evaluation standards must be modified periodically. The starting point should be the establishment of guidelines on setting the major contract items that can be maintained throughout the contract year.

3) Supporting management development

As explained in Chapter V "Support for SOE Management," the set up of management development institutions to instruct managers and staff each level of the organisation would be desirable. However, the success of such institution is based on successful SOE reform.

Recommendations applicable for the reform of Vietnamese SOEs have been laid out in this report. To support such reform, management techniques applied on enterprises in developed market economies and thought to be applicable to Vietnamese SOEs are listed below.

- Total customer satisfaction

  It is definitely important to be customer-oriented in a market economy. By analysing both the external and internal environment from the customers' standpoint, this technique clarifies the areas where competitive advantage is gained.

- Benchmarking

  Benchmarking with competitors is extremely effective. Comparing behaviour patterns of Vietnamese enterprise with those of other countries, both measured as quantified indicators, this technique would clarify their position in the competitive environment and measures that may be taken.

- Solution development session

  Effective handling of management reform, requires target setting as a future goal, based on the analysis of present condition. A business plan should be developed, mobilising the ideas of managers from various functions, so that it contains the policy for how to deal with the gap between the target and the present. This technique would enhance the decision making process of the group.

In order to successfully launch these techniques, the Director (or Vice-Director) of the SOE or GC should take leadership. The project team should consist of experts/consultants from each field.

VII. Equitisation

Till the previous chapter, we discussed SOE performance and related issues on management, environment and governmental policy. Changing the legal status of SOEs, as part of economic reform, has been exploited in most countries experiencing a transition economy. This chapter lights this issue.

(1) Concept of Equitisation

The equitised form of an enterprise (i.e., "Inc." in the US) is most common in a market economy. In the centrally planned economy, SOEs did not always have a separate identity. An equitised enterprise is a corporation where investors contribute capital to buy shares and become shareholders. This is why they are sometimes referred to as "joint stock" companies as well. But this is a legal body different from shareholders. In an equitised enterprise, the shareholder's risk of loss is limited to their contribution to the corporation's capital. Its supreme decision making body is the shareholders' meeting. Shareholders choose one or more executives who conduct day-to-day affairs of the corporation.

This is a concept neutral of the owner. The state can still hold equity as a shareholder. It can thus still exercise influence within its portion of ownership. In theory, the state can own 100% of the equitised enterprise. Some examples exist in the West, mainly in sectors like telecommunications, transportation and utilities, where the enterprise is required to meet public needs. This is the difference between "equitisation" and "privatisation" whose aim is to dispose the governmental stake to a third party in the private sector. East European countries preferred the word "privatisation" while Viet Nam and China employed "equitisation". One of the reasons for this difference is that the East Europeans, or advisors to them, were under the belief that enterprises were better managed by the private sector.

Since equitised enterprises belong to shareholders (investors), their managers have the responsibility to earn profits for them. Hence, by transforming the SOEs into the equitised form, it is expected that the principle of profit seeking is "built-in" in their management. If the enterprise fails to bring sufficient gains, mainly in the form of dividends, shareholders may replace the managers. Those who support equitisation expect this mechanism would guarantee the required incentive for managers to maintain/increase the value of the enterprises assets.

Equitisation in China

China has applied equitisation on a great number of enterprises. More than 9,200 Chinese state enterprises were transformed to joint stock firms by the end of 1996, with total shares worth 600 billion yuan ($72.3 billion). There are two stock exchanges in China, one in Shanghai and another in Shenzhen. There exist already 86 B-share companies, listed on China's domestic exchanges where foreigners are allowed to buy. 207 new companies were listed in the domestic investor-reserved A-share market only in 1996. Some 40 of the equitised enterprises are listed on international exchanges, most in Hong Kong with a few in New York and London. The State Council, China's cabinet, issued a Rmb10 billion quota for new listings in this year, double the previous quota granted.

It appears the country's stock-markets are moving beyond the experimental stage, driven by state-owned enterprises desperate need for capital and by the huge demand from China's savers for investment outlets beyond the banking system.

(2) Governmental Policy of Equitisation

- On June 8, 1992, Chairman of the Council of Ministers issued Decision No.202/CT, "Pilot Equitisation of Some State-owned Enterprises." Further, Decision No.203/CT had a list of seven SOEs to be equitised under the direct instruction of the centre, as a pilot program.
- On March 4, 1993, the Prime Minister continued, by issuing instruction No.84/TTg regarding

"The Expedition of the Pilot Equitisation of State-owned Enterprises and Solutions to Diversify the Forms of Ownership for State-owned Enterprises."

- On May 7, 1996, Decree No.28/CP on "The Change of Some SOEs to be Equitised Companies" showed the state's determination to implement equitisation.
- On August 30, 1996, Circular No.50 by the Ministry of Finance "Guidance on Financial problems, Selling Shares and Issuing Stocks in Transforming Some of the State Enterprises into Stock Companies" described the procedure of equitisation.
- This year, the government is planning to equitise some eighty SOEs.

(3) Obstacles in Equitisation

The pace of equitisation in Viet Nam has been very slow. Though five years have already lapsed since the first announcement was made on the equitisation policy, only a very small number of SOEs have proceeded to become equitised every year, during this period, totalling only eleven as of June 1997.

There are some reasons for this delay.

First, and most important, there has been fear felt by Directors and employees about not belonging to the state sector. After having been in the central planning system for some decades, it seems hard for them to operate as a non-SOE.

Secondly, it has been difficult to value the enterprise. In the process of equitisation, total shares to be issued and the price of these shares must be determined. The share price multiplied by the number of shares gives the value of the enterprise. In countries with a stock exchange, information from similar enterprises can be used. But no reference information is available in Viet Nam.

Thirdly, sufficient legal documents clarifying the implementation procedures of equitisation are not available. Circular No.50 of 1996 has dealt with this issue to a certain degree.

Fourthly, SOE employees participate in a pension system. When their enterprises become equitised however, handling of the pension system became a problem. The government recently released its solution on this issue.

(4) Changes after Equitisation

The study team asked Directors of the five equitised enterprises about changes caused by equitisation, which they thought significant. The answers were mostly positive.

EA Co.	* workers became highly motivated
	* more public disclosures of its financial information were made
	* possibility to issue bonds at favourable interest rate
EB Co.	* better attitude of workers
EC Co.	* the organisation became more dynamic
	* quicker decision making
	* workers had more sense of responsibility as shareholders
ED Co.	* more efficient management
	* monthly review of financial statements (annually before)
EE Co.	* sense of responsibility increased (in managers and employees)

All of them are profitable, recording dividends of about 20%.

EA's bond issue is an example of a remarkable case.

First, the bond's annual rate is 4.5%. It usually has bank loans at an annual rate of 7 to 9 % (This is a favourable rate compared to other enterprises in Viet Nam). Trust in EA, as a profitable independent business, has assisted this favourable rate. EC is now planning bond issue in order to get similar benefits, expecting the rate to be around 5 %.

Second, convertible bonds were issued and bought by foreign investors in Viet Nam. If these bonds are converted into shares as planned, then a Vietnamese enterprise would have foreign shareholders for the first time. The foreign shareholders will be given voting rights but voting on issues of human resources is prohibited.

The main topic at the shareholders' meeting is business policy and strategy. Many people express their opinions. It usually takes a whole day, sometimes two. They have discussions over business and investment plans prepared by the management. As observed in Chapter 5, the employee at an SOE has little chance to discuss management issues. They don't even have financial information on their own SOE in many cases.

As for the question of what became worse, two enterprises answered that it became more difficult to obtain bank loans. But another three claimed there was no change. According to one of the two, banks thought the equitised enterprise were riskier borrowers without the states guarantee, though it is not always true, at least in legal terms, that the state would guarantee the debt of bankrupt SOEs.

(5) Vietnamese Style Equitisation

In most of the already equitised enterprises, typical composition of shareholders is as follows. 30 % is owned by the government, 40 - 50 % by employees (including the Director) and the rest by others. Board members are elected from every group.

Ownership structure

	Government	Employee	Other
EA Co.	30 %	50 %	20 %
EB Co.	30 %	35 %	35 %
EC Co.	30 %	50 %	20 %
ED Co.	30 %	35 %	35 %
EE Co.	18 %	33 %	49 %
EF Co.	33 %	50 %	17 %
EG Co.	30 %	30 %	40 %
EH Co.	45 %	20 %	35 %
EI Co.	30 %	50 %	20 %

Composition of Board Members

<table>
<tr><th></th><th>Government</th><th>Employee</th><th>Other</th></tr>
<tr><td>EA Co.</td><td>3</td><td colspan="2">6</td></tr>
<tr><td>EB Co.</td><td>3</td><td>2</td><td>2</td></tr>
<tr><td>EC Co.</td><td>1</td><td>4</td><td>2</td></tr>
<tr><td>ED Co.</td><td>1</td><td>4</td><td>2</td></tr>
<tr><td>EE Co.</td><td>2</td><td>6</td><td>3</td></tr>
<tr><td>EF Co.</td><td>3</td><td>3</td><td>1</td></tr>
</table>

(Hasn't been decided at EG, EH and EI)

The most distinct feature of equitised enterprises in Viet Nam is that nearly half the equities are held by the management and employees (internal share). The reason for this is as follows :

1) It is difficult to sell shares to the public.

2) Borrowing money from employees is widely practised in Viet Nam by SOEs. In so doing, selling

shares to the employees becomes an alternative to taking loans from them. They receive dividends instead of interest in this case.

Another reason is to motivate employees by turning them into owners of the business. As described, one of the objectives of equitisation in Article 1 of the Decree 28 states :

> "To create conditions for the capital contributors and the employees and officials in the enterprises to have shares, raise their role as real masters and give a new impetus to enhance the enterprises' business efficiency."

Most directors of the equitised enterprises emphasise this effect. They insist that employees' higher motivation, together with a more efficient decision making process, works for better performance. All nine enterprises had a policy of giving the employee the opportunity to become a shareholder of the company. The government financially supported the purchase of shares by employees.

Some argue, however, that this phenomenon, with only a small portion held by the outside public, is threatening the advantage of equitisation to make the enterprise a true public entity. Though manager and worker are legally separate entities from the enterprise, they are not pure outsiders, either. Being monitored by a third party, the corporation disciplines itself to increase the value of its assets. The salary/wage is one of the cost accounts for the enterprise. But it brings direct benefit to the manager and worker. The meaning of a salary/wage is totally different for the related party and third party. Hence, there is more risk of conflict of interests when the majority of shareholders are those who work in the enterprise. Of course, if they let the enterprise pay out excessive salary/wages, it would harm the enterprises' profitability and result in a loss. But there is no guarantee that people act for a long-run advantage.

Another obvious disadvantage is, they can not collect large amounts of money unless they sell shares to a large number of investors. And if they want to sell shares broadly, it would result in having a third party as the majority shareholder. However, since current Vietnamese policy requires candidates for equitisation to be smaller SOEs (as described in Article 7 of Decree 28), in principle, this may not be a problem. But from a corporate finance point of view, it is larger enterprises that should look for the benefit of direct finance.

(6) Take Equitisation as the Integral Part of National Economic Strategy

According to Article 7 of Decree 28, enterprises to be equitised must fulfil the following conditions.

1) Be a small or medium sized enterprise
2) Must not belong to the group of enterprises in which the State needs a 100% stake of the investment capital
3) Have an effective business plan

But the above only refer to basic principles. Official documentation further clarifying each standard has not been released. There is no rule or opinion about what size was meant by "small and medium" in the first condition. "An effective business plan" in the third condition is what every enterprise should have. Though it is important to note if the candidate has a realistic business plan, it is just a check of normal managerial behaviour.

Moreover, these are conditions the enterprises must meet, not standards fort the industry or enterprises to be equitised. The selection of enterprises to be equitised must be decided from a national strategic point of view. The government should express its views about the second condition. The three conditions are checked on each occasion when SOEs apply for equitisation. But what industry is strategically important for the state is definitely not the issue. Equitisation is a useful tool by which the state can set its holding ratio, at any rate from 0% (pure privatisation) to 100% (equitised but where the state still holds all shares). The government should draw a chart, as below, making public the national strategy. Names of industries in this chart are just examples. This is not the study group's opinion.

	Name of Industry (example)
Reserved for State	Defence, Press
Non-state sector investment up to 30%	Banking, Mining
Non-state sector investment up to 49%	Telecommunication
Non-state sector investment up to 100%	Food, Retail

The Ministry of Finance produced a list of enterprises to be equitised in 1997, however this is a collection of enterprises selected by each Ministry or People's Committee rather than the result of strategic decision making.

(7) To Enhance Equitisation

1) Clarify Instructions for the Implementation of Equitisation

One reason for the delay in the equitisation process, is the lack of documents describing concrete procedures and rights and duties of shareholders. Last year's release of Decree 28 and Circular 50 has shown some positive advancement. (Circular 50 contains forms to compute the corporate value). Some directions given here, however, are still unclear or considered impractical. For example, Circular 50 requires the following be carried out to estimate the value of 'goodwill' in the balance sheet.

> " Compare the ratio between the profits and the average business capital of the 3 years before the equitisation with those of the enterprises of the same types, same eco-technical field in accordance with the state classification ... "

But figures for such comparison are not available in actuality.

However, more important areas are yet to be determined. What should be clarified first is how the public (and the foreigner) can purchase such shares and the responsibility of public disclosure of the equitised enterprises.

2) Create Nation-wide Support and Supervision of Equitisation

Let the public know the nature and concept of equitisation. To promote the public image of equitisation by communicating is important not only to increase the number of equitised enterprises but also to avoid misunderstandings.

3) Secure Equal Treatment for All Economic Sectors

All enterprises, state-owned, equitised and private enterprises, should be initiated by competing at a true "Level Playing Field", under the same regulations and incentives. If there is the fear that equitisation means the loss of SOE privileges, nobody would want to pursue this.

4) Introduce Compulsory External Auditing

Buying a share means to place the investors funds at risk. Therefore, who would venture to become a shareholder without reliable information on financial conditions of the enterprise? It is seems thus, quite essential that the state enterprise discloses financial information to the public, and further essential that the data be audited by an independent auditor.

5) Make Shares Transferable

If there is no way to sell shares, investors must become extremely cautious when buying them. Current laws neither allow nor prohibit the sale of shares (Some equitised enterprises admit this). But share trading is rare in practice. One reason is the ownership structure as observed before. Another reason is because there is no way of knowing the share price without a stock market. To mobilise capital from a large number of people, establishment of stock exchanges, where share prices are determined by demand and supply, is required.

VIII. Foreign Investment

A variety of issues and necessary policies have been discussed till now. However, reforms needn't have to be made only with Vietnamese resources. In today's global economy, joint ventures are popular. Through the operation of joint ventures, foreign businesses can provide both capital and knowledge necessary for reform.

(1) Positive Role of Foreign Investment

Foreign investment, as a partner of a joint venture, affects the recipient country's economy in many ways. It is a source of capital. It transfers technology. It is an instructor of business practices overseas. It is an agent for the transformation of the commodity composition of its exports. It creates employment. It may also create demand in the local industry.

They come, of course, because of their interest, too. The Vietnamese government and businesses must pursue a route whereby both foreigners and the Vietnamese benefit from the JV operations.

(2) What the Government Should Do

1) Design industrial policy

Let the Vietnamese industry take full advantage of the above merits; demand creation, technology transfer etc. Draw up an "industry map" and use it when calling/selecting foreign investors in order to maximize these effects.

The study team visited JB, a joint venture automobile manufacturer. They import almost all parts and have a so-called "knock-down" production system. However, they indicated their plan to use domestically supplied parts in the future. They are considering starting with seats followed by tires, window glasses, electric wires etc.. They sometimes have meetings relating to part specifications. Having discussions like this allows related industries to have more detailed business plans. They have already passed sample materials to local Vietnamese enterprises. In this way, foreign investment creates demand and extends effects more. It is also to the foreigners' an advantage if they can get less expensive parts within Viet Nam. In the case of JB, it appears a good choice to have formed a joint venture with a Philippine company (55%), besides the Japanese trade house (15%), as its other foreign partners. The Philippine company contributed practical knowledge on knock-down productions, as this style of production is popular in the Philippines.

2) Offer reasonable business environment

Foreign investors enter Viet Nam for other reasons, i.e., good labor force or future market. In any case, the government should provide an attractive environment for foreigners. Remember countries are "competing" to get foreign investments. If they find better environments elsewhere, they will not choose to invest in Viet Nam losing. Policy issues are not simple, but if not for anything else, the government should at least listen to the voice of foreign investors.

3) Develop Vietnamese enterprises

Foreign investment does not always develop to as high a level as the Vietnamese side would want. They may move their base to elsewhere when conditions change. It takes more time, effort and risk to develop Vietnamese enterprises, than just to take in foreigners. The existence of Vietnamese enterprises, strengthened by competition with foreigners, will serve as Viet Nam's fundamental force for competitiveness in the future.

4) Reconsider legal status of Joint Ventures

Currently JVs are able to exist for a limited period only, and are not treated as a "going concern". There is the danger that this will prevent foreigners from making dynamic investments.

Authorization to equitise JVs is worth considering. It would smoothen operations in many aspects and can enhance capital market development.

5) Enhance the competition among foreign investors in Viet Nam

Let more than two foreign enterprises, who are in competition world-wide, enter Viet Nam. Their competition in Viet Nam will lead to strong management efforts, thus better service.

JC, a joint venture hotel business, is in fierce competition with another four JV hotels in Ho Chi Minh City. They are forced to offer good service at reasonable room rates to attract customers. If there is only one hotel of this class, they will not make the same effort. In some cases (Note: this is <u>not</u> the case here), foreign enterprises may negotiate with the government admitting their monopoly by paying higher taxes or contributions in return. Though this may be of some benefit on the short term, it is not an advisable approach. Competition brings more advantages in the end through better service at lower prices. That is the basic dynamics of a market economy.

(3) What SOEs Should Do

1) Be a true partner in the Joint Venture

SOEs must know what their partners want them to do. Foreigners generally expect local enterprises to conform, and be able to cover the following matters.

1) Practical knowledge about local customs (culture, distribution etc.)
2) Making quick entry of partial investments besides 100% investment possible
3) Able local managers and staff
4) Human network
5) Securing local raw materials

To operate a successful business, SOEs must respond to such expectations of its partners.

2) Learn from foreigners

Absorb managerial skills from the partner, especially in the area of sales promotion, product quality control and the like.

At JC, staff learn everyday what the hotel business is and what it means to serve customers.

3) Apply lessons learned to domestic business policy

Having foreigners in Viet Nam makes clear which areas Vietnamese enterprises should concentrate on. Here are some examples :

- Focus on mid-quality and low price segments. Foreign investors in general try to avoid price competition.
- Attention to the customer, i.e., after-sales service, where local enterprises can be in a more advantageous position.
- Supply of products which fit the taste of Vietnamese customers, especially in industries like food, cosmetics etc.

The Vietnamese firm JA, a joint venture confectionery, started a delivery service to agents with only two trucks. It is not a common practice for manufacturers go to agents for delivery, as agents visit manufacturers according to their schedules. Seeing this practice of delivery to retailers and wholesalers, Vietnamese SOEs soon followed and applied it, resulting in a steep increase in its sales.