Appendix A

Ⅰ. Index for Evaluating Performance of Enterprises

1. Introduction

Financial Analysis using financial statements is useful when monitoring various aspects of firms. Stakeholders make decisions using the outcomes of financial analyses in market economics.

In evaluating the performance of enterprises in market economies, analysis of profitability, liquidity, growth, distribution of profit, stock prices and productivity are often made. However, in evaluating Vietnamese state owned enterprises (SOEs), analysis of stock prices is not needed at present.

It might be very useful when evaluating Vietnamese SOEs, if we had enough data to analyze aspects specific to transforming economies, such as, development stages of the SOEs, mistakes in decision making of the Government, initial conditions of the economy i.e., surplus labor, etc..

It is very difficult, at the present disclosure level, to distinguish between loss caused by negligent management and that caused by aspects specific to transforming economies. In 1996, new accounting principles were enforced. It is expected that performance of SOEs are being evaluated properly, allowing more appropriate blueprints for SOE Reform to be designed.

2. Profitability Analysis

Profit represents the intensity of management performance. Profitability means ability of an enterprise to obtain profit.

(1) Return on Equity = Profit/Equity

This index shows how much outcome, invested equity produces. There are variations, depending on which concept of profit and equity are use. Operating profit/management capital represents how much profit is earned from the core operation of a firm using capital invested into the core operation. Management profit/total assets is a typical index which shows the degree of contribution of total assets to managerial outcomes.

1) Consideration of the Vietnamese economic condition

In Viet Nam, distinction between net worth and borrowed capital is not necessarily clear. It may thus be appropriate to use total assets or assets indispensable to operation (total operating assets) for the analysis.

If **operating profit/total operating assets (operating earning ratio)** is low, poor sales performance, waste owing to irresponsible management, too much investment and inefficient management is suspected.

2) Marketing, autonomy and forced donation

If the low operating earning ratio is due to poor sales performance, lack of marketing efforts is suspected. There are company's which still depend heavily on exports to the former socialist countries. **Besides the above,** according to the OECF-CIEM report, **some companies have poor performance due to lack of autonomy** in marketing. It is necessary to give more autonomy to such companies. **It is also necessary to consider the possibility that forced**

donation stresses operating earnings. If the lack of autonomy of marketing and forced donation do not lead to poor earning ratio, then, irresponsible management is suspected.

(2) Earning/Sales

This index shows managerial efficiency, for this ratio represents how much earning occupies sales. Margin means the ability to bear operating expenses. If this performance is good, it implies the enterprise (as in the case of HA) shows an ability to produce earning even when increasing operating expenses. If income before tax/sales is low, too much burden of interest expenses is suspected.

1) Influence of surplus labour

In Viet Nam, it is worth noticing when the margin is high and, at the same time, operating profit/sales is low, for operating profit bears labour expenses. In market economies, other expenses may stress operating profit/sales, however, surplus labour is believed to have most influence on the ratio, especially considering the present Vietnamese condition.

(3) Sales/Equity

This figure shows how efficiently invested capital is used. It is recommended that efficiency of total assets be measured as **sales/total assets**, and simultaneously measure efficiency of capital invested in the core operation and individual projects.

3. Liquidity and Stability

It is important to notice that, **liquidity** and **stability** of finances should be in good condition to increase profitability, for profitability and liquidity/stability have an interrelated relationship. In Viet Nam however, it is difficult for most enterprises to have access to banks, thus this ratio has only a limited role at present with respect to HA.

(1) Bad Debts

Sales/average stock of receivables shows speed of collecting bills. If sales is stable and sales/average stock of receivables is low, bad debts are suspected.

4. Growth Rate and Surplus Labour

Growth of performance is shown in the index for **growth rate of sales, income before tax and income after tax**. In the case of Viet Nam, it is recommended that the **growth rate of operating profit be** analysed. There is the possibility that surplus labor stresses management, if growth rate of operating earnings is low, even when growth of sales is high.

5. Distribution

The analysis of distribution shows the proportion of distributed earnings for dividends and bonus. In Viet Nam, **the rate of retained earnings per income after tax** may be important, although this rate is prescribed by law.

In Viet Nam, social security costs such as costs for operating hospitals, kindergartens and company residences are deducted from income after tax. Though these costs have been considerably reduced, several companies in the northern part complain of the heavy burdens due to such costs.

6. Productivity

Productivity analysis shows how effectively production elements invested in operations are used. This index is shown by the ratio of outcomes (output) to invested production elements (input). Input is divided into labor and capital. On the other hand, output includes sales and added value.

II. Comparison Analysis of Financial Indexes between Vietnamese and Japanese Enterprises

1. Target Enterprises & Fiscal Year

Among the targeted Vietnamese state owned enterprises (SOEs) in Hanoi, a few SOEs provided us with sufficient data to perform financial analyses. Of these only one SOE(hereinafter referred to as HA), a confectionery manufacturer, provided us detailed cost data (1996), and summarized financial data (1994, 1995, 1996). Based on this data, we were able to analyze SOEs and obtain multilateral financial indexes.

On the other hand, we also utilized statistical data of six Japanese listed companies, confectionery & dairy product manufacturers (hereinafter referred to as Japanese companies), in 1995. We compared te financial indexes between the SOEs and Japanese companies, and examined the background.

HA showed excellent performance among the target SOEs in Hanoi. The Japanese companies are listed companies on the Japanese stock exchange market and their performance is relatively steady. As these companies are different in size, it is difficult to compare them on the same basis, but using ratio indexes which are not affected by size, a comparison analysis between HA and Japanese companies was initiated.

2. Comparison Analysis by Financial Indexes*

(1)Balance Sheet Related Indexes

1) Equity/(Liability + Equity) ratio (JPN : VN = 40.4% : 49%)

This index shows the stability of a company. The bigger the index, the more stable the company and less its dependence on loans. The average ratio of this index for all Japanese listed manufacturing companies for 1995 was 39.7%. In comparison, the Japanese companies index stands only average, to HA's 49%, which is excellent. This may be due to the difficulty in financing of bank loans in Viet Nam.

2) Fixed assets ratio (JPN : VN = 145.7% : 105%)

This index shows the coverage of fixed assets cost by the shareholder's equity. The smaller the index the greater the stability of a company. HA was almost able to cover the cost of fixed asset with the shareholder's equity, while on the other hand, Japanese companies could cover only two thirds of this amount. They depended on bank loans for the rest of the amount.

Note though that Japanese companies replace their equipment using such loans, whereas HA may not need bank loans as it is still using old equipment.

* Please refer to the summary of indexes for the following

3) Inventory turnover (JPN : VN = 0.8 month : 1.54 month)

This index shows the efficiency of rotation of inventory. The shorter the index, the better the efficiency. A shorter index implies a small financial burden and a cut down of slow moving inventory. HA has an index twice that of Japanese companies. This may suggest a defective distribution system, giving rise to a high level of inventory stock.

4) Account receivable turnover (JPN : VN = 1.6 month : 0.05 month)

This index shows collection terms of account receivable. The shorter the better. HA has a very short term compared with Japanese companies. However, this may be a result of customary payment methods. Japanese companies use notes receivable besides account receivable. This method prolongs the collection term. Such inter company credit systems are not common in Viet Nam, while in sales transactions, getting advance payment from customers is popular. As a result, monthly sales collectibles do not remain at the end of the month an account receivable, making the index quite low.

5) Account payable turnover ratio (JPN : VN = 1.3 month : 0.02 month)

This index shows the payment terms of account payable. A longer term contributes to an operating fund surplus. As mentioned in 4), Vietnamese payment customs also shorten the term of this index.

6) Loan to liability & shareholder's equity ratio (JPN : VN = 21.9 % : 18.9 %)

This index shows the ratio of financial liabilities (bank loans, bonds etc.) to liability and shareholder's equity. A smaller index shows a greater independence from loans. There is not much difference between Japanese companies and HA with respect to this index.

7) Liability & equity turnover (JPN :VN = 1.5 times : 2.5 times)

This index shows the effectiveness of utilizing total liability and shareholder's equity. A bigger index shows better effectiveness. It appears that HA has utilized its total liability & shareholder's equity more effectively than Japanese companies.

(2) Profit and Loss Statement Related Indexes

1) Ordinary profit to sales ratio (JPN : VN = 2.3 % : 10.1 %)

2) Gross margin to sales ratio (JPN : VN = 33.6 % : 18 %)

These indexes show the profitability of companies. The larger the index, the better the profitability. Characteristically, on a gross margin, Japanese companies show better performance, while on an ordinary income HA shows far better performance. The reason lies in Japanese companies having a bigger burden in selling & administrative expenses (JPN : VN = 31.5 % : 7.2 %). This explains the better profitability of Japanese companies on a gross margin, but poor profitability in the ordinary income. Generally speaking for companies that produce consumer goods, the ratio of selling & administrative costs to sales, is bigger than those belonging to other industries. This implies Japanese companies regard selling & administrative functions as important, and bear a large costs towards these functions. Transition to a market economy may suggest the necessity of organizational reform and a change of the expense share.

3) Ordinary profit to shareholder's equity ratio (JPN : VN = 8.9 % : 54.5 %)

This index, the ratio of ordinary profit to shareholder's equity, shows the efficiency of gaining ordinary income by utilizing shareholder's equity. The bigger the index, the more efficient. HA's better profitability (2-1), liability and equity turnover results, show far better efficiency in utilizing of shareholder's equity.

4) Variable cost to sales ratio (JPN : VN = 54.6 % : 70.3 %)

5) Fixed cost to sales ratio (JPN : VN = 43.1 % : 21.7 %)

6) Break even point to sales ratio (JPN : VN = 94.8 % : 73.3 %)

These indexes show profit obtaining ability using ratios of fixed cost and variable cost. Generally, a smaller fixed cost ratio and a bigger variable cost ratio is desirable. Break even point to the sales ratio shows the adaptability of companies under fluctuation of operations. A smaller index shows a higher adaptability. HA's indexes show a smaller fixed cost ratio and smaller break even point to sales ratio, compared with Japanese companies. Consequently while Japanese companies will incur losses for a 5.2 % drop in sales, HA will only incur losses with a 26.7 % drop in sales. In other words, HA has a bigger resistance to drop in operations, than that of Japanese companies.

7) Labor cost to sales ratio (JPN : VN = 14.7 % : 13.6 %)

This index shows the ratio of labor cost to sales. Labor costwise, there is a big difference as to the absolute amount of labor cost, but, this ratio is almost the same between Japanese companies and HA.

8) Depreciation expense to sales ratio (JPN : VN = 3.5 % : 2.6 %)

9) Financial expenses to sales ratio (JPN : VN = 0.4 % : 0.7 %)

A combination of this and some other indexes, will allow us how to estimate the annual interest rates of loan liabilities.

The annual interest rate = 9) of (2) × 7) of (2) / 6) of (1)

Japanese companies annual interest rate is 2.7 %, whereas that of HA's is 9.2 %. This explains, in spite of the bigger ratio of loan balance to total liabilities and equity of Japanese companies, why HA's financial expense ratio to sales is bigger. This is firstly because, over the last several years Japanese companies have enjoyed extremely low interest rates, and secondly because Japanese companies could choosen the most advantageous means of financing via the financial market.

10) Depreciation expense to fixed asset ratio (JPN : VN = 13.6 % : 5.1 %)

These indexes show the ratio of depreciation to related figures. Japanese companies have bigger ratios than HA. This is due to the difference in depreciation method and duration of useful life. It is difficult to estimate whether the useful life of fixed asset is longer in Japanese or Vietnamese enterprises. Based on the Vietnamese accounting regulation, useful life of production equipment for the food processing industry ranged from 7 to 12 years. This duration is almost the same as in Japanese regulations. But declining balance methods are applied in Japan, while the straight-line method is applied in Viet Nam. Initially, depreciation calculated using the declining balance method was bigger than that calculated by the straight-line method. The former method will be of advantage to Japanese companies in the event of early replacement of equipment. Based on our observation though, HA still uses old equipment imported in the 1960's. Such completely depreciated equipment may reduce depreciation expenses.

11) Value added to sales ratio (JPN : VN = 21.7 % : 28.9 %)

12) Labor cost to added value ratio (JPN : VN = 68.3 % : 46.9 %)

13) Added value to total liabilities and equity (JPN : VN = 33.1 % : 71.5 %)

Although labor cost is almost the same, value added to sales ratio of Japanese companies is three fourths that of HA's. As a result labor costs on added value ratios of Japanese companies is 1.5 times that of HA's. As for added value on total liabilities & equity, due to the advantages of high value added to sales ratio and better liabilities & equity turnover, HA's investment efficiency is more than twice that of Japanese companies.

(3) Production Cost Related Indexes

1) Raw material cost to total production cost ratio (JPN : VN = 66.3 % : 78.1 %)

2) Labor cost to total production cost ratio (JPN : VN = 13.6 % : 13.2 %)

3) Overhead cost to total production cost ratio (JPN : VN = 20.1 % : 8.7 %)

While the labor cost ratio is nearly the same, raw material cost and overhead cost ratios are different for Japanese companies and HA. Among overhead costs, the ratio of depreciation and utility costs of Japanese companies is bigger than that of HA's. The difference in depreciation cost is due to the same reason mentioned in (2-10). HA's utility cost is assumed to be controlled by the lower level government.

HA's raw material cost ratio is bigger than that of Japanese companies. This is because prices of raw materials and supplies are often affected by international markets and it is difficult to save those costs as compared with labor or overhead costs.

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Appendix B

Ⅰ. Discussion on Accounting and Auditing Systems in Viet Nam

1. Accounting System in Viet Nam

(1) Development of the Vietnamese Accounting System

Following World war II, the Government of Viet Nam revised its accounting system several times. The following is an overview of revisions made.

History of accounting reform

Step	Period	Characteristics
1st	1945 to 1960	Simple accounting system during the war
2nd	1960 to 1970	Accounting system for the manufacturing industry, assisted by China
3rd	1970 to 1989	Introduction of a centralized planned accounting system from Russia
4th	1989 to 1994	Reformed accounting system assisted by French experts
5th	1995 to now	Market economy oriented accounting system assisted by the EU

The present accounting system came into effect as of 1st January 1996, and has only been applied to the business sector in Viet Nam, inclusive of foreign investment companies. Old accounting system is applied to not only all kinds of business sectors but also to public administration sectors.

The present accounting system introduced characteristic of the International Accounting Standard (IAS), completely changing the form of financial statements.

The European Union supports Viet Nam in its efforts to reform its accounting methods. The whole project consists of three aspects; first in accounting standards, second in auditing standards and third in management consulting. The first step has been completed, while the other two remain under drafting.

(2) Overview of the Present Accounting System in Viet Nam

1) Accounting period

Calendar year is adopted. But foreign investment companies are allowed to choose accounting periods other than the calendar year.

2) Accounting report

The language of accounting records should be Vietnamese, and currency should be Vietnamese Don (VND). Financial statements should be sent to the following government organizations.

Accounting reporting by entity

Kind of entity	Reports addressed to			
	Financial Dept.	Tax Dept.	Statistics Dept.	MPI
State owned enterprise	X	X	X	
Foreign investment enterprises		X	X	X
Other entities		X	X	

Financial statements include balance sheets and income statements. It is temporarily not stipulated that the cash flow statement be prepared but it is encouraged that the enterprise prepare and use this statement. Quarterly reports must be sent no later than 15 days after the end of the current quarter. Annual reports are sent out no later than 30 days after the end of the current year.

3) Audit

Audit of financial statements by independent auditors is mandatory for foreign investment enterprises. But, other entities can be audited by either internal or independent auditors.

4) Financial statements

The Financial Statement should consist of following statements.

Balance Sheet (Form B 01-DN)
Income Statement (Form B 02-DN)
Cash Flow Statement (Form B 03-DN)
Notes on the financial statements (Form B 09-DN)
4.1 Business highlights
4.2 Accounting system (or policy)
4.3 Detail of selected balances in the Financial Statement
*Production and business costs by elements
*Increase or decrease in fixed assets
*Personnel income
*Increase and decrease in owner's equity
*Increase and decrease in investments in other entities
*Receivable and payable
4.4 Explanation and interpretation of the results of business operations
4.5 Some indexes to evaluate the position of the business
4.6 Estimated future prospects
4.7 Recommendations

5) Accounting standards

The new accounting system, in general follows International Accounting Standards. A comparison between IAS, the new accounting system, and the old accounting system used is summarized in the following sheet. The current Vietnamese accounting system is still in the process of reform.

Supplementary accounting standards should be added to the new accounting system. For example, standards for accounting of business combination, consolidated financial statements, investment in associates, grants, and disclosure of segments, subsequent events etc. should be established. Among the detailed financial regulations referred to in the new accounting system, only "Regulation on depreciation" has been officially announced.

6) Key question

In Viet Nam around 500,000 people are engaged in accounting. Most of them are accustomed to the centralized control, old accounting system, and not to the new system. A manual on the new accounting system, would be an effective tool in learning to use and apply it. At the same time, learning the concept of accounting principles or accounting postulate, is equally important in order to fully understand the basis of a market economy.

Present financial data, especially that of SOEs, cannot be fully depended upon. This arises from both inexperience in the new system and a lack of full understanding of accounting concepts. In addition, independent audits are not popular among Vietnamese enterprises. Training on new accounting systems and the background of it's concepts for accounting staff, as well as diffusion of independent auditing is needed to guarantee reliable financial data is used as the basis of governmental economic policy.

2. Independent Audit System in Viet Nam

(1) History of Independent Audit in Viet Nam

Since Viet Nam adopted an open policy, with transformation to a market economy, independent audits were introduced in 1990. Listed below are the epochal events of independent auditing in Viet Nam.

May 13, 1991

Ministry of Finance decided to establish the Viet Nam Audit Company (VACO) being the first organization in Viet Nam to operate independently in the audit field.

July 11, 1994

The Government of Viet Nam decided to established a State Audit Organization. (So far, this organization has maintained a Central Office and 3 other offices in Hanoi, Da Nang and Ho Chi Minh City).

1990 to 1996

A total of fourteen audit firms were established and have started operations in Viet Nam. These included eight local, four foreign and two joint venture audit firms.

Established date of accounting firms in Viet Nam

Name of Company	Date of establishment
Local audit firms	
1. Viet Nam Audit Company (VACO)	May. 13, 1991
2. Accounti2. 2. Accounting and Auditing Service Company (AASC)	May. 13, 1991
3. Auditing and Consultancy Company (A&C)	Feb. 13, 1995
4. Saigon Auditing & Financial Consultancy Company (AFC)	Dec. 13, 1995
5. Da Nang Auditing Company (DAC)	Feb. 13, 1995
6. Auditing & Informatics Service Company (AISC)	?
7. Ha Long Auditing and Accounting Co. (HACO)	June, 13, 1995
8. Thuy Chung Auditing Company	June, 28, 1996
Joint venture audit companies	
1. Deloitte Touche Tohmatsu Viet Nam Audit Company	Apr. 14, 1995
2. Coopers & Lybrand – AISC	Mar. 14, 1995
Foreign owned audit companies	
1. Ernst & Young Viet Nam (E&Y)	?
2. KPMG Peat Marwick Viet Nam (KPMG)	Aug. 1, 1994
3. Price Waterhouse Viet Nam (PW)	?
4. Arthur Andersen Viet Nam (AA)	Aug. 2, 1995

The Ministry of Finance in Viet Nam has held training courses, conducted examinations and granted CPA qualifications to 140 professionals judged eligible. There are a total 800 professional staff working in audit companies in Viet Nam. Audit firms are now sending professional staff to Asia, Europe and America in order to study and acquire necessary audit experience.

The Accounting and Finance University, The National Economics University and some other colleges have recently incorporated independent audit courses as an official subject. However, these courses are not sufficient to train accountants in Viet Nam.

The European Union (EU) has been assisting audit professionals in Viet Nam, since the beginning of 1996, particularly in the Ministry of Finance and local audit firms.

(2) Current Assessment on the Independent Audit in Viet Nam

There are positive effects in introducing an independent audit system

Audit firms assist foreign and local investors obtain a better understanding of law, policies, management, taxation and accounting. This has helped build a mutual reliance between local authorities and foreign investors. Audit firm services have helped to reduce investors risks remarkably.

However, it also highlights its weaknesses

Vietnamese auditors are inexperienced in the profession and practice, due to insufficient training on auditing theories and practice. However, foreign auditors are qualified in terms of expertise, but lack knowledge on regulations, customs, economic environment and other economic factors within Viet Nam.

Vietnamese people do not have a full understanding of independent auditing activities. They usually understand it as a necessary evil. There is need for public relation activities to educate them on what independent auditing is about.

(3) Ways to Develop Independent Auditing in Viet Nam

Create a Base for Auditing

Now, only foreign investment companies in Viet Nam are required to independently audit their annual financial statements. But, in a market economy, financial statements of the state owned sectors should be audited to allow proper decision making for Government officials. According to Decree 59/CP, dated Oct. 3, 1996, financial statements of SOEs are to be either audited by internal auditors of the company or an independent audit company. In this situation, it is possible for SOEs to appoint internal auditors to perform audits instead of appoint independent auditors. However, internal audits cannot be substituted for independent audits. There are about 6,000 SOEs in Viet Nam, whereas independent auditors total some 800, which is insufficient. It is difficult for independent auditors to perform full audits on every SOE in addition to foreign investment enterprises. An increase in supply of independent auditors is essential.

In order to expand, a legal framework for auditing is necessary, such as laws on auditing, governing of regulations within an organization, its principals, its objectives, criteria, auditors conditions and state control on such operations. Audit regulations and standards in conformity with Vietnamese conditions and recognized by international organizations are urgently required.

Training for auditors and examinations

Auditors should be trained systematically in both theory and practice. Newly hired staff cannot develop professional skills without on-the-job training. On-the-job training and short-term training courses are needed as soon as possible.

Although examinations for CPAs (Certified Public Accountant) are being conducted, the level of proficiency is not satisfactory. Examinations have been upgraded to the Master's level.

Control of audit firms

In Viet Nam, the Ministry of finance directly manages accounting and auditing. This, however, is not the case in other countries. Usually a private professional organization is established i.e., Accounting Association. Viet Nam plans to establish the Viet Nam Accounting Association (VAA).

State management over independent auditors

Type of accounting firm	Competent authority	Managed by Ministry of Finance	Professional assistance by VAA
Private firms in the municipal people's committee	Municipal people's committee	X	X
Financial department	Financial department	X	X
MOF	MOF	X	X
Joint Venture firms	MPI	X	X
Foreign owned firms	MPI	X	X

Balance sheet as of xxxx (Form B 01-DN)

Assets	Code	opening balance	closing balance	Resources	Code	opening balance	closing balance
1	2	3	4	1	2	3	4
A. Current Assets & Short-term Investment	100	0	0	A. Liabilities	300	0	0
(1) Capital & Cash	110	0	0	(1) Current liabilities	310	0	0
1.Cash on hand (including notes)	111			1.Short-term borrowings	311		
2.Cash in Bank	112			2.Current portion of long term debt	312		
3.Cash in Transit	113			3.Accounts payable-trade	313		
(2) Short-term Investments	120	0	0	4.Advances from customers	314		
1.Short-term securities	121			5.Taxes and payable to state budget	315		
2.Other-short term Investments	128			6.Payable to employees	316		
3.Provision for the diminution in value				7.Intercompany payable	317		
if short-term investment(*)	129			8.Other payable	318		
(3) Accounts receivable	130	0	0				
1.Account receivable-trade	131						
2.Prepayment to suppliers	132						
3.Intercompany receivable	133						
-Investment in equity of subsidiaries	134						
-Other receivable from subsidiaries	135						
4.Other receivable	138						
5.Provision for doubtful debts(*)	139						
(4) Inventories	140	0	0				
1.Goods in transit	141						
2.Raw materials	142						
3.Tools and supplies	143						
4.Work in progress	144						
5.Finished goods	145						
6.Merchandise inventory	146						
7.Goods on consignment	147						
8.Prpvision for decline in inventory(*)	149						
(5) Other current assets	150	0	0				
1.Advances	151			(2) Long-term liabilities	320	0	0
2.Prepaid expenses	152			1.Long-term borrowings	321		
3.Defferd expenses	153			2.Long-term liabilities	322		

4.Shortage of assets awaiting for resolution	154						
5.Short term deposit mortgages and collateral	155			(3) Others	330	0	0
(6) Expenditure from subsidies of state budget	160	0	0	1.Accrued expenses payable	331		
1.Prior year budget	161			2.Surplus of assets awaiting resolution	332		
2.Current year budget	162			3.Long term deposits received	333		
B. Fixed assets	200	0	0				
(1) Fixed assets	210						
1.Tangible fixed assets	211						
-Cost	212			B. Owner's equity	400	0	0
-Accumulated depreciation(*)	213			(1) Capital sources and funds	410	0	0
2.Finance lease assets	214			1.Paid in capital	411		
-Cost	215			2.Defferences upon asset revaluation	412		
-Accumulated depreciation(*)	216			3.Foreign exchange differences	413		
3.Intangible fixed assets	217			4.Bussiness development funds	414		
-Cost	218			5.Reserved funds	415		
-Accumulated amortisation(*)	219			6.Undistributed earnings	416		
(2) Long-term investments	220			7.Bonus and welfare funds	417		
1.Long-term securities	221			8.Funds for capital expenditures	418		
2.Share in joint-venture	222			(2) Budget sources	420	0	0
3.Other long term investments	228			1.Managemment funds from state budget	421		
4.Provision for decline in long-term inv.(*)	229			2.Subsidy funds from state budget	422		
(3) Construction in progress	230			-Prior year	423		
(4) Long-term deposits	240			-Current year	424		
TOTAL ASSETS	250	0	0	TOTAL RESOURCES	430	0	0

Off balance sheet items

Items	Opening balance	Closing balance
1.Operating lease assets		
2.Goods held under trust or for processing		
3.Goods received on consignment for sale		
4.Bad debts written off		
5.Foreign currencies		
6.Subsidies of state budget		
7.Depreciation fund		

Cash flow statement

Items	Code	Current Prd.	Prior period
1	2	3	4
(1) Cash flows from operating activities			
1.sales	01		
2.Collection of account receivable	02		
3.Cash received from others	03		
4.Payment to suppliers	04		
5.Payments to employees	05		
6.Payment of taxes and obligation	06		
7.Payment of other payable	07		
8.Other payment	08		
Net cash flow from operating activities	20		
(2) Cash flow from investment Activities			
1.Return of investments in other entities	21		
2.Interest from investments in other entities	22		
3.Cash from disposal of fixed assets	23		
4.Investment in other entities	24		
5.Purchase of fixed assets	25		
Net cash flow from investing activities	30		
(3) Cash flow from financing activities			
1.Borrowing in cash	31		
2.Cash received from owner's capital contribution	32		
3.Cash received from bank interest	33		
4.Bank interest payment	34		
5.Cash payment in capital recovery	35		
6.Interest payment to investors	36		
Net cash flows from finance activities	40		
Net increase/decrease in cash	50		
Cash at beginning of the year	60		
Cash at the end of the year	70		

Income statement (Form B 02 - DN)
Part 1: Profit & loss

Item	Code	Previous Q	This qurter	Year to date
-Gross sales	01			
Including: export	02			
-Less deductions (04+05+06+07)	03	0	0	0
+Sales discounts	04			
+Sales allowances	05			
+Sales returns	06			
+Turnover Taxes and Export duty	07			
1.Net income (01-03)	10	0	0	0
2.Cost of goods sold	11			
3.Gross margin (10-11)	20	0	0	0
4.Selling expenses	21			
5.General & administration expenses	22			
6.Operating income (20(21+22))	30	0	0	0
-Income from financial activities	31			
-Expenses from financial activities	32			
7.Profit from financial activities	40	0	0	0
(31-32)				
-Extraordinary income	41			
-Extraordinary expenses	42			
8.Extraordinary gains (41-42)	50	0	0	0
9.Net profit before tax (30+40+50)	60	0	0	0
10.Profit tax	70			
11.Net profit after taxes (60-70)	80	0	0	0

Part 2: Clearance of obligation to the government

Items	Outstanding prior period	Payable in current period	Am't paid this period	Am't payable end of period
(1) Taxes	0	0	0	0
1.Turnover taxes (or VAT)				
2.Excise tax				
3.Import-Export duty				
4.Profit taxes				
5.Taxes on capital				
6.Natural resource taxes				
7.Land & housing taxes				
8.Land rental				
9.Other taxes				
(2) Social insurance and Trade Union fees	0	0	0	0
1.Social insurance				
2.Health insurance				
3.Trade union fees				
(3) Other obligations	0	0	0	0
1.Extra collections				
2.Duties				
3.Other obligations				
TOTAL	0	0	0	0

Comparison between New Vietnamese Accounting Regulations and IAS
(IAS = International Accounting Standards)

International Accounting Standards	New Vietnamese Accounting Regulations	Old Vietnamese Accounting Regulations
1) Disclosure of Accounting Policies		
Financial statements shall include disclosure of significant accounting policies which have been used	Similar to International Accounting Standards	Disclosure of accounting policies not specified. The objective of financial information is aimed at Government reporting. The reports must be in compliance with the form prescribed by the Government and include capital reserve, fixed assets, cost of goods manufactured. In general, the content of this explanation is limited and can not be compared with the convention of full disclosure of IAS and US GAAP.
2) Inventories		
Inventories are stated at the lower of cost and net realizable value. Costs are normally determined, using the FIFO, weighted average or specific identification method. Provision for damaged, slow moving and obsolete goods are required. Cost include direct materials, direct labor and an appropriate Proportion of production overheads, Sales are recognized on dispatch of goods.	Inventories are stated at weighted average cost or specific identification method. The inventories accounts can be adjusted at the end of accounting period to reflect the current prices. The differences are recorded in the account: "Differences from exchange rates and prices index". Provision for damaged, slow-moving and obsolete goods is mentioned but the financial policies for provision (detail guidance) has not issued yet. Costs for manufacturing entities are similar to IAS. Sales recognition is similar to IAS.	Inventories are stated at weighted average cost or specific identification method. The inventories accounts can be adjusted at the end of accounting period to reflect the current prices. The differences are recorded in the account: "Differences from exchange rates and prices index". Costs for manufacturing entities are similar to IAS. Sales recognition is similar to IAS.
Consolidated financial statements (replaced by IAS 27 and 28)		
3) Depreciation Accounting		
Depreciation of fixed assets is calculated, based on the original cost, the estimated residual value and the useful economic life of the fixed assets. The depreciation methods generally adopted are the straight line and declining balance methods.	Similar to International Accounting Standards. Straight line method of depreciation is only adopted	VAS Consider depreciation as a source of recovering fixed assets. The entity is obliged to reimburse the amount of depreciation to the Government annually. Under VAS, depreciation is calculated based on the straight line method and subject to rates predetermined by the government. The depreciation is allowed on fully depreciated assets by recording its as an increase in the reserve account.

4) Accounting for Property, Plant and Equipment		
Provision for permanent diminution in value of fixed assets is required. Profit or loss on disposal and write off of fixed assets are included in the income statement.	The historical cost concept is applied Profit or loss on disposal and write off of fixed assets are included in the income statement.	The historical cost concept is applied Under VAS, Property, Plant and Equipment is called Fixed Assets and subject to revaluation accounting to inflation rate. Rate of revaluation is issued every 6 months by Ministry of Finance.
5) Information to be Disclosed in the Financial Statements		
<Accounting policies>		
Financial statement shall include disclosures of all significant accounting policies which have been used.	Financial statement shall include disclosures of all significant accounting policies which have been used.	Not specified
<Contingent Liabilities>		
Nature of material contingencies and the estimated financial effect shall be disclosed.	Not specified	Not specified
<Prior period items>		
Full disclosure of the amounts and nature of the prior period items is required.	Similar to IAS	Not specified
<Future Capital Commitments>		
Amounts committed for future capital expenditure shall be disclosed.	Not specified	Not specified
Accounting Responses to Changing prices (replaced by IAS 15)		
6) Cash Flow Statements		
Statements of cash flows should be prepared to classify cash flows by operating, investing and financing activities.	Similar to IAS	Not required
7) Unusual and Prior Period Items and Changes in Accounting Policies (see IAS 5 regarding prior period items)		
These items should be separately disclosed and should be adequate to facilitate comparison of the figures for the periods presented.	Similar to IAS	Not Specified
8) Accounting for Research and Development Activities		
Capitalization of research expenditure is not allowed. Development expenditure may be capitalized if future benefit are reasonably expected.	Similar to IAS	Research and development cost can be capitalized. There are recorded as "expenditure waiting for allocation"
9) Contingencies and Events Occurring after the Balance Sheet Date		
If it is probable that a contingency will result in a loss to the company, the contingent loss shall be accrued. If there is conflicting or insufficient evidence on which to estimate the amount of a contingent loss then disclosure is made of the existence and nature of the contingencies. Where it is probable that a material contingent gain will be realized, the contingent gain shall not be recognized as income but it is required to be disclosed in the financial statements.	Not specified	Not specified

10) Accounting for Construction Contacts		
For construction contacts, either the percentage of completion method or the completed contract method is used. The actual loss or foreseeable loss in achieving the contracts should be provided for in the financial statements.	The percentage of completion method is used	Not specified.
11) Accounting for Taxes on Income		
The tax effect of timing differences, computed under the liability or deferral method, is provided in the financial statements. The method chosen must be disclosed.	Accounting for deferred income taxes is not specified. In practice, tax liability is accrued once it is known. However, timing differences are not recognized.	Accounting for deferred income taxes is not specified. In practice, tax liability is accrued once it is known. However, timing differences are not recognized.
12) Presentation of Current Assets and Current Liabilities		
Separate classifications for current/long-term assets/liabilities are required.	Similar to IAS	Bank liabilities are presented in a separate category on the balance sheet (VAS category No.9) and divided into two categories: short-term and long-term. Other accounts receivable and payable are presented in another category (VAS category No.6) and not distinguished between current and non current.
13) Reporting Financial Information by Segment		
For each significant reported industry and geographical segment, information is required to be disclosed in respect of sales, segment results, segment assets employed and the basic of Inter-segment pricing.	Not specified	Not specified
14) Information Reflecting the Effect of Changing Prices		
Enterprises whose levels of revenue, profits, assets or employment are significant in the economic environment in which they operate are encouraged to disclose additional items using an accounting method reflecting the effects of changing prices.	State owned entities are obliged to revalue fixed assets, inventories, works in process, finished goods, production costs, cost of goods sold for the purpose of capital preservation. The rates of revaluation are issued in accordance with the rate of inflation.	Under VAS the State owned entities are obliged to revalue fixed assets, inventories, works in process, finished goods, production costs, cost of goods sold for the purpose of capital preservation. The rates of revaluation are issued every 6 months in accordance with the rate of inflation.
15) Accounting for Property, Plant and Equipment (refer to IAS 4 above)		
16) Accounting for Leases		
An assets acquired under a finance lease should be capitalized at the fair value of the asset. Finance lease rentals should be split between interest and capital so as to approximate a constant rate of interest on the remaining balance. Operating lease rentals should be charged to the income statement on a systematic basis over the lease term.	Similar to IAS	All leases are treated as operating leases.

17) Revenue Recognition Revenue for the sale of goods should be recognized when all significant risks and rewards of ownership have been transferred and no significant uncertainly exists relating to the costs of sale, the consideration or the possibility of return.	Similar to IAS	Recognition somewhere between cash based system and accrual system. Income is not deferred but credit sales are recognized.
18) Accounting for Retirement Benefits Defined benefit plan costs should be charged to income systematically over the expected remaining Working lives of employees. Defined contribution plan costs should be charged to income as incurred.	Simply recorded as social contribution liability as stipulated by the government.	Simply recorded as social contribution liability as stipulated by the government.
19) Accounting for Grants Grant income should be recognized over the period of the related costs. Grants related to assets should either be netted off against the asset or set up as deferred income.	Not specified	Not specified
20) Foreign Exchange Accounting transactions should be converted to the reporting currency at the market rate at the time of the transaction. Foreign currency monetary items should be translated at closing market rate.	Similar to IAS	Similar to IAS except that the official rate should be used, and no distinction between transaction adjustment and translation adjustment.
21) Accounting for Business Combinations A business combination should be accounted for using the purchase method except in the rare circumstances when it is considered to be uniting of interests, when the pooling of interests method may be used.	Not specified	Not specified
22) Capitalization of Borrowing Cost Interest relating to the purchase or construction of fixed assets, before the assets are delivered for use or up to the completion of construction of the fixed assets, may be capitalized.	Similar to IAS	Not specified
23) Related Party Disclosures Transactions with related parties are required to be disclosed in the financial statements as follows: Nature of transactions; Description and amounts of transactions; Terms of transactions; and Names of related parties	Transactions with related parties are required to be disclosed in the financial statements (Notes to the financial statements)	Not specified

24) Accounting for Investments		
Long-term investments are categorized as follows: Subsidiary companies Associated companies Other investments Where a holding company holds less than 20% of the equity of an investee company, the latter is normally classified as other investment. (a) Long-term other investment are stated at cost in the accounts of the parent company and provision is made for any permanent diminution in value. (b) Short-term other investments shall be stated at the lower of cost and market value.	Investments are recorded as a subcategory in assets and classified as; -Short-term investment and -Long term investment	Investment are recorded as a sub category in Accounts receivable and payable There is no concept of "control" and "significant influence" in VAS.
25) Consolidated financial statements and accounting for investments in subsidiaries		
Where a company has a majority interest in the equity (more than 50%) of an invested company, the latter is a subsidiary. The results, assets and liabilities of the parent company and the subsidiary company shall be consolidated from the date of acquisition up to the date of disposal of the subsidiary.	Not specified	Not specified
26) Accounting for Investment in Associates		
Where a holding company holds 20%-50% of the equity of an investee company and is able to exercise significant influence over its management decision, the latter is an associated company. The results of an associated company are accounted for under the equity method of accounting.	Not specified	Not specified
27) Financial Reporting in Hyperinflationary Economies		
In hyperinflationary economies, the financial statements are stated in terms of the measuring unit current at the balance sheet date.	Not specified	Not specified

Other Matters of Interest

Receivables		
Receivables are stated net of provision for bad and doubtful debts.	Similar to IAS but detailed guidance for provision calculation has not been issued yet.	The system does not allow for such provisions.
Intangible Assets		
(i) Pre-operating Expenses		
Set-up cost shall be charged to the income statements. Deferral of the cost is only allowed if the commercial viability of the undertaking is reasonably assumed.	Similar to IAS	Not specified
(ii) Other intangible Assets (including deferred expenditure)		
The historical cost of intangible assets is amortized over their estimated beneficial periods.	Similar to IAS	Not specified
Asset Valuation		
Revaluation is allowed. Depreciation is based on the revalued amount.	Revaluation is allowed. Depreciation is based on the revalued amount.	Not permitted unless allowed by other state provisions
Staff Welfare Expenses		
Staff welfare expenses, such as housing and pension, are charged against profit before tax. Provision for staff welfare expenses is classified as current liability in the financial statements	Not specified	Not specified

7

Observations on the Two Surveys of State-Owned Enterprises
—The OECF-CIEM Survey and the JICA-CIEM Survey—

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I . Coverage and Objectives of the OECF-CIEM Survey and JICA-CIEM Survey

The purpose of this chapter is to clarify the relationship between the OECF-CIEM Survey and the JICA-CIEM Survey. This will be done primarily in terms of methodology and content.

1. Coverage and objectives of the OECF-CIEM Survey

The OECF-CIEM Survey[1] was an attempt to comprehensively study state-owned enterprise reform. It consisted of a "background survey" (1986-1995) and a "survey on state-owned enterprises" (1991-1995). The former elucidated the process of state-owned enterprise reform (1986-1995), but offered no comment on the outlook for the future; indeed, except for the parts touching on general corporations, its content was basically the same as Chapter 2, "*Report on the SOEs Reform Policies in Viet Nam and their Implementation Performance.*"[2]

The latter "survey on state-owned enterprises" that was based on the "background survey" had as its main purpose the development of an accurate picture of state-owned enterprise reform (1991-1995) and a detailed analysis thereof. The priorities in the survey were to assess the production activities, management structures, financial state, and ownership of state-owned enterprises, to gauge recent changes in these factors, and to study the environmental factors thought to have had an impact on the performance of state-owned enterprises.

The survey sample covered 200 state-owned enterprises in six sectors: 36 enterprises in food processing, 47 in apparel and textiles, 22 in electronic and electrical equipment, 31 in construction materials, 35 in chemicals, and 29 in industrial machinery; and five regions: 53 in Hanoi, 28 in Hai Phong, 64 in HCMC, 15 in Dong Nai, and 40 in Quang Nam-Da Nang. Of this number, 142 enterprises (71.0%) were established by the central government, 104 (52.0%) were established between 1975 and 1987, and 131 (65.5%) had no ties with foreign capital. The sample was chosen by random sampling, though care was taken in the selection to ensure that at least 40 enterprises were from the central region, and that each sector was represented by at least 20 enterprises.

[1] CIEM, Report: Study on State-Owned Enterprise Reform in Viet Nam, April 1997.
[2] Written by Dr. Tran Tien Cuong.

both questions and data. The questions gathered information and enterprise opinions concerning organization, management, directors, and relationships with state institutions; the data portion collected information on areas like enterprise assets and financial standing. The data thus collected was subject to cross analysis, regional analysis, and jurisdictional level analysis.

2. Coverage and objectives of the JICA-CIEM Survey

In contrast with the OECF-CIEM Survey, the JICA-CIEM Survey (Tohmatsu & Co., *Study on the Current Conditions of Production, Management and Finance of the State-Owned Enterprises in Viet Nam*, August 1997) attempted to measure production, management, and financial conditions at state-owned enterprises (1993 to 1995/1996). The emphasis in this survey was on the business performance of state-owned enterprises and an analysis of the factors therein.

The survey covered 17 enterprises from the OECF-CIEM Survey in six sectors: 3 in food processing, 4 in apparel and textiles, 2 in electronic and electrical equipment, 1 in construction materials, 2 in chemicals, and 5 in industrial machinery, located in one region: all 17 in Hanoi. The 17 enterprises in the sample were first asked to fill in preparatory questionnaires (December 1996 - January 1997). This was followed by interviews (February-March 1997) with 11 enterprises selected from out of the 17. The enterprises selected for interviews were located in six sectors: 3 in food processing, 2 in apparel and textiles, 1 in electronic and electrical equipment, 1 in construction materials, 1 in chemicals, and 1 in industrial machinery, and one region: all 11 in Hanoi. For three of the 11, the interviews were held with the general corporation to which they belonged. The interviews with the 11 enterprises made possible an in-depth study and analysis of their business. The details are found in Chapter 5, "Study on the Current Conditions of Production, Management and Finance of the State-Owned Enterprises in Viet Nam."[3]

In Section II, we clarify the methodological differences between these two surveys of state-owned enterprises. In Section III, we compare the major findings arrived at in the surveys.

II. The Methodological Distinctions between the OECF-CIEM Survey and the JICA-CIEM Survey

1. Methodology of the OECF-CIEM Survey

This survey utilized primarily statistical methods: questionnaires, cross analysis, regional analysis, and jurisdictional level analysis. There were also some interviews done. Statistical methods employ statistical techniques (sampling, quantification, estimation, verification, and other data processing methodologies) to study and analyze relatively large and complex samples and investigate the regularity in the phenomena observed.

There are three principal benefits to statistical methods. First, the methods themselves have been formalized, which gives them more objectivity and reliability than case-study methods. Second, they enable an across-the-board study of a large sample. Third, they enable quantitative analysis of large volumes of data. However, there are also some drawbacks. First, data constraints will cause the individual differences and subtle nuances among phenomena to be lost. Second, the survey risks becoming meaningless if a correct objective is not selected—and even if the survey objective is correct, problems in the course of conducting and tabulating the survey may render the results inaccurate.

[3] Written by Tohmatsu & Co.

Two provisos are in order on the use of statistical methods. First, the value of processing and using statistics is not determined by the degree of mathematical precision attained, but by the social scientific implications of the results. Second, hasty judgements are unwise. Whether the observed regularity of phenomena implies that an essential law is at work in the phenomena is a question that is still open to debate.

2. Methodology of the JICA-CIEM Survey

The primary method for this survey was case studies based on interviews, and a preparatory questionnaire survey was also employed. The case study method concentrates on qualitative data that goes into detail on multiple facets of a small group of survey units selected from a larger sample. It endeavors to place this data within its social context, to describe the conditions and structures at work, and to elucidate the correlations, functions, and causality relationships among the factors involved. Data is gathered mostly by observation and by non-instructive interviews. Qualitative analysis is generally employed.

There are five principal strengths to this method. First, it is able to use a wide variety of data gathering methods. Second, it is able to narrow the factors, limit the aspects considered, and elucidate the phenomena studied from many different angles. Third, it is able to delve deeper into points that become clear after the survey is conducted. Fourth, it is able to do a descriptive analysis of the properties of the different factors involved and the complex correlations, functions, and causality relationships that operate among them. Fifth, it is able to study in detail and from a qualitative perspective phenomena that are likely to be overlooked in statistical surveys. The two principal drawbacks are one, the cases selected are often not representative of the sample being studied, and two, there is a tendency towards subjectivism when attempting to universalize or generalize from the knowledge and insight obtained.

3. Mutual Complementation of Statistical and Case Study Methods

It is not clear whether the case study method, as a survey technique, is able to achieve the same degrees of significance and utility as the statistical method. However, these methods are mutually complementary and if used in conjunction with each other can benefit survey findings:

1) The case study method requires statistical techniques in order to ensure that the cases are typical and representative for the objectives of the study, and also to elucidate the internal structure of the cases themselves.

2) The investigation of one or a small number of cases may produce a hypothesis, but this needs to be verified with statistical studies.

3) The findings of statistical studies need to be given social scientific significance through case studies.

III. The Major Findings of the OECF-CIEM Survey and the JICA-CIEM Survey

The conclusion of the OECF-CIEM Survey summarizes virtually all of its major findings. We have further summarized them into the following five points.

1. Inducements for a Spirit of Self-accountability and Independence at State-owned Enterprises

"The state-owned enterprise reform that has moved forward in a comprehensive and steady manner since the early eighties has been significantly influenced by the renewal of macroeconomic policy in the nineties (the development of hard budget policies, the elimination of subsidies and similar programs). Large cuts in subsidies and fiscal assistance in particular have had a major impact in inducing state-owned enterprises to run their operations in a spirit of self-accountability and independence based on their own financing capabilities."

- This is a finding from the OECF-CIEM Survey. However, the renewal of macroeconomic policy was not the only factor that induced state-owned enterprises to run their businesses with a spirit of self-accountability and independence. The major determining factors were, in fact, modifications to the legal and institutional framework, for example, the Cabinet Decision that introduced an independent budgeting system for state-owned enterprises and granted them managerial autonomy (Decision No. 217-HDBT, 1987.11.14) and the Law on State-Owned Enterprises (1995.4.20), which gave enterprises autonomy and accountability for their actions. This point is not clearly evident in the findings, but it is accurately pointed to in the background survey.

Partial relief of the labor surplus

"The impact of this was to partially relieve the labor surplus by expanding businesses to an appropriate degree and increasing the scale of production."

- This is a finding from the OECF-CIEM Survey. However, the survey does not use data to back up its claims as to how much relief was seen in the labor surplus because of "the expansion of business to an appropriate degree and an increase in the scale of production." In a wholly separate sphere, Cabinet Decision No. 176-HDBT (1989.10.9), which sought to relieve the labor surplus, resulted in 518,000 workers (25% of the total work force of state-owned enterprises) leaving their jobs during just the first year (to November 1990). Even this, however, was not a solution to the surplus labor problem. As the JICA-CIEM Survey notes, "Enterprises began to shed excess staff around 1990, but many of them still carry large surpluses of unskilled workers." It remains to be seen, therefore, just how the enterprise side and the social side will work to resolve the surplus labor problem.

2. Improvement in State-owned Enterprise Performance

"A series of state-owned enterprise reform measures resulted in a dramatic improvement in state-owned enterprise performance. Whether measured in terms of capital, sales, or profits, state-owned enterprises grew. They are also utilizing their capital, funding, and assets efficiently."

- This is a finding from the OECF-CIEM Survey. Cabinet Decree No. 388-HDBT (1991.11.20) mandated that state-owned enterprises reorganize and reregister. One of the results of this was to push the average capitalization of state-owned enterprises up from 3.1 billion dong (as of January 1, 1990) to 11.9 billion dong (as of January 1, 1996). The share of GDP accounted for by state-owned enterprises has also risen from 32.5% in 1990 to 42.2% in 1995. State-owned enterprise production and results rose consistently from 1991 to 1995. In 1995, their earnings were 3.52 times 1991 levels; real profits, 5.46 times; and contributions to the state budget, 3.97 times. In 1990, 69.3% of all state-owned enterprises were in the black; 21.7% in the red; and 9.0% breaking even. Reorganization, reregistration, and quick adaptation to market mechanisms changed these figures to 77.9%, 16.5%, and 5.6% respectively in 1994. In 1995, 1 dong of state investment produced 3.4 dong in earnings, 0.192 dong in profits, and 0.317 dong in contributions to the state budget.

Running parallel to the reorganization and reregistration of state-owned enterprises were several other factors that accelerated the reform of state-owned enterprises. First was a push to reorganize the intermediate level by merging smaller state-owned enterprises and taking advantage of the increased efficiency that the consolidation provided. Second was the liquidation of loss-making enterprises. And third was the sale of state-owned enterprise assets and the intensive investment in more important or more efficient assets. These measures were what enabled state-owned enterprise capital, funding, and assets to be deployed more efficiently.

The shortage of funding and capital, the debt situation, and the risks involved

"However, the shortage of funding and capital and the debt situation pose fundamental risks to the continued growth of state-owned enterprises."

- This is a finding from the OECF-CIEM Survey. Hard budget policies and the consequent suspension of state subsidies resulted in significant changes to the mix of invested capital at state-owned enterprises. In 1991, most invested capital was either "subsidies from the state budget" (40.3%) or "self-financing" (38.0%). By 1995, this had been replaced by "bank loans" (48.4%) and "self- financing" (30.5%). The debt mix is similarly divided in two: "bank loans" account for 55.9% of all debt; "inter-enterprise credits," 34.7%. Few state-owned enterprises are able to repay these debts. The JICA-CIEM Survey also comments on this point: "Ten of the 11 enterprises surveyed lacked the sufficient owned capital to cover their capital investment and operating capital needs, and had little choice but to rely on bank loans. Banks, however, are generally cautious about lending for medium- and long-term capital investment. Their growing selectivity has made it difficult for some enterprises to put together loans (because of a lack of collateral) and has exposed them to a serious funding shortage. And even if they are able to secure loans, interest rates are high for short-term loans as well as longer-term loans, which leads to extremely heavy debt service burdens."

3. Enterprise Debt

"Reform of the banking system has been insufficient. Banks do not meet the demand for lending that exists on the enterprise side and interest rates are high. Borrowing procedures are likewise onerous. Large numbers of enterprises are holding defaulted liabilities, primarily against banks. Borrowings from other enterprises are also causing the financial positions of enterprises to deteriorate."

- This is a finding from the OECF-CIEM Survey. State-owned enterprises borrow widely to make up for their shortage of capital, but interest rates are high. In 1995, interest payments were worth 2.2% of total expenditures, 25% of total salaries and wages, and 37% of profits. According to Takeuchi in Chapter 3, "Under *Doi Moi*, the traditional discrimination in interest rates among ownership sectors and industries was formally abolished in June 1992, but national commercial banks have the right to set their interest rates as they choose within certain limits, and there appears to have been no basic change in the practice of giving discriminatorily favorable interest rates to state sectors rather than non-state sectors, and to heavy industries rather than commerce and light industries (often without even engaging in sufficient credit checks). In addition, while it is hard to measure quantitatively, it is also known that financial institutions do not always attempt to collect enterprise debts even when they reach maturity (which itself is a form of discriminatory lending)." According to a survey of enterprise debt conducted by the General Department of Management of State Capital and Assets in Enterprises of the Ministry of Finance in October 1995, total state-owned enterprise debt had risen from 20 trillion dong in 1992-1993 to 279 trillion dong in 1995.

4. Investment in Equipment and Technology to Strengthen Competitiveness

"Granting state-owned enterprises autonomy over their management has increased competition in the domestic market. State-owned enterprises now face stiff competition from others in their industry, cheap imports, and smuggled goods. More state-owned enterprises are therefore putting priority on investments in the upgrade of their equipment and production technology in order to make their products more competitive."

- This is a finding from the OECF-CIEM Survey. Indeed, between 1991 and 1995 state-owned enterprises gradually increased the scale of their investments. There was a rapid rise in investments of more than 1.0 billion dong (from 33% in 1991 to 56% in 1995) and a rapid decline in investments of under 1.0 billion dong (from 67% in 1991 to 44% in 1995). Per-enterprise capitalization also expanded from 3.1 billion dong in 1990 to 11.9 billion dong in 1996. The question, however, is what this money was spent on—how many state-owned enterprises really invested in "the upgrade of their equipment and production technology" in order to "make their products more competitive." This is a question that the OECF-CIEM Survey does not ask. The survey does find, however, that between 1991 and 1995 about 40% of state-owned enterprises saw their profits grow because they were quick to adapt to the changes taking place in the domestic market, while about 34% were holding products that would not produce profits because of "unstable markets," "obsolete machinery and facilities," and "lack of operating capital." To take it a step further, the vast majority of state-owned enterprises' fixed assets are old and obsolete. Equipment installed after 1986 accounts for only 27% of the total. Further, the products that state-owned enterprises turn out tend to be costly to produce and expensive to buy, and reports indicate that they are largely going unsold as a result. The indication would seem to be that, a handful of excellent enterprises aside, there are many state-owned enterprises that are unable to invest in "the upgrade of their equipment and production technology" even if they want to.

5. Education and Re-education of Executives and Managers

"The education and re-education of executives and managers has aided in solving the staffing and management problems of state-owned enterprises. Many enterprises have increased the independence of their business management. In particular, managers now have the authority to decide important issues for their enterprises."

- This is a finding from the OECF-CIEM Survey. In Chapter 3 Takeuchi argues that the *Doi Moi* reform of state-owned enterprises has gone through a phase in which the managerial autonomy of enterprises was expanded to a phase of incorporation and now on to a phase of equitization. The purpose of incorporating enterprises was to separate the ownership of enterprise assets from the right to use enterprise assets, but this goal was not completely achieved. Instead, it merely exacerbated the "non-ownership" of enterprises and invited corruption, waste, and theft of state assets. Equitization is supposed to solve this by further separating the ownership of state-owned enterprise assets from the right to manage the enterprise itself. Simultaneous to this, the general corporations are being reregistered and reorganized. In the process, they are being given more autonomy over their own management and also dispersing managerial autonomy to their subsidiary enterprises. This expansion and dispersion of managerial autonomy, however, requires that executives and managers be educated and re-educated.

Though it is claimed that "many enterprises have increased the independence of their business management" as their autonomy has expanded, the OECF-CIEM Survey does not clarify what kind of education and re-education executives and managers have been given, nor what standards are used to evaluate their performance and determine their remuneration. Meanwhile, state institutions maintain their authority as owners of enterprise assets by refusing to relinquish their authority over the hiring and firing of directors or managers. They are also trying to limit the decision-making authority of the director to questions of type and quality of products, selection of production technologies, production planning, and exports and imports. Though "managers now have the authority to decide important issues for their enterprises," most of the director's authority is only over production functions; they are being forced into the role of factory managers.

The JICA-CIEM Survey discusses its major findings in the executive summary of internal and external factors. Here they are organized into nine points.

6. Naturally Talented Managers

"Many managers are naturally talented. They have an entrepreneurial spirit, are sensitive to business opportunities and able to expand and modify production lines accordingly, and serve as active leaders in the development and diversification of markets."

- This is a finding from the JICA-CIEM Survey that was beyond the purview of the OECF-CIEM Survey. According to the JICA-CIEM Survey, five of the 11 companies surveyed responded that they were actively "expanding and modifying the production line," two that they were "developing new markets," one that it was "expanding and modifying the production line" and was "diversifying," and one that it was "expanding and modifying the production line" and "developing new markets." This, therefore, revealed nine "naturally talented" managers. However, the 200 managers in the OECF-CIEM Survey basically served as the stewards of state institutions and it is unclear to what extent if any they had natural managerial talents. More in-depth case studies will be required to clarify this issue.

The manager as factory manager

"However, there is a general lack of ability, technique, and sense of purpose when it comes to running the enterprise from the perspective of business activities as a whole within a competitive environment. Many managers haven't yet progressed beyond the level of factory manager."

- This is one of the findings of the JICA-CIEM Survey. There are clear differences between Vietnamese managers and the managers of, for example, Japanese or American companies that are competing at the global level. Most managers in Viet Nam consider quality and cost to be the main factors in competition, but they are most interested in production.

7. Manufacturing as the Priority Business Activity

"The priority in business activities continues to be on manufacturing. The importance of marketing (measuring customer needs, developing products suited to the market, understanding the distribution channels and retail sales conditions for one's products) is not understood. Except for manufacturing, the basic functions for running a business are either not there or are very immature. They tend to be concentrated in the 'planning department.' Management organizations have not yet been divided up."

- This is a finding from the JICA-CIEM Survey that was beyond the purview of the OECF-CIEM Survey. The survey did find some enterprises like "HH," a manufacturer of phosphate fertilizer, that were engaged in brilliant marketing and R&D activities. However, these were exceptions. Most managers and executives go back to the uniform production of the command economy days, when they never had to take the risk of actually selling their products. This finding indicates that managers and executives need to consider what market competition is, how they need to prepare for it, and what kinds of organization will be required. This is a pressing issue for Vietnamese managers and executives.

8. Organizational Structures are by Function, Management is from the Top Down

"Organizations are universally structured according to functions, regardless of the size of the enterprise or the complexity of its business. The director serves as the supreme and sole decision-maker and chief executive officer. There are no decision-making organizations similar to the 'board of directors' in Western companies. Organizational management is uniformly command style, with decisions transmitted from the top down."

- This is a finding from the JICA-CIEM Survey that was beyond the purview of the OECF-CIEM Survey. First we must point out the problems involved, both from the short-term and from the longer-term perspectives, of organizations that are "universally structured according to functions" and management that is "uniformly command style, with decisions transmitted from the top down." Organizational structures need to evolve and adapt to enterprise growth and changing economic conditions, while organizational management must take pains to motivate employees and keep morale high. That cannot be done when the director is "the supreme and sole decision-maker and chief executive officer." Group-style leadership by multiple managers is required. The survey's finding that all 11 enterprises used the same uniform function-based organizational style regardless of their size or the complexity of their business needs to be verified with the 200 enterprises in the OECF-CIEM Survey. More in-depth case studies will therefore be required.

9. Plan-do-see Cycle

"Enterprises lack a plan - do - see cycle. They also lack the battery of quantitative indexes (measures of financial strength, production, sales performance, and indexes of activity) and the rational management techniques and tools that would form the basis for such a cycle. Furthermore, enterprises have not built computerized management information systems."

- This is a finding from the JICA-CIEM Survey that was beyond the purview of the OECF-CIEM Survey. What is being discussed here, however, is general business planning and management from the medium- and long-term perspectives, and the plan-do-see cycle, indexes, management techniques and tools, and management information systems that would go in this. It seems rather harsh to demand this of Vietnamese state-owned enterprises at this time.

10. Over-staffing, Mismatched Staffing

"Enterprises began to shed excess staff around 1990, but many of them still carry large surpluses of unskilled workers. The food processing and apparel and textiles industries in particular have large numbers of surplus, unskilled, female workers. Many other industries also suffer from a serious mismatch in staffing (surplus of unskilled workers and lack of skilled workers, engineers, and skilled marketing staff [including sales staff]).

- This is one of the findings of the JICA-CIEM Survey. The OECF-CIEM Survey makes the same point, albeit not in such specific terms: "Many state-owned enterprises recognize that overstaffing and mismatched staffing continue to be important challenges to their business." Of the 200 enterprises surveyed, 141 (70.5%) cited a lack of engineers and skilled workers as an obstacle to their operations.

11. Personnel System

"All enterprises have well-ordered personnel system (career paths, rankings, evaluation systems, salary and wage scales, and promotion systems). However, it is unclear what mechanisms are used for general personnel and wage evaluations."

- This is one of the findings of the JICA-CIEM Survey. The OECF-CIEM Survey concurs: "workers are involved in decisions on salaries and wages, job assignments, use of after-tax profits, hiring and firing, and housing assignments." Disregarding the question of whether the personnel systems are really "well-ordered," it can be assumed that their administration is to some extent arbitrary. However, Vietnamese enterprises are clearly behind on the "mechanisms for general personnel and wage evaluations." Of the 11 enterprises studied, only one attempted to boost employee morale with an awards system.

12. Obsolete Facilities

"Most enterprises suffer from a serious shortage of funding which forces them to make do with outdated facilities and equipment. This places major constraints on production efficiency and product characteristics and quality."

- This is one of the findings of the JICA-CIEM Survey. We have already commented on similar findings under Headings 2–4. The OECF-CIEM Survey also found that "outdated machinery and equipment" (170 out of 200 enterprises; 85.0%) was third in line among the most serious obstacles faced by enterprises, the top two being "lack of investment capital" (188 out of 200; 94.0%) and "stiff competition in the domestic market" (172 out of 200; 86.0%). It notes that "most fixed assets are outdated and imported from a large number of countries. Equipment installed prior to 1975 accounts for 29% of the total; that from the 1976-1985 period, 44.8%; and that from 1986 and beyond only 27%." This impedes production efficiency gains and improvements in product characteristics and quality. It is also one of the reasons why much of the state-owned enterprise output remains unsold.

13. Backwards Research and Development

"R&D and distribution functions have yet to be established. Research and development, in particular, is still at the imitation level. The obsolescence of production equipment has resulted in backwards production technology and therefore backwards product technology."

- This is one of the findings of the JICA-CIEM Survey. According to the survey, "even 'HI' and 'HK,' which actively upgraded to state-of-the-art foreign production equipment and machinery, do not have the technical capacity to research and develop new products on their own. They admit that 'all of our product characteristics, specifications, and designs are imitations of foreign products.' This appears to be true of most enterprises, not just 'HI.' Of the 11 enterprises surveyed, only 'HH' and 'HA' developed and owned their own product technologies. However, both of these enterprises are also in relatively low-tech industries or industries where the pace of technological advance is comparatively slow." The survey then goes on to conclude, "Backwards product technology, particularly in high-tech industries like industrial machinery, should be considered a serious problem from the standpoint of global competitiveness. What is more, if the scope of technology is widened to include computers, telecoms, and their use, then the backwardness is even more pronounced."

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