# MEASURES TO INNOVATE BASICALLY STATE-RUN COMPANIES

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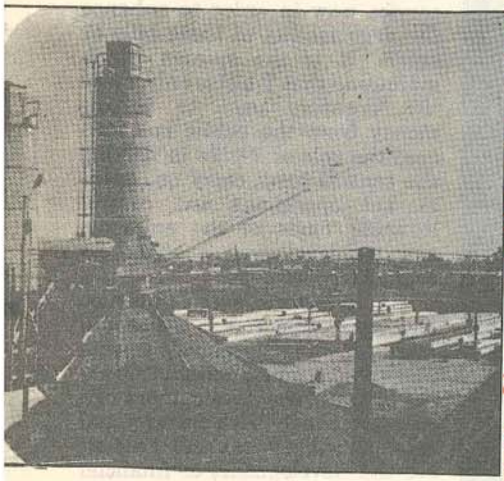
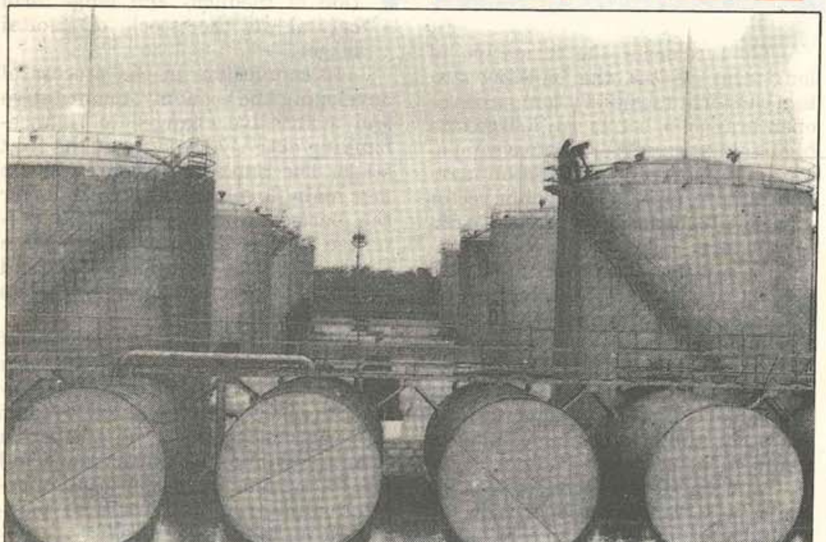
The business performance of state-run companies (SC) could be judged by the following criteria:

- Sales and profit are high enough to repay bank loans, pay taxes and make contribution to the Treasury (because the State is the owner of SCs).
- Capital investment from all sources of finance is high enough to increase output.
- Investment in R&D is high enough to modernize production lines.

Considering three said criteria, we saw that the reform of the system of SCs didn't produced intended results, as remarked by Prime Minister Võ Văn Kiệt before the National Assembly in October 1994: "... there are certain shortcomings, especially in finance and banking businesses. The fiscal, monetary and banking systems didn't meet requirements posed by the development process. Moreover, they even didn't become decisive instruments for macro-economic management. The most important instruments such as tax, accounting, auditing, credit supply and banking system didn't meet demand for rapid development. Budget deficit is big. Quite a lot of SCs are making losses".





Phan Văn Khải, Deputy Prime Minister, has also affirmed that the total debt owed by SCs was VNĐ18,000 billion, 1,337 billion of which, that is, 7.42%, were settled, a very low percentage.

If we judge SCs by three said criteria, the total investment made by HCMC-based SCs is too small to stand comparison with requirement and with the import surplus of some million dollars.

If we agree that the present economic renovation aims at developing a multi-sector market economy under the government management, we could see that the system of SCs is slow to innovate itself. Because speaking of SC, we refer to companies owned totally by the Government who had appointed their managers and directors. These directors are only employees who are directly responsible to the Government, but not responsible for company assets: if the company runs into debt (or the director breaks the law), then worst of all, the director is sent to jail but he didn't have to pay for the damage he had caused to the Government and the people as owners of SCs. Thus, the director contributes no capital to the company but he is assigned a lot of money and authority with the result that the director tends to conspire with other managers to change public assets into private property and many of these directors and managers had to spend years in jail for this. However, sending directors to jail only causes more unnecessary spending to the Treasury and the people have to keep on paying tax to look after them. Thus, we have to find out basic measures to reform the system of SCs.

If some complaints about bad management are sent to the governing ministries or departments who have appointed the directors, these departments tend to ignore these complaints, that is, to refure to bear responsibility for appointments they had made. Moreover, these complaints could only be sent to the Government Inspection Broad, not a court, and this Broad is flooded with complaints, many of which will never come under proper consideration.

If some inspectors are sent to the company concerned, they tend to cooperate with directors and settle the affairs peaceably. Only serious cases will be put on trial, and as stated above, directors of SCs are usually under no obligation to pay for the damage.

## I. EXPERIENCE FROM FOREIGN GROUPS

Groups of companies in developed countries usually have enormous assets which are much larger than total capital accumulated in developing countries. These groups usually become multinationals involved in different activities. Then what methods did they use to manage their assets?

In a group, there is usually a parent company and there are many subsidiary companies. The parent company needn't hold 100% of share capital of subsidiary companies but only a percentage (around 50% or even lower). There are also sub-subsidiary companies whose some 50% of share capital are hold by a subsidiary company of the group. Thus, in the group, the parent company can control the group although it hold only 10% or 20% of total share capital of all subsidiary and sub-subsidiary companies.

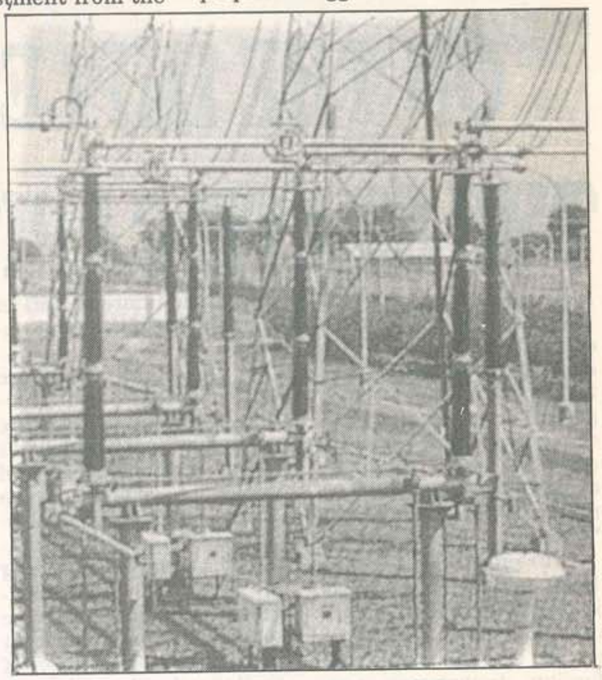
This can be considered as a method of diversifying the ownership of the group, that is, attracting all investors. Holders of a large amount of shares will be voted directors of sub-subsidiary or subsidiary companies. All directors must strive for profit-maximization, and secondly, bear responsibility for his property and company's assets as well. Because directors are biggest shareholders so they will suffer the greatest losses if the company's business performance is poor. Thus directors' interests are linked to company's wealth.

It's worth mentioning that in the group, all information about the parent and subsidiary companies is supplied to all shareholders and the boards of directors as well, because the group gathers money from investors and put it in business, so it has to publicize its financial statement and profit and loss statement. Moreover, the law requires that companies have to publicize these statements before they issue shares to the public. Naturally, the public only buy shares from the most promising companies, that is, from companies that are known as profit making businesses. In Vietnam, unfortunately, these statements are never publicized. That is why a capital market is slow to make its appearance in Vietnam.

The fate of a subsidiary company is well under control. If a subsidiary company makes profits, it will be maintained or receive more investment. If a company suffers losses, both the group management and the public are informed about it, and measures must be taken and decisions must be made.

## II. MEASURES TO REFORM SCS

In Vietnam, many measures have been taken to reform the system of SCs, such as to form corporations, to rearrange and restructure the system of SCs, to merge a loss-making company with a wealthy one. According to the Decree 59/CP issued on Oct. 3,1996 "Besides investment from the Treasury, SCs are allowed to attract more investment by issuing bonds, borrowing from bank, cooperating with other organizations or private persons, or other means". The Government has also equitized certain SCs and prepared to form the stock exchange. But all these attempts require SCs to publicize their financial information, while in Vietnam there is no law or act on it.



The full disclosure requirement to all SCs and other companies must be considered as the basic and compulsory step of the process of reforming the system of Scs, equitizing SCs and forming the stock exchange, because the investing public must be kept informed about the use pf their investment and the potential profitability of investment. It's worth noting that such bankruptcies as Thanh Hương, Sicogiva or Tamexco could be prevented if these companies were required to make full disclosure of their financial situation and other data before they were allowed to receive investment from the public.

Secondly, the Government will play the role of a financial capitalist who can control the group of companies by holding only a percentage of share-capital. Why did the Vietnam Government have to hold 100% of share-capital of a SC?

Thirdly, directors of SCs will not be appointed by the Government but be elected by the general meeting of shareholders. Directors will be the biggest shareholders who will bear responsibility for company's business performance and for their money put in companies. This measure will prevent directors of SCs from embezzling company's funds, or at least, they have to pay for the damage they cause to the company.

Fourthly, we had better computerize the task of managing SCs: company making enough profit to repay bank loans and pay taxes will be maintained, loss-making ones will be settled by the shareholds meeting in which the Government can make appropriate suggestions.

## III. SOCIALISM AND SCS

The socialist government had better inherite good achievements from the capitalism. In the financial capitalism, a minority hold a large percentage of social products, in the socialist regime, it is replaced by the people financial capitalism: the government, on behalf of the public, control groups of companies in which profit making isn't the ultimate target. Besides this target, socialist groups also aim at rapid development, industrialization and modernization, etc. But such methods as managing companies through a parent company or forcing companies to make full disclosure must be applied in order to defeat the red tape, corruption, embezzlement; to equitize SCs and form the stock exchange successfully■