

# PERFORMANCE OF INDUSTRIAL CONCERNS IN VINH LONG

by MEcon. NGÔ QUANG HUÂN

## I. SITUATION

Vinh Long is in the Mekong Delta, on the national route connecting HCMC and Cần Thơ, the most important economic center of the Delta but Vinh Long plays no important role in the national economy: it accounts for only 1% of the GDP. The industrial sector represents only a small percentage (12%) in the Vinh Long gross product because its average growth rate in the years 1996-98 was some 6.5% a year. The industrial sector in Vinh Long includes mainly processing factories, most of them are family businesses. Small and medium businesses (private, foreign-invested or state-run companies) represent only 5% of the amount of industrial concerns, employ 19% of the working population and account for 30% of added value. An average concern employs only five laborers and creates some VND43 million worth of added value. This situation makes it very difficult for Vinh Long industrial concerns to take part in the national industrialization and modernization.

There are many causes of this situation but the most basic one is the poor business performance which could be seen in the following data about some important concerns in Vinh Long in 1998.

Those data show that most concerns suffered losses. The concern with the highest profitability was facing many possible risks while the second profitable concern had a profit ratio lower than the bank deposit rate at that time.

The poor performance originated from many factors: unfavorable business environment and management mechanism, badly-trained labor force, shortage of skilled managers, narrowing market, lack of financial services, etc.

## II. MEASURES TO IMPROVE THE BUSINESS PERFORMANCE

### 1. Measures to perfect the business environment

The business environment is considered as an external factor affecting the business performance. It's the government that bears most responsibility for improving the environment.

To make the political environment favorable for business activities, the provincial government should keep up with the administrative reform, restructure the system of state-run companies in order to help them play the leading role in the local economy and ensure social order and security.

As for the economic environment, the local government should reform state-run companies by allowing them more autonomy in their decision making process, develop supporting institutions (trade promotion service, advisory service, information service, etc.), and encourage the development of all factors of the market economy.

In addition, more attention should be paid to legal, social and cultural infrastructure.

### 2. Measures at microeconomic level

a. Working out and perfecting the business strategy: If the personnel of the concern are good enough, the concern had better work out or perfect its business strategy. On the contrary, the concern should have the strategy worked out by advisors and experts, and at the same time, recruit well-trained managers or send its personnel to make studies in big cities. Thinking through, it's the business strategy that plays a decisive role in the survival and development of the concern.

b. Perfecting the mechanism for managing the labor force: A well-trained labor force is a basis for the sustainable development of the concern. The management of labor force should aim at employing it effectively to enhance the labor productivity and business performance; and helping laborers improve their skills, ability and loyalty to the concern.

c. More marketing campaigns: Each concern had better work out a marketing strategy and form a department to carry it out. Cooperation between concerns in the same industry, between concerns and local authorities and between concerns and non-profit organizations is also very useful in reducing competition and expanding market shares. An outlay on marketing campaign is very necessary. Carrying out marketing campaigns on the Internet may be a good measure if it is within the concern's reach.

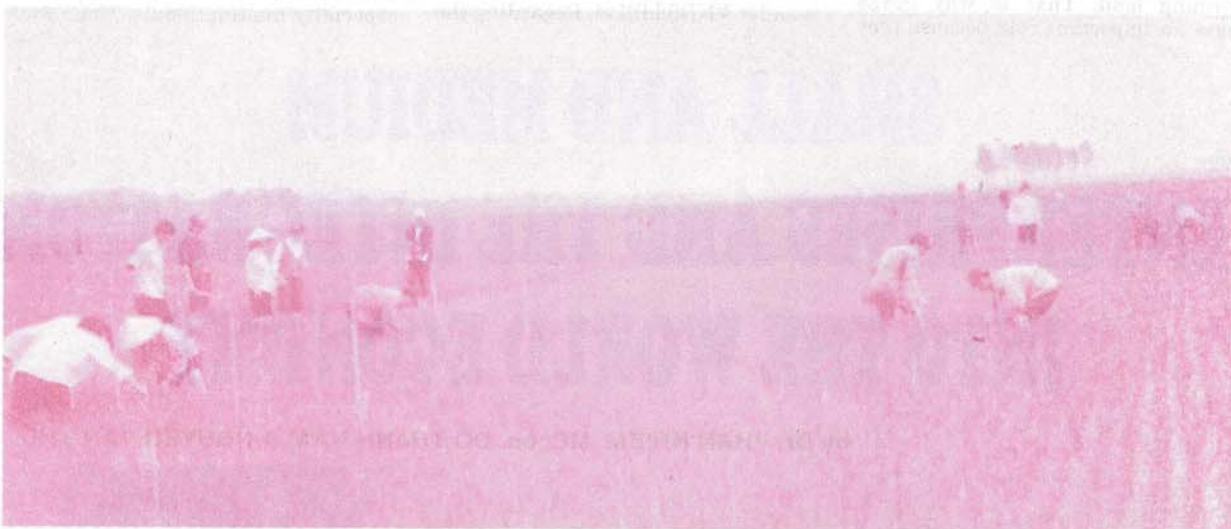
d. Increasing fixed investment and making the best use of working

Concern	Sales/ Asset	Net income/ Sales	1/(1-Debt/ Asset)	Net income/Equity %
Vinh Long Pharmaceuticals and Medical Equipment	0.81	2.21	15.55	27.84
Cửu Long Engineering Factory	0.95	0.06	1.12	0.064
Building Materials Company	0.96	18.95	na	na
Vinh Long Printing Company	2.86	5.22	1.12	16.72
Cửu Long Tobacco Company	1.33	13.29	1.6	28.28
Vinh Long Water Supply Company	0.47	9.74	1.43	6.55
Vinh Long U.D Joint Venture	2.05	4.23	4.98	43.17
Cửu Long Ltd.	6.76	0.74	4.29	21.46
Thuận Phát Ltd.	9.27	0.65	7.68	46.3



capital: When the decision on a production plan is made, all existing resources should be put in the plan with a view to completing it and bringing it into operation as soon as possible. In addition, the concern should regularly estimate the use of assets to find ways to enhance their efficiency. As for working capital, the concern should determine the optimal level for working capital based on its business scope. Modern methods of controlling the cash flow must be applied in order to improve the efficiency of using working capital. This process could be computerized easily.

e. Perfecting the structure of capital: This work aims at avoiding bankruptcy when competition becomes keener. Most industrial concerns in Vinh Long have to reduce proportion of debt to equity capital, reduce



short-term capital and increase long-term one.

f. Beefing up management machinery: For this purpose, the following measures could be taken: downsizing the management machinery, encouraging middle managers to undertake more jobs for better pay, assigning more labor to important departments (marketing, finance, R&D, business strategy, etc.), computerizing the management work, exerting financial pressure to force employees to master production facilities and management models, looking for help from advisory firms if need be, making more investment in distribution network and advertisement campaign, etc.

As for the management of production and distribution, the following measures are useful: working out the production plans in cooperation with the marketing department, making

this plan appropriate to the production capacity of the concern, carrying out organizational reform, working out an incentive scheme to promote the labor productivity, etc.

g. Applying quality control system and risk control program: Industrial concerns in Vinh Long have to start thinking of application of TQM and ISO9000 standards because Vietnam will become a full member of the AFTA by 2006. For the time being, the concern management should study this problem and look for information and advice from business support organizations. In this matter, help from government offices is valuable (supplying information, creating a better business conditions, providing financial support and technical advice, etc.).

The risk control is a new problem to most industrial concerns in Vinh Long although it is a topical problem.

To work out an effective risk control program is a task that requires contribution from all employees and managers. The whole personnel should improve their ability to identify risks and simplest techniques to deal with them. The concern can work out its risk control program based on its financial situation and human resource.

To improve the business performance is a matter of life and death to the concern. All concerns should do it by themselves and take full responsibility for this effort. The provincial government can only help them by creating more favorable conditions, providing information and advisory services, and perfecting the legal infrastructure. But the first and most urgent requirement in current conditions in Vinh Long is a change in way of thinking among managers of all levels of industrial concerns. ■