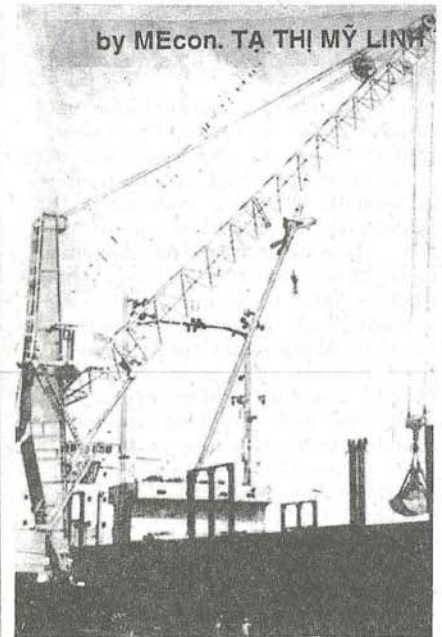
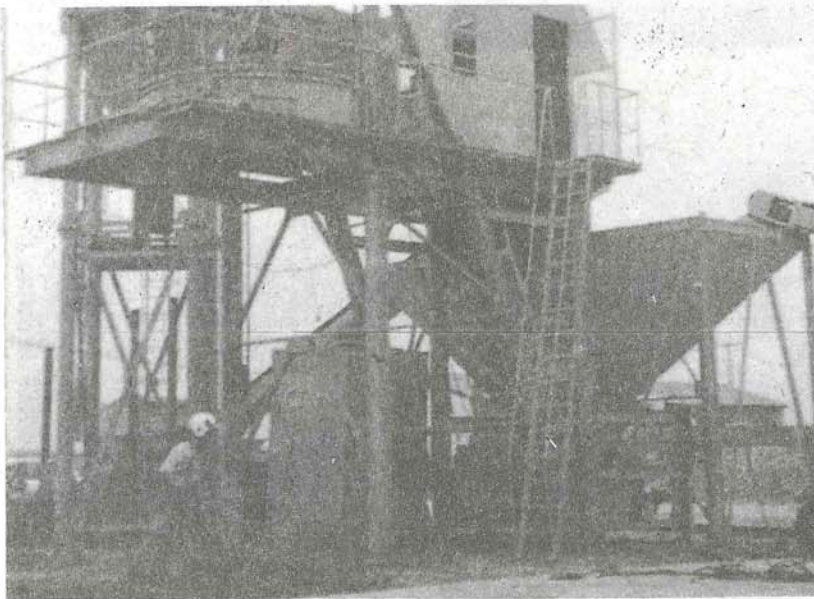


A NEW MANAGEMENT MECHANISM AND OPERATION PATTERN AN URGENT NEED TO STATE TRADING COMPANIES



In the past, the common organization pattern of state trading companies, and of the state trading sector as well, under the centrally controlled and subsidized mechanism, was formed according to the vertical delegation principle. This organization pattern is only appropriate when sales realized and product lines supplied by state trading companies are stable and supply of goods for sale is reliable. In this organization pattern, each state trading company is assigned to take responsibility for supplying certain product lines appropriate to its functions to a specific territory.

Following this principle, intermediary organizations are arranged according to administrative levels from central to local governments but the whole state-run trading sector is still under a centrally-

controlled mechanism. When power is centralized and the whole machinery is operated through administrative orders, the full attention is only paid to vertical relations between superior and subordinate authorities. In the process of operating an organization, flows of information and business transactions are mainly and usually run by corresponding authorities of all levels. Thus, the state trading sector operates under the centrally-controlled mechanism and concentrates on carrying out orders given by superiors with the result that no attention is paid to business performance. All state-run trading companies didn't care about measures to rationalize their machinery, reduce overheads or improve their productivity.

However, the centrally controlled

and subsidized mechanism provided the state trading sector with an advantage: it is allowed to enjoy a monopoly in both buying (but in fact it simply receives goods from state factories and all factories are owned by the state) and selling (that is, distributing goods to companies or outlets at subordinate levels). Both buying and selling are carried out according to minute instructions in which all details (suppliers, buyers, quantity, price, etc.) are stated exactly. In such a condition, no trading company run by private persons could come into being and compete against state-run ones. Under this highly centralized mechanism, both state trading companies and producers didn't care about consumers' needs and taste but they could keep on existing and developing, and all goods sup-

plied were certainly saleable because industrial production was poor, labor productivity was low and shortage of consumer goods became permanent.

This centrally controlled mechanism with all its features as a product of history contained in itself many shortcomings that quickly came to light:

- + When the management mechanism is highly centralized, operation of the state-run trading sector is totally alien to the law of value and other economic laws. It became a merely formal activity and officers carried it out as if it was an administrative procedure. The state trading sector under this management mechanism, failed to identify market demands, let alone satisfy them. All plans and targets were

depending on quality of macroeconomic instruments and managerial capability. But the centrally controlled and subsidized mechanism, when fixing market prices without linking them with values of goods and relations of supply and demand forces, has annihilated all possible effects generated by macroeconomic instruments. This management mechanism defied the law of value and of market, took material products as they come without taking their values, along with quality and efficiency, into consideration, and this situation, in its turns, made the task of keeping books and gathering statistics a formality and "real loss - false profit" widespread.

- + This management mechanism, in fact, reflects the direct intervention of the Government in the

time. But this mechanism is only appropriate to a certain period. In the market economy, it became obsolete and unsuitable, and needed to be reformed.

Thus, due to the need to develop the economy, the reform in the management mechanism and operation pattern of the state trading sector becomes an inevitable requirement. No doubt the state trading sector should have its operation and machinery revolutionized in order to gain better business performance.

In the early 1980s, to realize the VCP decision to recognize all economic sectors and develop the socialism-oriented mixed economy, a series of policies and measures to adjust and make the best use of macroeconomic instruments (such



made ready by planning authorities and assigned to local governments and industrial and commerce authorities who, in their turn, divided these targets and tasks among subordinate units. All business targets and plans were based on subjective will of governing body and subjective assessments of the aggregate supply. Thus, as time passed, the state trading sector became a storekeeper who simply receives and allocates goods according to instructions from the state. Being separated from the market, the trading business run by the state was reduced to a mere formality.

- + This management mechanism was turned into a simple administrative machinery and no attention was given to the business performance. Theoretically, the management mechanism is a strategic solution

state trading sector through administrative decrees and in state-run trading companies through the system of compulsory targets. Under this mechanism, all state trading companies should send quarterly and yearly reports on their operation to their governing bodies. These reports should be made according to forms set by the Government. Thus, state trading companies are reduced to an idle machinery doing everything as a matter of routine.

In short, the centrally controlled mechanism in the state trading sector displayed a lot of shortcomings that hindered the development of productive forces. This mechanism, however, has played an undeniable role in distributing limited supplies of goods to the people and raw materials to factories, and maintaining social order during the war-

as pricing, planning, taxation, interest rate and credit supply) were introduced for the first time in Vietnam and were carried out consistently to a certain extent, thereby reviving economic activities and affecting greatly the trading sector.

The reform in the management mechanism and operation pattern of the state trading sector took place on a large scale after the 6th VCP National Congress (1986). In this period, exact targets and requirements set for each stage of reform helped the state trading sector as a whole and each state-run trading company develop rather fast and make better progress than it did under the centrally planned and subsidized mechanism in previous periods. The market mechanism, with its strong impacts, led to possibilities of mobilizing all

existing resources. The business plan ceased to be a formality in the same way as previously and started to develop in changeable conditions. It was impacts and changes caused by the market mechanism that made an overall reform in the management mechanism of the state trading sector an urgent requirement.

Thus, reform in organization and management mechanisms of each state trading company became a content indispensable to the process of revolutionizing the way of doing trading business. The process of reforming the organization and management mechanisms with a view to changing the operation pattern, has really become an urgent need felt by the state trading sector itself. Thus, to all state trading companies in Vietnam, improvements in performance of the organization machinery became a precondition for reforming the management mechanism.

As we know, effects of the mechanism could be found everywhere in the management process. It acts as a dynamic that accelerates the production, and the trading business as well. Reforming the management mechanism means changing the managing method and making the task of managing state trading companies capable of adjusting itself to conditions of the market economy. Moreover, the reform in company management, in its turn, will create conditions for developing effects of the mechanism and help it operate better. If we make the best use of the organizing function of management mechanism, along with other functions, we will be able to activate the new management mechanism.

The process of reforming the management mechanism should be carried out in parallel with the reform in company management. Reality of the socio-economic life has justified the need to beef up the role and effects of management in the market economy, because it's the only way to help state trading companies gain better performance.

Studying the performance of state trading companies in the past few years, we saw that it was the transformation of their organization and operation pattern that caused the state trading sector to develop. For example, the amount of state trading companies is on the decrease but their performance is being improved remarkably. The scale of operation of state trading companies

is becoming bigger: they control the better part of foreign trade, their export earnings in recent years increased by 20% on average, export of most staple products of Vietnam (rice, clothing, crude oil, etc.) are undertaken by state trading companies. The size of capital of state trading companies increases year after year: companies with working capital of VND5 - 10 billion represent 20.5% of the total amount of state trading companies while companies with more than VND10 billion of working capital represent over 36%. Certain powerful trading organizations have made their appearance, such as Vietnam Oil Corporation (with a legal capital of VND1,097 billion) and Vietnam Machine and Spare Part Corporation (VND130 billion). In addition, the labor force employed by the state trading companies tends to become bigger in comparison with the previous period. From 1990 on, the state trading sector has controlled over 70% of the wholesale market and some 20% of the total retail sales.

At present, the operation of state trading companies has assumed many new characteristics: many state trading companies have engaged in both retailing and wholesaling; most of them are trying to offer a wider range of goods for sale; fuller attention has been paid to their shares in domestic and foreign markets; many companies have cooperated with industrial producers in order to ensure reliable supplies of goods, etc. These developments have forced the whole state trading sector to reform its management machinery and its operation pattern with a view to developing accordingly in the market economy.

A problem arising from recent developments of state trading companies: what concepts and measures could make the reform in the management mechanism and operation pattern of the state trading sector feasible? This important question is posed not only for the state trading sector but also for all the others as well. We want to present here our opinions about this problem.

+ First of all, we should form a correct concept of the reform in the management mechanism and operation pattern of the state trading sector under the market mechanism. Moreover, we should work out a strategy to carry out this reform and struggle against all tendencies towards inconsistency, conservatism

and formality. When carrying out the reform in the management mechanism, regular and stable operation of the trading company should be ensured.

+ In reforming the management machinery of trading companies, scientific methods of analyzing and organizing are much needed. The main target of the reform is to rearrange and make the best use of existing resources. The reform should be carried out systematically and actively, all working parts of the management machinery should be rearranged for a better business performance. In addition, a well-devised plan including appropriate steps and correct processes is also needed.

+ In reforming the management machinery and operation pattern of state companies, the role of the Government should be enhanced. The Government should create conditions favorable for the reform process, facilitate the trading business, ensure full autonomy for trading companies, gather and supply business information and help state companies make use of and develop human resources. The Government should act as a controller and director of the reform in the management machinery and operation pattern of the state trading companies.

+ The organization and management mechanisms of state trading companies should be diversified. They could be equitized or changed into limited companies where all equity capital is held by the Government. All state-run corporations must aim at coupling vertical with horizontal cooperation relations. Each corporation could specialize in supplying one product line or supply a wide range of products.

+ The system of VCP committees and cells and Trade Unions in state companies needs to be reformed with a view to encouraging, and ensuring the participation of workers in the task of managing the company. Under the market mechanism, it's increasingly necessary to enhance the VCP committee's direction, supervision and control over the management and operation of the company. In addition, necessary measures should be taken to help Trade Unions and workers take part in the management of company and in the realization of business plans set for the company according to the principle that personal interests are coupled with those of the community.