

Shadow cost of production (SCP) may be a fresh concept for Vietnamese business people, although day by day, hour by hour we catch sight of it in jobs.

So far, in economic accounting, part of SCP has been referred to as *losses in production* or *losses on products and unplanned standstill of production*. It is reflected in the account 37, (sub-account 37.1 - *broken-down products* and sub-account 37.2 - *halted production*) with the aim at finding loss causes and makers in order to perform the principle *Being responsible for loss of economic accounting*.

At present, entering into market mechanism with no subsidy, organizations, enterprises have to take responsibility of their own economic performance. to carry out independent accounting, they see that the above notions of "losses" do not yet reflect fully economic losses in business-doing. This means they are not completely recognized, not exactly calculated in the business result. Therefore the enterprise's situation *false profit, real loss, phenomenon premature death* are still popular. That leads to difficulties for economic management, money loss, curb on development of the whole social production.

So, what is SCP? According to economists, SCP is seen as economic losses by wrong-doing, breaking. It results from badly-done works (from policy making, planning, performing and consuming). SCP is also an effect of waste, bribe, corruption and irresponsibility in every activity.

What do we think when we are informed in newspapers as follows?

By inspecting 519 non-state businesses, there are only 162 making profit, 221 suffering loss of VND 7.7 billion, the remain toughly break even - of typical loss sufferers are V.D Company with a loss of VND 580 million (accounting for 96.78 % of prescribed capital), NM Company VND 378 million (193.9%), VH Company VND 886 million (177.3%)...

Or a report in the fourth session of the National Assembly, term IX, announced:

- Loss in capital construction: 15-20% (equal to VND 2,000 billion in 1993)

- Loss in administrative field: 10-15%

- Power loss: 23%
- 30% of state-owned enterprises suffering loss.

- 700 foreign invested projects have technology aged over 15, a lot of equipment manufactured in the period of World War II, even in 1905.

- Budget invested in the mountainous regions lost at many levels, thus it only remained 40% when granted to the basic level...

Or by examining 300 investment projects with capital of foreign equipment, It was seen that Vietnamese

and poorer" and caused by ourselves, the danger of backwardness is not an impractical and pessimistic worry.

To understand more clearly the SCP role and influence on business activities, socio-economic matters, we shall consider some following examples:

Suppose an American company has a yearly US\$ 15 billion turnover, the average SCP in America is 20% of turnover, then if there are not improvement measures, SCP will be:

$$\text{US\$ 15 billion} \times 0.20 = \text{US\$ 3 billion.}$$

What will happen when the company tries to reduce SCP to 15% of turnover? That means the company's capital does not increase, but owing to better management its SCP reduces by 5%, so the company enjoys an additional net profit as:

$$\text{US\$ 15 billion} \times 0.05 = \text{US\$ 0.75 billion (US\$ 750 million)}$$

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party got overcharged for price, suffering loss of over US\$ 50 million (Pháp Luật review - August 1994).

What is the cause of those losses? They did not result from "broken products" or "unplanned halt of machine". Looking into their nature, we see that the radical cause of the above losses originated from bad management and knowledge in business-doing. The whole loss is just SCP. SCP is up to capability, management level, working concept and manner of everybody and even environment condition.

The SCP theory is not only set up for underdeveloped countries, but also one of concerns of developed countries.

It was recorded as follows:

In France, as for industrial production in particular, average SCP is Fr 1,000 per capita a month (about US\$ 2,000 pc a year).

In Britain, this number amounts to £10 billion per year.

In America, Netherlands SCP accounts for 20-25% of business turnover

In developing countries, SCP usually approximates 40% of turnover.

In Vietnam at present, although there is not accurate statistics but due to not high management level, insufficient business experience in the market economy, full of keen competition and risk, waste and corruption, SCP can be hardly controlled. That really leads to the situation "poorer

Or another example: BT Company, ltd. had turnover of VND 30 billion in 1992. Suppose Vietnam's average SCP was 30% of turnover then the company's SCP would be VND 9 billion per year.

And if the company's SCP reduced by 5% then it had additional funds of VND 150 million.

Whereas in the movement "eradicating hunger, lowering poverty", a poor family if lent or given only one million đồng, then they have chance to get rid of poverty.

On the other hand, all those costs (SCP) are commonly calculated in production costs, this make the price of product increase, thus the product will lose competitive power in the market.

As for management viewpoint, SCP is really effect of bad management system, wrong utility of resources (time waste, expenditure exceeding revenue...), lack of flexibility and of interest in customers...

As a result, to raise business efficiency, avoid the danger of backwardness and struggle against corruption, it is essential to find measures to improve management quality at both macro and micro level with the aim at controlling and reducing SCP with all its appearances. Doing this, we will help stabilize and push up the growth rate of the whole economy ♣

SHADOW COST OF PRODUCTION: AN OBSTACLE ON THE WAY TO DEVELOPMENT