On a Model of Strong Economic Group

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1. Appearance of economic groups

In the 1990s, Vietnamese leaders started to talk about strong groups when Vietnam was in the transition to the market economy.

At that time, the market economy in Vietnam was in its first stage of development, The private sector just came into being. The public sector, after many reforms with Decision 315/HĐBT dated Sep. 1, 1990 and Decree 388/HĐBT dated Nov. 20, 1991, was beefed up when some loss-making companies were dissolved. Up to the end of 1993, there were some 12,000 companies in the public sector and most of them were small and weak. Only a handful of them could make profits. And as a result, the public sector couldn't play the leading role in the economy and foreign trade business.

In such a situation, the Government wanted to build strong groups as instruments for regulating the economy at macroeconomic level; removing gradually the control by governing ministries and geographical limits on state-owned companies, and discrimination between centrally and locally-run companies; smoothing flows of capital between companies; and enhancing the orientation for economic life. On March 7, 1994, the PM made Decision 91/TTg on the formation of pilot groups with the following criteria:

- Companies included in this pilot scheme should have rather large scale and geographical networks and relations with their partner in the same industry.
- Members of the group must have relations with one another in terms of finance, service and operation.
- The group must have at least seven members and a legal capital of VND1,000 billion at least.
- The group could establish a finance company to mobilize and regulate flows of capital.
- The Board of directors of the group will include from seven to nine members appointed by the PM.

Companies of large scale, or corporations, established according to the Decision 91/TTg, come into being on the following reasons:

+ The need to replace machines and equipment: most local companies at that time had poor performance and productivity because of old machines and technologies while they faced shortage of capital. The scheme aimed at helping some leading companies renew technologies and increase the output of the whole industry, thereby accumulating capital needed for replacement of machines in other companies.

+ The need for concentration and re-specialization in each industry: This process will take time to happen, which will fail to achieve economy of scale. The Government wanted to group leading companies in order to concentrate capital and other resources, thereby accelerating this process.

+ Local companies were facing foreign competition and usually suffered losses because of their poor strength and small scales. Many foreign companies tended to separate local companies in order to force local partners to accept their requirements. Estab-

lishment of strong companies under unique direction could help local companies improve their competitive edge.

+ Concentration of production has become an international trend: In the world, the number of small and medium enterprises is very high (from 80% to 95% of registered companies in many developed countries and this figure in Vietnam was 96%), but large companies account for a large proportion of the budget income. They usually use high technologies and produce goods of high quality which become symbols of the country. Japan and South Korea are two countries that have tried their best to beef up large-scale companies. In the West, although the public sector is small but all state-owned companies are of the large scale. In recent years, mergers of companies and diversification of ownership have occurred frequently.

After the Decision 91/TTg, many ministries have established their corporations. In January 1995, the Vietnam Electricity Corporation with 34 subsidiaries became the first group formed according to the Decision 91. After that, 16 corporations came into being in seven key industries: manufacturing, agriculture, construction, post, telecommunication, oil, and aviation. These corporations control 532 subsidiaries, account for 9% of the number of state-owned companies, 56% of the working capital and 35% of the labor force. They are Coal Corporation (26 subsidiaries), Cement Corporation (14), Aviation Corporation (19), Oil and Gas Corporation (16), Northern Food Corporation (30), Southern Food Corporation (33), Chemicals Corporation (50), Post and Telecommunications Corporation (88), Clothing Corporation (61), Paper Corporation (20), Jewelry Corporation (12), Shipping Corporation (24), Rubber Corporation (32), Coffee Corporation (70), Tobacco Corporation (12) and Steel Corporation (17).

2. Initial results

Firstly, the presence of corporations under the Decision 91 facilitates the State control over the public sector. Most state-owned companies in the past were under direct management of ministries. Now they are run by corporations, which:

- allows the central government and its ministries to focus on strategic issues for their field, otherwise they have to deal with too many day-to-day and short-term issues with the result that they become understaffed.
- separates the State control from the business management and allows ministries to stop spending too much time and energy on their companies; and allow more autonomy for subordinate companies.

Secondly, ministries can spend more time working out strategies for their fields while corporations can build business strategies on their own and work our measures to carry out these strategies instead of waiting for directions from the ministry.

Thirdly, unneccesary competition for foreign partners is removed. Some corporations have been able to establish cooperation with one another in researching markets, trading goods and materials and exchanging managerial experience. As a result, many corporations could take large orders from foreign partners and fill them within a short period.

Fourthly, development strategy for the whole corporation and each subsidiary could be worked out in details and more exactly. Although opinions about these strategies and plans to implement them are divided, both corporation and its subsidiaries are making good progress in running their business.

Fifthly, the governing machinery from the corporation to its subsidiaries has been beefed up and routine procedures have been established.

3. Shortcomings

Firstly, delegation of rights and duties within a corporation isn't rational. Many decisions by the corporation couldn't take effect, especially ones relating to flows of capital between subsidiaries and division of orders among them. Application of technical advances isn't carried out as broadly as the period before the formation of corporation. This originates from the fact that the ownership of the working capital isn't made clear. This capital has been granted to both director-general and chairperson of the board of directors, which made their roles and duties vague.

Secondly, mutual beneficial relationship between subsidiaries isn't clear and strong enough while this is a decisive factor to the existence of the corporation. Many small companies have been reluctant to join the corporation because they didn't know what they would get or lose. Particularly, the benefit of a common business plan has been rejected by many subsidiaries because they thought it limited their autonomy in business.

Thirdly, the management machinery of the corporation isn't strong enough and it fails to control the whole industry. The fact that the director-general is appointed by the PM, instead of the board of directors, didn't beef up the power of the board to the director-general and the corporation as a whole. This makes the relation between the director-general and the board. Many members were assigned to the board of directors to play the role of representatives of subsidiaries, therefore, they didn't feel enthusiastic about the development of the corporation.

Fourthly, many corporations lack financial strength and therefore couldn't affect favorably their subsidiaries. Although corporations are allowed to form their own finance companies, these companies aren't considered as banking institutions by the State Bank Law and Banking Institutions Law. This defect makes it hard for them to mobilize necessary capital.

Fifthly, although the State control and business management are defined as separate, some corporations are still assigned certain tasks of State control. This allows them to enjoy some monopoly, which leads to unfair competition and sometimes affects badly the development of the corporations and their subsidiaries as well.

4. Suggestions

- Members must join the corporation on a voluntary basis and the corporation must operate as a limited company owned by the State.
- The legal capital of the corporation is not necessarily VND1,000 billion. The volume of their capital is determined by characteristics of the industry in which they operate. Corporations could issue company bonds and receive investment from the Government if need be.
- The board of directors must be the governing body of the corporation and director-general is one of its employee instead of an official with equal power.
- Corporation must play the role of the holding company that holds more than half the share capital of its subsidiaries.
- Corporations could form their own finance companies and the legal infrastructure for these companies is much needed.■