SOME FINANCIAL ASPECTS OF THE PROCESS OF CHANGING STATE-OWNED COMPANIES INTO PARENT AND SUBSIDIARY COMPANIES

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The Government has tried to reform and reorganize the system of state-owned companies by privatizing some of them, dissolving, leasing, selling or changing into one-member limited companies. A new solution for the sector is to develop the model of parent and subsidiary companies as a replacement for corporations 90 and 91 (so called because they were formed by Decrees 90/TTg and 91/TTg by the PM) that have proven to be ineffective. To accelerate the reform in the public sector, the Government is preparing amendments to the State-Owned Companies Law before submitting them to the NA for approval. In addition, the Companies Law and State-Owned Companies Law must be consistent in order to provide a firm legal infrastructure for the model of parent and subsidiary companies because this model allows private investment in state-owned companies.

The parent-subsidiary company model is in the pilot stage in Vietnam in an effort to reform the public sector. In this process, many problems must be solved, including financial relations between companies in the model.

1. Advantages of the model

The model has been common for long in many developed countries. It is adopted by multinationals because of its various advantages. In principle, the parent company could exercise some control over subsidiary companies but in fact they are independent legal entities, that is, they are all equal before law. The parent companies, by holding big percentages of share capital of subsidiary companies, could manipulate their operations to a certain extent. The parent company could hold the whole share capital, multiple voting shares, or ordinary shares of the subsidiary company. Thus, the parent company can adjust business strategy and goals of subsidiary companies or its own by adjusting its investments in subsidiary companies (increasing, decreasing or withdrawing them). The parent company's liability is limited to the amount of shares it holds as regulated by law. Advantages of this model are:

- In legal terms, the parent and subsidiary companies are relatively independent. They are equal legal entities before law.
- Subsidiary companies enjoy autonomy and bear responsibility for their business strategies within the general strategy set forth by the parent one.
- Percentage of shares each party holds helps clarify rights and duties of each party.
- Subsidiary companies observe the general strategy set forth by the parent company and have close relation with other subsidiaries. The subsidiaries send regular financial reports to the parent one.

In Vietnam today, the management machinery of state-owned companies in general, and of corporations in particular, isn't different from the administrative machinery. The state-owned corporation is a legal entity that acts a representative of its member companies. As for financial aspect, the corporation controls financial matters of its members who have no autonomy in their business strategies although some rights have been delegated to them. All business decisions must be approved by the corporation. Member companies have to persuade the corporation to approve their projects, fulfil many complex procedures for getting funds and sometimes, they have to ask for approval from governing ministries as required by law if the project is of a larger scale. This is the reason why all decisions on investment are made too slowly with the result that many opportunities are missed and the project isn't profitable as expected.

2. Financial mechanism

The financial mechanism relating to state-owned corporations 90 and 91 and their member companies reflects itself in the following activities: The Government grants capital to corporations who divide it among member companies. Member companies have to submit all kinds of plans to the corporation for approval (such as plans to use the granted capital, bid for contracts, buy raw materials or sell their products, etc.), pay part of profits to the corporation, send financial reports regularly as required, and so on. In addition, member companies that are in need of loan capital have to ask the corporation to borrow from banks because they have no legal entity. Thus, the relation between the corporation and its member companies is like that between higher and lower administrative authorities. It's member companies that directly do business while the corporation has to do jobs for which member companies are responsible.

That is why many member companies complain bitterly that before joining the corporations they had only to report to their governing ministries and now they have the corporation as another governing body. In fact, all member companies had come into being and operation long before the corporation. It looks like a father who is born after his children. And as a result, the relation between the corporation and member companies isn't close and harmonious. Autonomy and financial responsibility aren't delegated to member companies.

3. Problems to deal with

And now, when the Government decides to apply the model of parent and subsidiary companies to Vietnam, full attention must be paid to the following problems in order to ensure the state control over state-owned companies, create a healthy mechanism for managing financial matters, offering equal opportunity to companies of all sectors and encourage the autonomy and responsibility sense in companies in the new model:

- The task of changing state-owned companies, either corporations or their members companies, into parent and subsidiary companies must be carried out gradually and carefully in order to avoid hasty decisions as witnessed when corporations were formed. Firstly, state-owned companies must be classified according to their performance and strength, and then, changing them into limited companies, one-member limited companies, joint stock companies, or other suitable kinds. Well-managed companies with good performance could be picked out, provided with more capital and turned into parent companies. After that, they have to use retained profit to invest in other companies making them its subsidiaries. By doing so, they can really exercise control over subsidiaries according to the percentage of shares they hold.

- Subsidiary companies could take the form of limited, one-member limited or joint stock companies and they could develop into parent companies if they are strong enough.

- Relations between parent and subsidiary companies will be realized through meeting of shareholders or of members depending on their forms. The relations are mainly materialized in business contracts.

- The legal infrastructure for this model must be beefed up in order to help the Government regulate and control operations of all companies doing business in Vietnam. For the time being, the State-Owned Companies Law and Companies Law must be merged together in order to provide all companies with a level playing field.

- Financial authority must study international standards and practices, and strong points of the current financial mechanism, to develop a new mechanism for managing financial matters suitable to the model, and especially to the transition period.■

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