APPLYING NEW BUSINESS MODEL TO VIETNAM'S PRINTING SECTOR

by MEcon. VŨ TRỰC PHỨC

The Government's Decrees 90/TTg and 91/TTg dated March 7, 1994 gave birth to corporations 90 and 91 – generally named state-owned corporations (SOCs).

These SOCs have on the whole implemented their key role in the economy over the past years. Some of them produce profits, develop strongly and make significant contributions to the national economy. In the meantime, others have operated poorly and not yet fulfilled their tasks due to many causes. Recently, Vietnamese economists have reviewed and introduced a new model of corporation, namely the model of parent company and subsidiaries with more advantages.

We like to review some shortcomings and causes of the old cooperation model and make some suggestions on the production and business of the Vietnam's printing sector.

1. Basic shortcomings of SOCs

• The SOCs' operations are not really of an integrated economic entity. The relationship between the SOC and its subsidiaries is loose and lacks strength. The SOC exists as an immediate management agency.

• The SOC has not yet implemented its central role on production and business, product distribution, market orientation, and competitive position of the SOC and its subsidiaries. As a result, its growth rate is not suitable to its planned scale and role.

• The SOC's capital and financial mechanism also faces a lot of restrictions:

- The capital of many SOCs has not yet met requirements of production and business. Their subsidiaries' capital is not harmonized and focused on strategic projects.

- The identification between the capital owner and the capital manager remains vague. The Management Board's chairperson and the CEO are entitled to receive state capital. This easily causes contradictions if they are different persons. If a person holds both of these positions, it is hard to supervise and inspect the use of state capital.

- The financial relations between the SOC and its subsidiaries are not transparent, so their mutual concern is only in name.

- Some SOCs have a cumbersome organization apparatus and their activities are like administration of the old model of union of enterprises and state agencies (ministerial departments, services...)

2. Some causes

- The establishment of SOCs is a compulsory but unnatural combination resulted from the protection of members' mutual interests or capital accumulation in the process of production.

- The issue of capital ownership is not completely resolved. The members' capital and assets belong to the State. The corporation on behalf of the State owns the whole capital and assets and has the right to use and distribute it. In fact, the whole capital and assets are practically managed and used by the members. The corporation only plays the role as the former governing agency. It comes to the member company annually along with the superior financial agency and the tax bureau in order to consider and approve the company's financial accounts. Therefore, the member will attach more importance to its benefits than to those of the corporation. The problem must be completely solved. The corporation, on the half of the State, shall really possess its capital, the members are only persons who manage that capital and assets and bring them to production for profits.

- Many corporations have not yet made their own products, this task is assigned to its members, so it plays only the role of administration and lives on payments from the members.

- The evidence reveals the chairperson, general director, and directors of subsidiaries are all civil servants appointed by superior agencies. However, the process of appointment lacks a determined mind, close system and vague term of office (commonly understood as holding this position until retirement). This has caused the fact that the upper agency's orders were not fulfilled, the management thus ineffective and the enterprise's losses in consecutive years incompletely settled.

- Some persons in leadership also show bureaucracy, partial decision, and poor managerial capacity which have placed bad effects on business results.

- Before merging into the corporation, the members' debt arrears and weak finance have not yet completely settled. This causes not a few troubles to the corporation's financial position.

The above facts have reduced some SOCs' performance and so they could not accomplish their role and responsibilities.

3. SOC role and establishment objectives

The resolution of the Party Central Committee's fourth plenum affirmed the SOC role in the economy: "...Based on reviewing the SOC model, to devise plans for SOCs to become strong economic groups with high efficiency and competitiveness, and really the backbone of the economy."

The establishment of Vietnam's SOCs is aimed at:

- building specialized or multi-sectoral businesses which are competitive in domestic and foreign markets;

- recording good achievements in business and creating favorable conditions for accumulating and concentrating capital in the national industrialization and modernization; and

- implementing the decision on abolishing the ruling administrative level, separating the business management from state management and encouraging all economic sectors to improve their business.

4. Some suggestions about the production model for the printing sector

In our opinion, the printing sector should apply the model of parent company. This is a business configure to consolidate resources and enhance the whole entity's competitiveness. At the same time, it can help promote assignment and partnership in comprehensive business strategy related to assets, capital, materials, labor and business targets.

The holding company will specialize in only one industry and major products. It is the leading company in that sector. It has strong potentials of capital and assets because it represents the State to possess the whole state shares contributed in subsidiaries.

As a result, the holding company both does business and invests capital in affiliated companies. It directly manufactures and trades in products, meanwhile it instructs and cooperates with affiliates in market research, technical innovation and development planning.

4.1 The connection between the holding company and its affiliates.

The connection between the holding company and its affiliates is indicated in capital and assets. The holding company is a representative of the State investing capital in affiliates at different levels. It may hold 100% of shares in an affiliate's (the affiliate will become one-member limited liability company), or hold controlling shares.

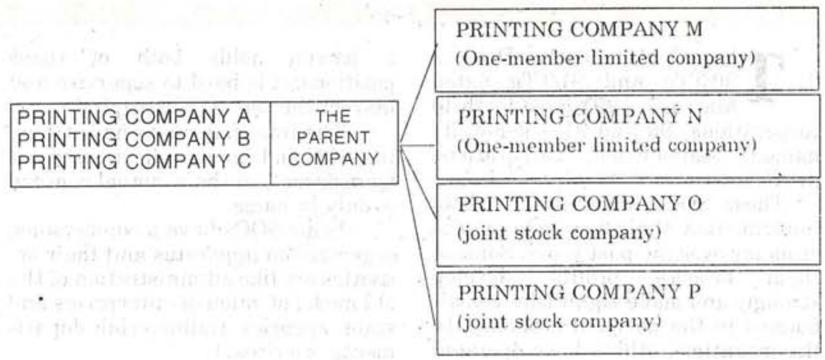
The affiliates in this model are entities with adequate status of legal person, operating in compliance with the Companies Law. Their feature of connection with the parent company depends on the parent company's shares in these affiliates.

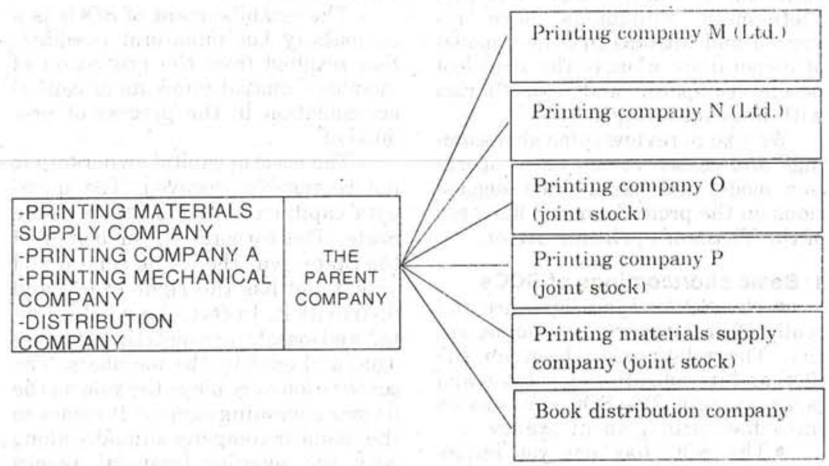
It is noteworthy that the parent company's assets include not only tangible but also intangible ones such as industrial property, trade name, and patent, etc. The implementation of the ownership will have positive effects on close connection between the two entities.

4.2 Operational mechanism between the parent company and its affiliates

- Regarding subsidiaries with 100% stock of the holding company as one-member limited company, the holding company will have rights to decide on organizational structure; orientation of production and product distribution; appointment and dismissal, rewarding and disciplining; changing prescribed capital; investment; business expansion or contract although the affiliate has an independent legal person status.

- In affiliates of which controlling shares belong to the holding company, the latter will appoint representatives as the chairperson of affiliates' management board based on its capital contribution ratio. As a result, the affiliate's business plans and investment policies are closely





attached to the holding company.

4.3 Some models suggested for the printing sector

4.3.1 the horizontal connection model

- Suppose, the parent company is constituted by the three printing companies A, B and C which have internal accounting system.

- Other subsidiaries include printing companies M, N, O and P which have independent legal person status and accounting system. The printing companies M and N are one-man company (with 100% state-owned capital invested by the holding company), printing companies O and P are joint stock companies (with share-capital owned by the holding company).

- The holding company produces and trades in products A, B and C and does financial investments in the affiliates M, N, O and P.

- Horizontal connection is the combination of enterprises in the same industry, for example, the printing sector, with a view to sharpening the competitive edge in the industry, sharing the market, pricing, mutually exploiting the advantages, reducing competition and increasing profits.

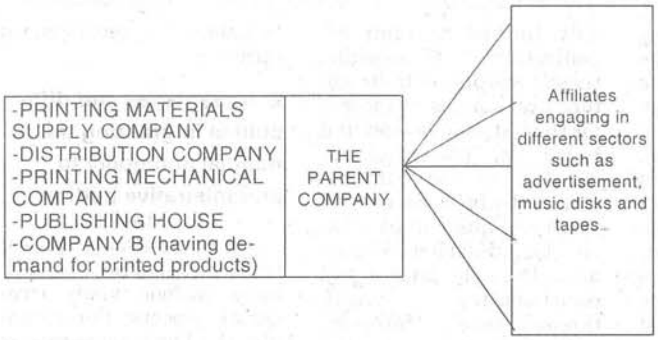
4.3.2 Model of vertical connection

According to this model, the parent company has four members having internal accounting system, trading in printing materials, machinery and equipment, and printing and trading in books, papers and cultural products.

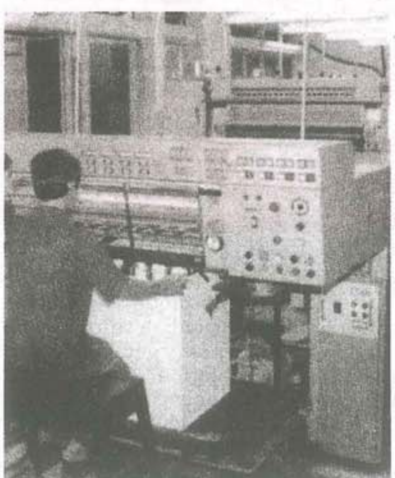
In addition, the company's affiliates include one-man limited companies and joint stock companies having legal .person status and doing printing-related businesses.

Vertical connection is the combination of enterprises having different but related products and services, for example, printing paper supply, printing mechanical services, and trade in printing products. The relations between members depend mainly on the process of production and mutual supply. Vertical connection commonly leads to the corporation's industry in-depth development and strengthened competitive position. It also helps rationalize the process of technological management and business; as well as reduce production costs and overheads. In addition, it rationalizes the demand for goods, materials and stockpiled products and accelerates the process of concentrating production inputs.

4.3.3 Model of multisectoral connection



Multisectoral connection is the combination of enterprises having related or unrelated products in terms of production process and product supply. This is a model of foreign large groups with a view to diversifying businesses and reducing risks. It targets at balancing the investment portfolio, expanding business and creating new stability when the opportunity of consolidation comes. The corporation, for example, only pays small costs to take over some enterprises in recession but makes the best use of new outlets, equipment and location, and most importantly, skilled workers working for these businesses. After acquisition, the corporation will use new systems to revitalize and expand their business. This is a successful lesson of foreign groups such as Korean Daewoo, English Hanson Triest...

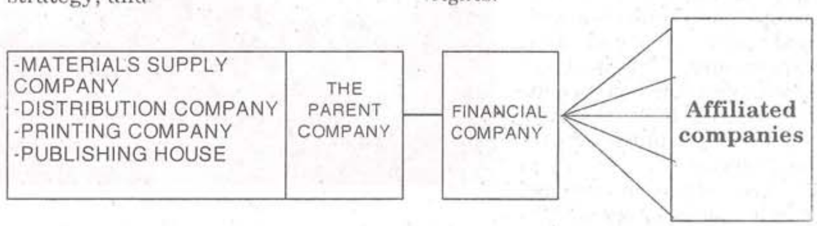


4.3.4 Model of financial company affiliated to the holding company

When the corporation's connection becomes diversified and complicated, the number of affiliates increases fast, to reduce the complication in financial management and enhance investment operations, the parent company will establish a joint stock financial company whose responsibility is to specialize in investment portfolio on behalf of the parent company. The parent company will focus its efforts on producing and trading in major products and maintain its leading role in the company development policy.

In short, the relation between the parent company and its subsidiaries is indicated in:

- the parent company's production and business strategy;
- the parent company's finance and investment strategy;
- the parent company's product strategy; and
- the parent company's training and employment strategy.



5. What shortcomings can the parent company model overcome?

- First, the parent company is a real business; the relations between the parent company and its affiliates are closer due to an important factor of capital and strategy of the parent company.
- Second, the parent company is not only a purely administrative unit, only collecting fees, it really does business by its own products, services and finance.
- Third, the parent company has enough power to play the role as a central unit of production and business, positively allocates capital and assets to improve the competitiveness of the whole organization and creates preconditions for the development into the business group in future.
- Fourth, on the one hand, the model still promotes the affiliates' autonomy in the market, on the other hand, it restricts disobedient activities and reduces competition between the parent company and its subsidiaries.

To make favorable conditions for establishing the printing corporation following the new mechanism, it is essential to implement the following steps:

(1). To select major enterprises as the parent company's frame which must have financial potentials, large and stable markets...

(2). To accelerate the equitization of printing enterprises because after that their financial situation will become transparent.

(3). To transform state-owned enterprises which have not yet gone public into one-man limited company and conduct auditing for these enterprises.

(4). To build the credit mechanism between the parent company and its affiliates. The Government is required to make clear regulations on the corporation's financial activities with the aim to help the corporation apparatus improve its capacity and rights.

(5). To establish positions and standardize the staff from the parent company to its affiliates in order to recruit talents and skilled workers. The parent company draws up the regulation on recruiting directors of its affiliates based on examinations in each five-year period. The corporation should also devise plans on training and retraining workers.■