

In the economic reform and direction for future development of the economy, the Government and the VCP still affirm the leading role for the public sector whose core is the system of state-run companies. That is why in recent years, the reform in the system of state companies is considered as the most important task. Formation of too many state companies and their poor performance forced the Government to reduce the number of state companies and re-establish holding companies and corporations (according to Decision 90/TTg made on March 7, 1994 by the PM) and pilot the formation of groups (Decision 91/TTg dated March 7, 1994 by the PM). Those two decisions led to formation of big state-run companies called state corporations, or corporations 90 and 91 (after decisions on their formation).

After their formation, many corporations have made good progress and contributed considerably to the economic growth. According to a recent survey by the Central Board of Management Innovation (renamed Board for Business Development and Renovation in April 2000), most cor-

porations have made their own long-term development plans (up to 2010 or 2020), some of them have started mobilizing both external and internal sources of finance to increase their working capital, import new machines and technologies and improve their competitiveness. Up to now, state corporations are considered to play the leading role in ensuring the supply of essential goods and expanding markets for their products; some corporations made good profit (higher sales, profits and payments to the treasury), the number of loss-making subsidiaries tends to decrease. These are good signs for industrial authorities to consider formation of big groups that could compete in the world market.

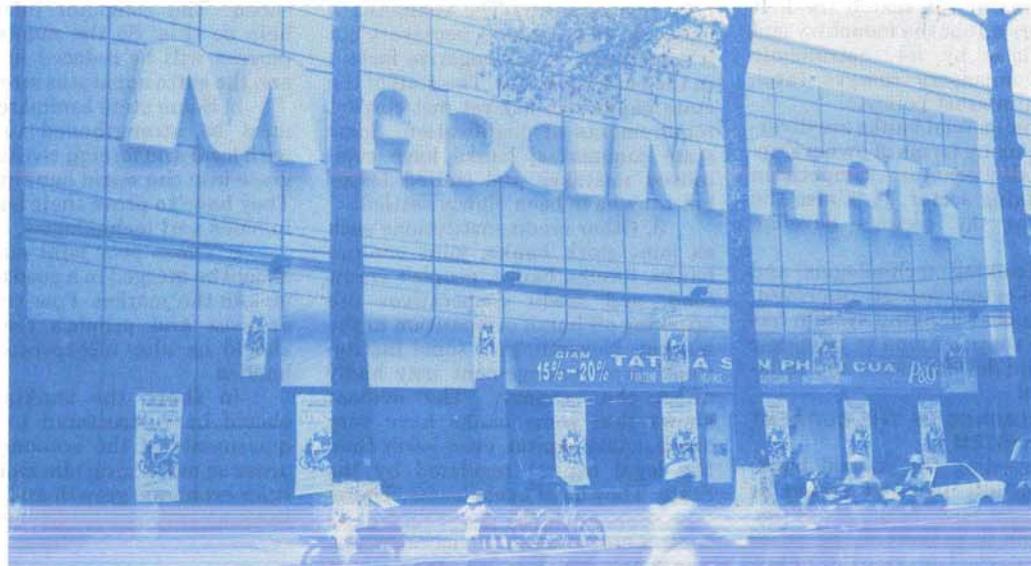
Forming groups of companies is a reasonable policy. In our opinion, however, it's necessary to take appropriate steps that aren't so cautious that certain business opportunities are missed and development process hindered; or so hasty that they have disastrous consequences for the socioeconomic life. In forming groups of companies, full attention should be paid to the following important issues:

As a subsidiary of a group, a company could diversify its operation, gain more market shares, make more flexible business strategies, spread risk and have chance to maximize its profit by reducing tax payment and costs of share issuance and enhancing ability to pay debt service. However, the formation of groups is only reasonable when there is a need for cooperation between companies to meet requirements posed by the development process. In foreign countries, a group of companies usually consists of legally independent companies, in which a financially strong company tries to hold an amount of shares issued by others with a view to controlling them. Thus, the formation of groups of companies results from the cooperation between companies in certain fields.

In Vietnam, the formation of corporations is a precondition for the birth of groups, the process of forming corporations, however, contains some worrying problems. Does the formation of groups in Vietnam really originate from objective requirement of the economic development or from the government's will to decide the fate of companies under

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by MEcon. LÊ THỊ LANH



its control? The formation of corporations according to pre-set orientation of industrial authorities has led to the lack of financial autonomy and dynamic in state corporations. Indeed, the formation of corporations 90 and 91 isn't based on the need for cooperation, and a will to cooperate, among companies under the control of the same ministry. Most of them are only formed by putting some small companies together. And as a result, relations between subsidiaries, or between them with the parent company, aren't as close as expected. They are only linked administratively. Generally, the corporation model is very simple, based on horizontal integration and fails to develop integrated strength. The next question arising from this situation is: whether such a corporation gains good performance when relations between its subsidiaries are loose?

That is why the formation of groups of companies in the future

lack of an effective mechanism for managing company finance. An effective financial mechanism will help improve the company performance and encourage corporations to develop into strong groups with better competitiveness in the world market.

In reforming the financial management mechanism, full attention should be first paid to methods of mobilizing capital. Out of 17 corporations 90 and 91, four have established finance companies of their own. Besides mobilizing capital and distributing it among subsidiaries of the corporation, these finance companies also supply credit for interests of corporation. The operation of finance companies is regulated by Decision 104/QĐ made on May 2, 1996 by the SBV Governor. However, the financial mechanism introduced by this Decision includes some restrictions that could become obstacles to the economic reform. These restrictions prevent finance compa-

advanced managerial skills and ability to do business in many countries. In my opinion, the Government had better first establish groups in fields where local concerns enjoy better comparative advantages and competitiveness, such as electricity, postal service, telecommunications, shipping and oil.

Besides the above-mentioned measures, it's worth noting that the government intervention by introducing a plan to develop corporations into groups of companies will help accelerate this process. In the coming years, from 2000 to 2005, the Government should concentrate on classifying and rearranging the system of state-owned corporations, improving the financial situation of subsidiaries and settling doubtful debts. These tasks in the next period are very important because they help create preconditions for the birth of strong groups of companies.

The Government wants state



should be voluntary cooperation and need of companies, and the parent company should control subsidiaries by holding the better part of their shares instead of depending on some administrative decisions.

At present, some shortcomings in state-run corporations have made their appearance. Being developed from state companies, most corporations didn't have enough capital required by law. Their capital is small and ability to accumulate capital is weak because they consist of state companies of small scale and badly in need of capital. The more remarkable shortcoming is their poor performance. Many corporations face with worsening financial situation, their profit ratio is small and debts are big. The main cause of this is the

nies from:

- mobilizing short-term capital (with maturity under 12 months),
- supplying finance lease service, and
- providing members of the corporations with prompt payment service.

If these restrictions are removed and finance companies are allowed to supply all services according to international practice, future groups of companies in Vietnam will be able to do their business better and integrate easier into the international community.

To create initial dynamics and meet requirements for a real group of companies, groups to be formed in Vietnam in the coming years should have big capital, modern technology,

companies to continue their leading role in the economy, but state companies could only play this role well when they have ability and conditions to do their business well and compete successfully against both foreign and local rivals. Their role and responsibility will be raised to a higher level then. With big capital, good accumulation and other competitive advantages (but not at the expense of other sectors), existing corporations, and groups of companies in the future, will become powerful dynamics of the economic development. By making the best use of foreign experience and enhancing their own creativity, further developments of corporations and the birth of groups in the future aren't beyond our reach. ■