Vietnamese Groups of Companies
Obstacles and Some Suggestions

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1. Situation of corporations in Vietnam

In Vietnam the idea of developing groups of companies made its appearance in the 1990s. On March 7, 1994 when the reform in the public sector was started, the PM made Decisions 90/TTg and 91/TTg on restructuring of unions of companies and a pilot scheme to establish corporations in form of groups of companies. Companies established by these Decisions are called Corporation 90 or Corporation 91. Up to the end of February 2000, 18 corporations 91 and 79 corporations 90 were established. They have 1,393 financially independent affiliates, equaling 24% of the total number of companies and controlling 66% of capital and 61% of labor force. Seventeen out of 18 corporations 91 comprise 532 affiliates controlling 9% of the number of state companies, 56% of state capital and 35% of the labor force.

Generally, these corporations have succeeded in modernizing their production lines, expanding their market shares and increasing exports. They are main suppliers of power, coal, oil, cement and steel, and help stabilize market prices and contribute to the economic growth. In 2003 for example, the corporations 91 gained total sales of VND202,652 billion and paid VND36,916.5 billion to the budget.

After 10 years of operation, however, the corporations reveal many shortcomings.

- Small size: Only 13% of the corporations 90 have more than VND500 billion worth of capital and 35% of them are capitalized at less than 100 billion. Some of them have even less than VND50 billion.. The corporations 91 have bigger capital but they are still small in comparison with counterparts in Southeast Asia.

- Poor performance: Although their performance is of the highest level in the public sector, it fails to be equal to investment and preferential treatment offered by the State. Moreover, many of them are monopolies that charge unreasonably high prices for their goods or services.

- Bad organization: Corporations have almost no control over their affiliates because they made no investment in them. They also fail to give technical assistance and more market share to affiliates. Many of them rely too much of support from the Government instead of trying to improve their competitiveness and performance.

2. Change from corporations into groups

The Government had decided to turn some corporations into groups. Up to the end of 2004 only three out of 20 corporations developed into holding companies: Electric Installation Company III; Company of Development Investment and Construction; and Company of Investment, Foreign Trade and Construction. These companies have gained better performance after their establishment. The Company of Investment, Foreign Trade and Construction, one year after its establishment, gained total sales of 3.2 times higher and profit of 3.55 times higher. In the Electric Installation Company III, its sales rose by 39%, payment to the budget 31.45%, profit 71% and wage 10$.

Operations of these holding companies prove great potentials of this model. To improve the competitiveness and get prepared for international integration, the Government has included six out of 18 corporations 91 in a pilot scheme to form groups of companies. Besides plans to establish Post - Telecommunications Group and Coal Group approved by the Government in early 2005, four corporations (Electricity, Cement, Oil and Clothing) are working on their plans.

In these newly founded groups, affiliates enjoy financial independence and the State holds the best part of their capital through holding companies. In other words, these holding companies invest in affiliates who are responsible for preserve and increase the state investments.

Secondly, the ownership of each affiliate is made clear. They could be state-owned ones or joint stock companies in which the State holds more or less than 50% of their capital, or joint ventures, etc.

Thirdly, the group is better organized. There is only one board of directors that includes directors of affiliates for the whole group instead of one board for each affiliate.

3. Shortcomings of Vietnamese style groups

Comparing with foreign groups, the Vietnamese groups developed from corporations imply many worries.

The first problem is the size of capital held by groups. According to the Central Institute of Economic Research, corporations 91 account for 70% of the budget income from the public sector but their capital accumulation is too slow to meet requirement for group formation. Of 18 corporations 91, only three (Electricity, Oil and Post-Telecommunications Corporations) gained high capital accumulation and they control 65% of retained profit that could be added to their capital by corporations 91.

In addition, ability to specialize and cooperate with one another of corporations is poor. Corporations are only groupings of companies in the same industries and markets, and as a result, their interests are sometimes in conflict. Each corporation usually operates in one industry. To make them groups that operate in various industries is no easy task.

Links between affiliates, although close, are based on administrative decisions. These links, by nature, are only normal relations between state-run companies, not the ones between companies in a group that are based on diversified ownership and common benefits. This fact explains why the corporation could only intervene in affiliates through administrative decisions instead of distribution of benefits according to economic laws. In fact, most corporations could only support affiliates in fulfilling investment procedures or securing loans from state banks, and few ones could undertake such tasks as dividing jobs or contracts, finding new markets or regulating flows of capital among affiliates.

As for corporations on the way to groups, they also pose many problems for the economy. The most worrying is the monopoly and unfair competition by groups. At the corporation level, they have enjoyed monopoly and adopted various unfair competition practices. For example, the Post-Telecommunications Group, when it was only a corporation, had controlled 90% of income from this industry. Many people think that this situation will be improved when new policies and mechanisms are adopted. However, under current conditions where all ministries establish governing bodies for groups and affiliates based on Companies Law, State-Owned Companies Law and Decree 153 by the PM, it's hard to think that the new mechanisms and policies will be objective, impartial and fair. Moreover, both groups and corporations are regulated by the same laws although they are different models.

4. Some suggestions about policies on groups

To develop successfully groups in Vietnam, we need more knowledge, and theoretical and practical grounds with a view to realizing and dealing with existing shortcomings.

On the theoretical aspect, policymakers should carry out researches on the formation of groups and holding company- subsidiaries model. We need not copy foreign experience because of differences in policies and socioeconomic conditions. For example, groups in Asia are usually based on family relations instead of administrative decisions.

On the practical aspect, we should pay attention to problems with corporations and with policies. In selecting corporations for the pilot scheme, only qualified ones will be included, and we shouldn't produce groups in large quantities however urgent the situation is. Measures to restructure the public sector (privatization, merger, dissolution, etc.) must be carried out properly in order to help companies to reach their full potentials before thinking of joining the group. If groups should be formed by administrative decisions, their formation must be based on practical needs, otherwise it is mere an act of renaming corporations and all efforts are only waste of time, money and energy.

Regarding the policies, regulations about formation and operation of groups must be prepared. Their ownership and internal relations must be made clear. For the time being, the following task must be done: (1) working out a legal infrastructure for operations of groups, especially their investments in other concerns; (2) working out policies on taxes, distribution of profit, etc., relating to corporations that will be developed into groups; (3) promulgating policies on operations of groups; and (4) making policies to encourage cooperation between companies from all sectors.

To implement these policies, the quality of civil servants and managers must be improved because managing groups is totally new to the whole administrative machinery ■