

Developing the Machine Installation Corporation Into an Industrial Group

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In the past 10 years, state-owned corporations called Corporations 90 and 91 have tried their best to modernize their production with a view to helping with the industrialization of the economy. Many corporations have made the best use of their comparative advantages, and drawn lessons from experience of their operations in the domestic market and of their Japanese, South Korean, Chinese and Taiwanese counterparts in order to work out their own business strategies. Some of them have become strong enough to compete with foreign rivals and integrate into the regional and international markets, and their brand names have been familiar to many foreign importers and wholesalers. With such developments, the corporation model has become inappropriate and tended to hinder further developments. In recent years, many corporations have thought of the model of groups of companies that could help them to expand their businesses and find a firm foothold in foreign markets.

Facing such a demand, the Government in late 2005 made a decision to change four corporations into groups. Many others with necessary and sufficient conditions for establishment of groups will get permits in near future. It is expected that these groups will play important roles in the effort to turn Vietnam into an industrialized country by 2020 as suggested by the VCP 9th Congress.

The Machine Installation Corporation was founded by the Ministry of Construction in 1960. In its 45 years of development, the Corporation has developed from a company specializing in installing machine and equipment into a corporation that could produce and install various machines and equipment in many large-scale projects, such as Hoa Binh Hydropower Plant with an installed capacity of 1,800MW, Phu Lai Power Plant (800MW), Tri An Hydropower Plant (400MW), Phu My Power Plant (3,900MW); cement fac-

tories of Hoang Thach, Bim Son, Ha Tien, Chinh Phong, and Nghi Son; and many oil, chemical and steel factories. The development of the Corporation has been linked closely with the modernization and industrialization process.

To undertake new tasks of the economic development as required by the Government, the Machine Installation Company was transformed into the Union of Machine Installation Companies comprising concerns specializing in electricity, cement, oil and gas, and chemicals in both North and South Vietnam.

The Union has gained achievements in various fields: (1) Its engineers and technical workers developed both qualitatively and quantitatively; (2) Its technical facilities were modernized over years; and (3) Its organizational machinery and quality of managers followed the Russian model and many managers have been trained in Russia and Eastern Europe.

Due to increasing investment in technical facilities, training of managers and technical workers, and reform in its organizational machinery, the Union was able to fulfill the

task of constructing many major projects of national level in the years 1976-1986.

After launching the economic reform, the Government adjusted the structure of public investment and large-scale projects stopped to be of high priority. As a result, the model of union of companies became obsolete and failed to operate well in the market economy. To survive and develop under the new mechanism, the Union was divided into independent companies that were still under direction of the Union, and they could take small- and medium- scale projects and maintain their operation and development. This practice became a trend and more and more companies gained their independence and their role as subsidiaries of the Union was only a formality.

Generally, in this period, although the Union had more subsidiaries and expanded its operations, it failed to form a group consisting of specialized companies. Thus, the Union in fact was an organization of companies in the same industry but they operated in different provinces or zones.



Photo by Huynh Tho

With such an organizational machinery, the Union found it hard to compete against foreign contractors for foreign-invested projects in Vietnam. In addition, no company in the Union was strong enough to undertake a whole major project. The Government at that time introduced a policy to rearrange state-owned companies.

In December 1995, the Union was turned into the Machine Installation Corporation (LILAMA as it calls itself). This was a turning point for the public sector and the Union as well, which was a force for the Corporation to develop and integrate into the world economy.

With existing ability and facilities, LILAMA started to reorganize, formed specialized subsidiaries, co-operated with companies in other industries, and work out a development strategy including the following phases.

- Phase 1 from 1996 to 2000: LILAMA developed its facilities and ability in order to secure a foothold in the domestic market and make preparations for alterations and diversification in the next period.

- Phase 2 from 2001 to 2005: LILAMA made more investment in import and export, advisory service, and training courses for project managers in order to become an EPC contractor of major projects, and built new factories all over the country.

Phase 3 from 2006 to 2010: In this period, LILAMA tries to develop into a group that is strong enough to compete against foreign companies.

After 10 years of operation as a corporation, LILAMA gained the following achievements:

- LILAMA is not only a company that leads the way to installation of major projects but also a producer of machines and equipment for many leading companies in Vietnam.

- LILAMA includes many companies specializing in design consultancy, import and export of capital goods, engineering and manufacture of equipment and machines.

- The management has been restructured in order to enhance their specialization and include more experts to manage such major projects as Uông Bí Power Plant (300MW) capitalized at US\$270 million, Thăng Long Cement Plant, Cà Mau Power Plant (720MW at some US\$300 million), etc.

To develop into an industrial group and compete successfully against foreign rivals, LILAMA should deal with the following problems:

- Working out a strategy to produce import substitutes and exports with a view to making the best use of existing advantages and achieving long-term targets.

- Increasing investment in high-tech fields and helping its subsidiaries specialize themselves in order to produce staple goods based on its advantages.

- Attracting and accumulating capital, experts and technologies from both domestic and foreign sources.

- Beefing up the organizational machinery of both the group and its subsidiaries in order to enhance internal cooperation and ensure their independence.

To support this effort, the Government should pay attention to the following matters:

+ Introducing a mechanism for operations of groups and simplifying administrative procedures with a view to helping groups operate effectively.

+ Mending and improving the mechanism for controlling public investment in order to facilitate operation of contractors.

+ Allowing groups to enjoy autonomy in their policies to attract experts.

+ Issuing regulations about auditing, supervision and inspection to ensure sustainable development for groups.

These measures could help beef up state-owned groups that could compete against foreign rivals and ensure a sustainable development of the public sector and the economy as a whole. ■

Photo by Huỳnh Thủ

