

ON THE ORGANIZATION AND PERFORMANCE OF THE VIETNAM RUBBER CORPORATION

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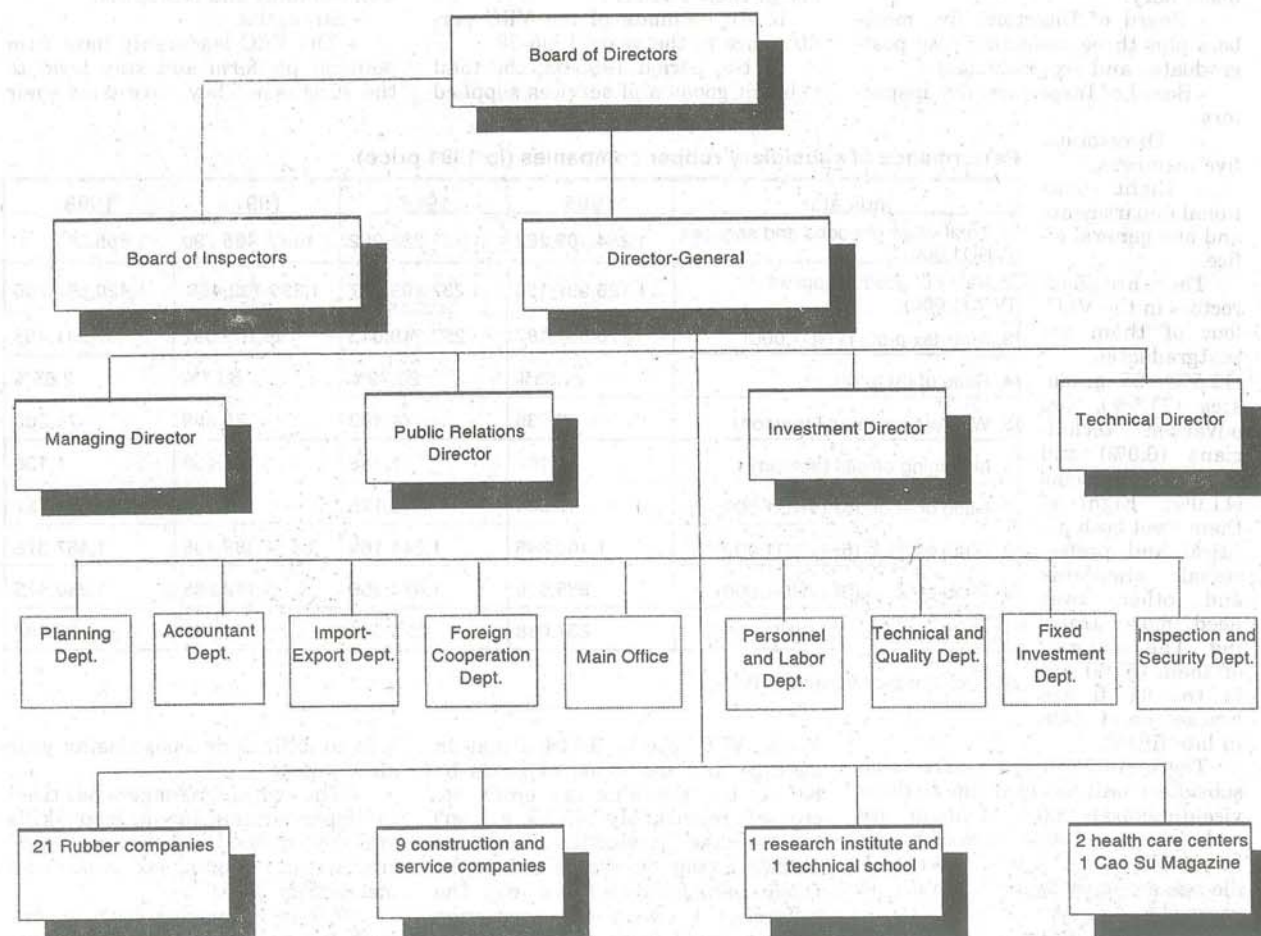


Figure 1: The VRC Organization

Rubber production in Vietnam is facing keen competition on foreign markets and this situation forces the Vietnam Rubber Corporation (VRC) to reform its organization to survive and develop. This problem is an urgent task now.

1. The present organization of the VRC

The VRC is directly responsible to the PM according to his Decision 252/TTg on April 29, 1995. It is one of 17 state-run corporations in the pilot scheme to develop big groups set forth by PM Decision 91/TTg on March 7, 1994.

Up to the end of 1998, the VRC has 35 subsidiary concerns employing 81,451 workers (76,200 of them are on the official payroll). These subsidiary units are divided into three groups (see Figure 1):

- 21 companies producing rubber latex.
- 9 companies engage in construction and service industries.

5 institutes and training schools.

The management include 5,993 officials, equaling 7.36% of the workforce (128 of them –or 1.15% working in the head office). Of the management, 23 officials are post-graduates (0.38%), 1,463 graduates (24.41%), 1,619 advanced technicians (27%) and 2,888 technicians (48.21%). Regarding the age, 2,546 of them are under forty (42.48%) and 2,858 are in the 41-50 age bracket (47.89%).

The VRC manages 209,123 hectares of rubber (55% of the rubber area of the whole country) and 147,568 hectares of them are yielding latex. Output of dried latex is 166,000 tonnes a year (representing some 74% of the national output). The average yield per hectare is 1,126 tonnes. In 1998, this yield rose by 6.03%; production cost fell by 10.27% but the latex price fell by 20.82% and net profit fell by 51.1% compared with 1997.

a. Structure of the management machinery:

- Board of Directors: five members plus three assistants (two post-graduates and six graduates).
- Board of Inspectors: five inspectors.

- Directorate: five members.

- Eight functional departments and one general office.

There are 35 directors in the VRC, four of them are postgraduates (11.5%), 25 graduates (71.5%), two advanced technicians (6.0%) and four technicians (11.0%). Eight of them meet both political and professional standards and other twos need more training. The majority of them (51%) are in the 41-50 age bracket, and 14% in late fifties.

There are 58 vice-directors (each subsidiary unit has from one to three vice-directors): 8.6% of them are technicians and 91.4% are of higher levels. Most of them are in their middle age and only two of them are 58 years old.

The VRC controls 103 rubber plantations and 16 working groups

under direct management of 119 managers and heads of working groups: 30 of them are graduates (25%), 25 advanced technicians (21%) and the rest are technicians. Regarding the age bracket, 77 are in the 41-50 age bracket (65%), 32 in late fifties (27%).

In addition, there are 108 managers of other subsidiary units: three of them are postgraduates (4%), 46 graduates (61.33%), four advanced technicians (5.33%) and 22 technicians (29.34%). Seventy-five of them are in their forties and nobody over fifty years old. Four of them are bachelors of politics and 24 have finished intermediate courses in politics.

There are 166 heads of functional departments in the VRC (nine of them work in the head office): eight of them are graduates (5%), 113 graduates (68%), 20 advanced technicians (12%) and the rest (15%) technicians. Fifty-five of them have finished intermediate courses or graduated in politics and 121 (73%) are in their forties.

b. An estimate of the VRC performance in the years 1995-98

In the period 1995-98, the total value of goods and services supplied

rubber also decreased with the result that the rubber overstocks rose from 20,863 tonnes in 1997 to 32,495 tonnes in 1998, increasing by 1,106.2% compared with 1995.

The output-laborer ratio in the years 1996-98 rose by 7.41%, the value of goods supply per laborer by 9.0% while the management force reduced by 0.89% a year and net profit per manager fell by 48.13% (this fall reached 67.21% in 1997 and 54.98% in 1998). The average profitability ratio in this period increased by 13.18% but it shows sign of decline.

c. An estimate of the VRC organization

After being given the financial autonomy by the Decision 91, the VRC has tried to transform its management machinery, from the head office to its subsidiaries, with a view to adjusting itself to the market mechanism. In the meanwhile its rubber output and yield per hectare increased steadily (by 5% and 4% a year respectively). Generally, the organization of the VRC has its own shortcomings and strengths:

- Strengths:

- + The VRC leadership have firm political platform and stay loyal to the socialism. They have tried their

Performance of subsidiary rubber companies (in 1994 price)

Indicator	1995	1996	1997	1998
1. Total value of goods and services (VND1,000)	1,284,103,262	1,428,306,292	1,581,495,790	1,655,581,230
2. Value of goods supplied (VND1,000)	1,126,937,158	1,237,493,287	1,335,232,468	1,420,537,706
3. After-tax profit (VND1,000)	276,681,187	257,248,013	83,703,097	37,581,435
4. Ratio of (3) to (2)	24.55%	20.79%	6.27%	2.65%
5. Workers on payroll (person)	73,236	74,483	76,869	76,200
6. Managing official (person)	1,167	1,148	1,139	1,136
7. Ratio of (1) to (5) (VND1,000)	17,534	19,176	20,574	21,727
8. Ratio of (1) to (6) (VND1,000)	1,100,346	1,244,169	1,388,495	1,457,378
9. Ratio of (2) to (6) (VND1,000)	965,670	1,077,956	1,172,285	1,250,473
10. Ratio of (3) to (6) (VND1,000)	237,088	224,084	73,488	33,082

Source: Statistics from the VRC.

by the VRC rose by 8.84% a year on average and the value of goods by 8.02%, but the after-tax profit decreased remarkably (48.6% a year) because the production cost rose 10.22% a year on average while the rubber price fell by 5.12% a year. The difference between the production cost and rubber price became narrower while the market demand for

best to fulfil their assignments year after year.

- + The army of managers has tried to improve their managerial skills and knowledge, and become more creative and appropriate to the new mechanism.

- + Senior managers have experience and sensibilities. Junior managers graduated from technical schools

are also trained in politics in order to prepare themselves to replace older ones.

- + Most managers devote themselves to the corporation regardless of moderate living standard and other difficulties.

Achievements in recent years show that the VRC management have developed both quantitatively and qualitatively and they have got enough ability to fulfil future assignments.

- Shortcomings:

- + The structure of its organization hasn't been reformed: names of department aren't reasonable.

- + Managerial skills of managers aren't of the same level.

- + Most managers lack necessary knowledge of business finance, modern business management, laws, and organizational and managing methods. Some managers haven't got skills and knowledge required by their positions. This will be a problem during the modernization process.

- + Some managers feel satisfied with their jobs and positions, some others pay too much attention to personal interests and become undisciplined. In certain subsidiary companies, the management fail to maintain solidarity and the division of opinion causes damage to the business and morale among workers.

- + Many managers are interested only in business and don't care about politics and morale. They stop studying the VCP and Government policies, and when working with foreign partners, they only pay attention to personal or company's interests, instead of national ones. Some others, because of their megalomania, have required too many rights and interests, and thus causing difficulties to the company.

2. Measures to improve the VRC organization

The organization of the VRC should be reformed as directed by the Decision 91. The representative body of the state ownership is the Board of Directors, the chairman of this board is directly responsible to the Government for the business performance. Income of members of the Board of Directors and the Directorate will be based on the corporation's performance. The management machinery should be made more efficient and neater. The sale of goods and all financial matters should be controlled by the corporation.

- a. Reducing the production cost

Keeping independent account books in the market mechanism requires the company to ensure good performance. That is why all companies should cut their production cost. The VRC, in 1998, decided to cut "expenditures on management and others expenses affecting the production cost (such as those on travelling, entertainment, meeting, office equipment, etc.)". We want to suggest here some measures to cut the production cost:

- Gathering latex of all kinds.

- Fixing workload for each laborer appropriate to each subsidiary company and each season of the year and reducing expenses on repairing buildings and equipment.

- Economizing on fuel, power and

rubber plantation and process latex more effectively.

- In leasing rubber growing land to workers, the machinery of management should establish direct contacts with workers.

- Companies processing rubber for industrial use should be oriented towards foreign markets.

- The VRC should keep reforming the management machinery in each subsidiary unit in order to making them more efficient and appropriate to the market mechanism. Recording and studying personal track records should be done regularly, especially before deciding on their promotion.

- In the coming years, the rubber industry will develop faster, the VRC should request the Government to



agricultural materials.

- Cooperating with local governments to prevent latex from being stolen.

- Giving incentives to economize on raw materials.

- b. Diversifying the business of subsidiary companies:

All companies should try to diversify their products and services supplied and linking rubber production with trade in rubber products.

- c. Perfecting the organization and improving managerial efficiency:

- Reviewing the size of each subsidiary company in order to help them plant, look after, and exploit

develop the Rubber Technical School into the Rubber Technical College to train technicians and experts in rubber industry.

- Other measures are: fixing moral and education standards for managers, recruiting and promoting new managers through examinations.

The VRC plays an important role in developing the agricultural production, better organization will help with beefing up the leading role of the public sector and winning the trust from the public.