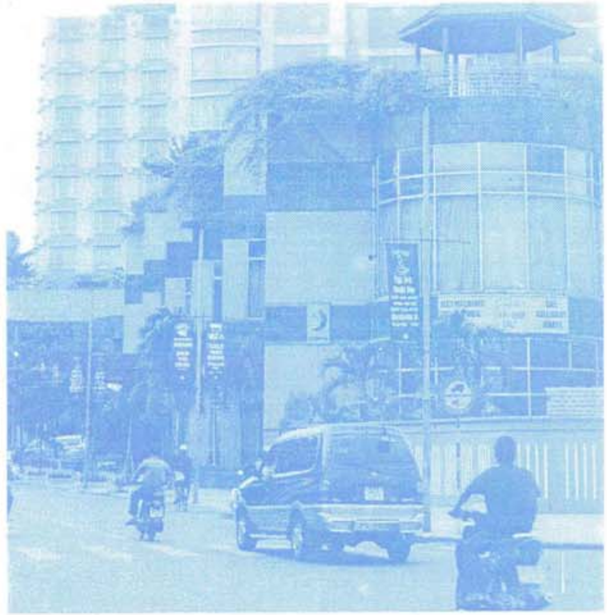
On the Need to Turn State-Owned Corporations Into Holding and Subsidiary Companies



by Mecon. TRẦN QUỐC THÀNH

To improve the competitiveness of the public sector, the PM issued two Decisions 90/TTg and 91/TTg on March 7, 1994 to reform state-owned companies and form state-owned corporations.

From then on, the state-owned corporations have made good progress, increased their contributions to the national budget, and played an important role in the economic development. However, they also revealed many shortcomings: they lacked cooperation because they were formed by administrative decisions instead of the need to survive; old mechanisms became obstacles to their performance and improvements in their competitiveness; roles of boards of directors, directors general, civic organizations and relevant bodies in corporations were not made clear, etc.

Many experts in Vietnam expressed ridiculously the process of forming corporations as a reverse one because subsidiary companies were put together to form the holding ones. And they considered it as one of the main reasons for shortcomings in state-owned corporation.

The financial management model introduced by Decision 838TC/QĐ/TCDN dated Aug. 28, 1996 isn't suitable to the common model of groups of companies in the world and in Vietnam as well. Corporations and their subsidiaries are competing for the business autonomy because the latter didn't want to have their business decided by the former while the former didn't want their subsidiaries to go against their business plans or development projects. If a corporation has a finance company as its subsidiary, the finance company tends to become the central power of the corporation and the management machinery of the corporation, such as directorate and board of directors, is neutralized, and as a result, conflict between them is inevitable. This is a problem is what Vietnam is trying to solve. Apparently, the Government also feels confused when establishing the statute of the corporation. For the time being, in our opinion, the Government could keep maintaining the corporations, and at the same time, encourage the corporation, through their finance companies, by more shares from their subsidiaries to beef up their control over them. The subsidiaries could be privatized totally if need be. This reform requires a new management mechanism, which raises a lot of questions, such as how to help the board of directors and directorate actually control their business and what is the way for corporation in the future.

In our opinion, the model of holding – subsidiary company for corporations in Vietnam could be as follows:

- The holding company must be a trading one that controls its subsidiaries according to the proportion of shares it holds. It invests in subsidiaries by buying shares or lending necessary capital. The holding company refrains itself from guaranteeing loan capital for its subsidiaries because all of them are equal and independent from one another according to the Companies Law.

- Subsidiaries could include companies of different ownership instead of comprising only state-owned ones, and all of them are of equal status in trading relations with the holding company under the Companies Law. They are independent legal entities that enjoy full business autonomy. Subsidiaries could take one of the three following forms:

+ Horizontal combination comprises companies within the same industry or producing the same products.

+ Regional combination comprises companies in the same region where the holding company wants to take a greater market share.

+ Customer-oriented combination comprises companies that deal with the same market segments and customer groups.

The holding company undertakes the task of mobilizing capital and takes responsibility for investments, risks and debts. Subsidiaries get loan capital from the holding company and only borrow short-term loans from banks.

Subsidiaries pay dividends to the holding company according to regulations set by the board of directors. All transactions between the two sides are based on contracts and agreements instead of approvals or decisions made by the holding company.■