

# “STATE-OWNED ENTERPRISE” THEORETICAL AND PRACTICAL ISSUES IN VIETNAM

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**Abstract:** From activities of state-owned enterprise during the past few years, from enterprise reengineering results which have been focused on state-owned companies from 2011 until now, it is clearly showed that existing conceptions and theories about state-owned enterprise are not realistically suitable. This enterprise’s mechanism, especially internal organization and management system, is not sufficient enough to achieve the expected results that Vietnam’s government as well as its economy requires. In sum, we are in need of reasonable argument and updated conception for the current situation of Vietnam’s state-owned enterprise.

**Keywords:** state-owned enterprise, theory, practical.

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## 1. INTRODUCTION

After 30 years of renovation and 5 years of economic reconstruction, state-owned enterprise has always been highlighted issues in Vietnam’s economy. For this matter, there are various conceptions and aspects accompanied with different situation evolving around the enterprise. What is the role of state-owned enterprise to the economy, the government’s economic management and operation? This is still a debatable question because during the past 30 years of renovation, these enterprises, with their available resources and the benefits and advantages that Vietnam’s government and society provide, had never achieved such adequate results. State-owned enterprise has become a waste of resources which inflicted multiple damages to economic development and politics system in Vietnam. That being said, enterprise system reconstruction which mainly focuses on state-owned ones have been one of three targets that Vietnam’s government aims for in economic reconstruction process.

## 2. THEORY OF “STATE-OWNED ENTERPRISE” IN VIETNAM

From the aspect of macroeconomics, business, government and people are 3 subjects of economy. In which, business is an economic unit of legal person status, gathering means of finance, matter and people in order to manufacture, provide, consume products and services. A business is operated based on maximum consumers’ benefits in order to maximize owners’ benefits as well as sufficiently achieve social targets. Business is categorized based on ownership, capital mobilization and responsibility range. These two factors will determine rules of management, monitoring, responsibility and profit distribution inside the business. According to the definition of business in article 4, Law of Enterprise, Socialist Republic of Vietnam, “business is an organization with distinguished name, holding property and transaction center which legally registered for commercial purposes” [2]. It is also stated that “state-owned enterprise is an enterprise whose 100% authorized capital is kept by the government” [2]. As a result, state-owned enterprise cannot be categorized in any type of business.

On the other hand, Law of Enterprise published in 2005, effective in 2007 stated there are 4 different types of business in Vietnam’s economy including one member limited liability company, two or more members limited liability company, joint stock company and partnership company. In 2014, the fifth type was updated as individual proprietorship. It can be

referred in Article 4, Law of Enterprise that state-owned enterprise is by definition one member limited liability company, and there is no type named state-owned enterprise. The government in fact is the owner whose business participates in the economics in order to make profit and obeys the laws legalized by the government itself. Obviously, depend on its function, besides the economic benefit, government also invests on nonprofit targets such as military, national and social security.

### 3. FORMATION PROCESS OF STATE-OWNED ENTERPRISE IN VIETNAM

In order to clarify the theory of state-owned enterprise, one must understand the formation of state-owned enterprise in Vietnam. Before the year 1986, when capital goods were publicly owned and centrally planned economy was applied, the only ownership in society as well as manufacturing units was collective ownership under the leadership of government. During such time, types of business were not determined by economic rules (owner and responsibility range) but by ownership, types of product and manufacturing process. In this economy, businesses were classified into categories such as agriculture, forestry, cooperation, factory, manufactory, state-run enterprise and operated under government's executive orders.

From the year 1986 until now, Vietnam's economic management concept had changed. Besides state-owned businesses stated before, there are new types of business such as limited liability company, joint stock company and partnership company. Before 1986 state-owned companies are slowly transformed legally into limited liability and joint stock ones. During the 30-year-period of forming business system (after 1986), the government established "state-owned enterprise" through the reconstruction and transition of state agencies. For businesses that do not receive government's capital, the classification is clearly based on capital ownership and responsibility range according to current laws. In the process of establishing business, owners have to mobilize capital themselves in order to pay for infrastructure for production. Meanwhile, state-owned enterprises are provided infrastructure, land, human resources, transport... transferred from planned economy in the past. The main responsibility is now shifted to the owners of state-owned enterprises, which is to make profit and preserve government's property.

In general, after transforming into the market economy, state-owned enterprises are divided into 2 types: old economy's transformed (before 1986) and new establishment. Regardless of types, both these enterprises are equipped with infrastructure system, transportation, land, headquarter, factory, materials, machines and human resources. All these properties are assessed and listed as owners' capital. From this period, the funding from the government is no longer available. The enterprises start to operate and manufacture under the law and market's rules. In the end, the remaining issue lead to failing results is to determine the role of government in managing, monitoring and operating the state-owned enterprises system.

In Vietnam, with socialist-oriented market economy under the leadership of public sector, currently exists a misconception indicating "state-owned enterprise" is a type of business – public-owned company but a part of national economy. This confusion would lead to the theory that "state-owned enterprise" is the main business in the market economy, whose task is to in charge of main and exclusive national economic missions. Other types of business and economic sector have a lot of difficulty to get involved in such major program. That being altered since a new chapter about "State-owned enterprise" was updated into Law of Enterprise in 2014. However, this chapter is failed to define the true role and economy sector of state-owned enterprise. It is clearly explained in Article 89, chapter IV, Law of Enterprise 2014 about Management System that *"the owner's representative organizations decide to manage state-owned enterprises in the form of limited companied in stipulated models in the clause 1, article 78 of this Law"* [2] ie. by the type of limited enterprise. Such weak regulations would constantly create loopholes in "state-owned enterprise" management and monitoring concept. The misconception would lead to severe practical issues which example can be obviously seen in operation and management system of government funded business as well as its productivity.

### 4. STATUS OF OPERATION AND MANAGEMENT SYSTEM AND PRODUCTIVITY OF STATE-OWNED ENTERPRISES

In order to make clear of theories and concepts mentioned above, this paper will attempt to thoroughly analyze operation and management system and productivity of state-owned enterprises in Vietnam (not mentioned some impacts from state management agencies). From the aspect of capital, human resource, technique and other characters, government funded businesses mainly are state corporation and companies. Operation and management system in these companies have been

established and reconstructed for 10 recent years. Especially during system reconstruction in 2010 according to Law of Enterprise 2005, state corporation and companies are established by collecting state-owned businesses with the same profession, same field in order to take advantages of capital scale, human resources, technique and other trading sources. This was the operation system of business in state economic sector in the first stage.

During 5 recent years, Corporation and companies continued to invest their own capital to establish new businesses or rebuy stocks under certain capital rate from other companies. According to the law, organization and operation system's regulations of 5 different types of business are composed, published and operated by stakeholders, board of director, board of member. For state-owned enterprise alone, this matter is decided by state agencies. According to regulation of operation and organization of Vietnam National Coal - Mineral Industries Group enacted by Prime Minister, "*The parent company – subsidiary Complex in Vietnam National Coal - Mineral Industries Group is a group of company without legal status including Vietnam National Coal - Mineral Industries Group (level I business), Vietnam National Coal - Mineral Industries Group's subsidiaries (level II business), level II business's subsidiaries (level III business) and other partner companies.*" [11, p.11] Such system was the common organization system applied in all state corporation and companies in Vietnam. This just had recently been altered and added in Law of Enterprise 2014. In this new regulation, the parent company – subsidiary complex is divided into multiple levels of management with distinguished definition of parent company, subsidiary, member company, partner company, in which the parent company provide government's funding for subsidiary and member company by record transactions of capital from these companies back to the parent. Despite receiving funding from parent companies, branding and trading rights in parent company's field, these companies still are businesses, part of economy. So apart from rights, privileges, responsibility about invested capital, other trading relationships have to be done under trading contract. Businesses belong to Corporation and big companies, especially joint stock companies, have complete trading rights based on preservation and development of investors' funding principle. This is also encouraged by Law of Enterprises.

However, in fact, state-owned enterprises do not usually operate according to law of market. Firstly, the current organization system creates complicated multi-level management and monitoring machine. This multi-level system (not mentioned state management) causes a lot of problems. From the aspect of law, subsidiary and member company have enough conditions to self-control and independently develop. Self-control and independently development from these companies raise conflict in monitoring and management relationship with parent company (corporation and big companies). To clarify its leadership and control of corporation and big companies as well as solving conflict, this organization system established a management relationship and method based on superior-subordinate protocol and application-approval mechanism (hierarchy system). Even though this is not listed in the law of enterprise, state-owned enterprise has settled this relationship through regulate hierarchy system into internal organization system, manufacturing process, managing and monitoring activities... This act created administrative relationship, obstructed activities within the businesses, especially subsidiary and member company. In many places, in order to avoid partner company's leadership responsibility or control subsidiary and member company's activities, the internal rules and regulations create troubling constraint without clearance of law, benefits and responsibility. Inside current corporation and companies' organization system, the superior – parent company (holding more than 50% of invested budget) decides trading strategy, human resource and capital for the subsidiary without co-respond responsibility. Even though there is sufficient organization process according to the regulation, if the subsidiary – the subordinate proposes to expand trading market, mobilize capital, update technique..., it must receive an approval from the parent company. Yet some companies cannot operate independently according to the business's spirit but under authorized or partly authorized method (receive 100% funding from parent company). There are cases that contracts, projects developed by the subsidiary cannot be signed directly by the subsidiary itself according to organization regulation and hierarchy system but through the approval and transaction from the parent company. The parent company will be the original beneficiary and the subsidiary's share will be determined based on regulation of parent company. Such situations do not represent Law of Enterprise's spirit but forcing mechanism, creating "friendly" but unequal, inexplicit environment. In this environment, partners with ability and needs do not meet each other directly but through intermediary which causes waste of resource and unclear responsibility. And organization system of state-owned enterprise is nurturing such environment.

On the other hand, current organization system is turning parent company – corporation and big companies into mediate management department. The parent company's management department holds all power of management and operation, which leads to decrease in roles, direct manufacturing, trading function (except for business require highly advanced technology or exclusive source of power). In reality, trading field and function of parent company are usually wide range,

but after transferring most to the subsidiary, the parent company only holds the responsible for capital investment and management. The parent company can now play two different roles at the same time as an investment and a representative for government's funding. Therefore, the parent company can easily expand the investment even outside of its profession, which leads to out of control situation and waste of state budget. Meanwhile, cross capital contribution (subsidiaries and member companies contribute capital for each other or together to form new business) will appear and increase false scale and looping parent company's cash flow, causing waste of capital and lack of control.

In practice, this organization and management system leads to troubling issue among the operation of state-owned enterprise. In his speech opening for Plenum of the Central Committee 5 (Session XII) in May 5<sup>th</sup>, 2017, General Secretary of the Communist Party of Vietnam – Mr. Nguyen Phu Trong commented: *“In general, trading productivity and contribution of state-owned enterprises is still lower than expected, in comparison to state investment and resources. A number of state-owned enterprise lost profit, caused waste of funding and resources, corrupted, billion Vietnam dong projects are still “untouched”. This situation is worsening unrecoverable debts in banks and national debts, causing dissatisfaction among people everywhere”* [6; p.11]. This proved in practice, there are a lot of problems among state-owned enterprise. The current system of organization and management creates major obstacles and delays facing changes and demands of the market. It is clearly showed that just the internal status of “state-owned enterprise”, not mentioned the relationship with state management agencies, are already troubling, and the root cause is obviously the unstable, unrealistic conception of “state-owned enterprise”.

As it stated in the report of state funding investment, management, utilization of business nationally in 2016 that the government submitted to the congress, until the end of a financial year period, Vietnam's economy had 583 enterprises that the government held 100% authorized capital. Among which, there are 7 economic corporations, 67 major state companies (not included the data from Vietnam Shipbuilding Industry Corporation due to reconstruction process); 17 one member limited liability companies operated under the Parent company – subsidiary model; 492 independent business within the management of various ministries, departments. It is obviously showed that state-owned enterprises are holding a major property and capital within the economy of Vietnam. Looking at the economy in details, total owners' equity of state-owned enterprise currently accounts for 1.234 million billion Vietnam dong while total estimated property's price is 3.105 million billion Vietnam dong. In 2016, total income from these enterprises was 1,5 million billion Vietnam dong, contributed 28.8% for national GDP [7]. According to enterprise renewal and development Department, after 15 years of reconstruction following the construction of Central Resolution 3 Session IX, there was a plunge in the number of state-owned enterprises. Basically, state-owned enterprise turned focus on key field and profession, providing high quality production and service for society and national security. However, the reconstruction and arrangement procedure is taking too much time, productivity rate is still lower than expectation from the holding resources. In fact, even though limitation of these enterprises had been recognized, after many terms, there have not been much development and renovation but only worsening situation. In State-owned enterprises accountancy qualifications and regulation 2016 report, many sectors lost major profits, had negative owner's equity, some were on the verge of bankruptcy or disbandment. For example, Vietnam Cement Companies Tam Diep branch lost 1.156 billion Vietnam dong, Hai Phong branch lost 359 billion Vietnam dong. This situation was also witnessed in Vietnam Posts and Telecommunications Group, with 53.3 billion Vietnam dong loss of profit in Post and Telecommunications Investment and Construction Joint Stock Company, 26.9 billion Vietnam dong loss of profit in Vietnam Development Company, 22.5 billion Vietnam dong loss of profit Telecommunications Equipment Joint Stock Company. Other companies' loss of profit can be listed: Rubber Trading and Tourism Services Joint Stock Company (Vietnam Rubber Group) (319.7 billion Vietnam dong); Hanoi Housing Development and Investment Joint Stock Company (Handico) (52.3 billion Vietnam dong); Song Vang Hydropower Joint Stock Company (Lilama) (94.3 billion Vietnam dong). Apart from these, many businesses subject to state-owned enterprises had negative owners' equity such as Sakura Joint-Venture Company (Transport Corporation Vietnam) with negative 168.7 billion Vietnam dong before transferred, Petrolimex Singapore one member limited liability company (Petrolimex) with negative 1,335.2 billion Vietnam dong, Jetstar Pacific Airlines Joint Stock Company (Vietnam Airlines) with negative 129 billion Vietnam dong; Hoan Kiem Tourism and Trading Limited Company and Dan Chu Tourism and Trading Joint Stock Company (Hanoi Tourism Group) with 79.2 billion and 51.83 billion Vietnam dong respectively; Post and Telecommunication Finance Company Limited (Vietnam Posts and Telecommunications Group) with 43.1 billion Vietnam dong. Moreover, a number of financial investment of state-owned enterprise showed low result. To be more specific, Post and Telecommunication Joint Stock Insurance Corporation (PTI) invested nearly 123 billion dong in 3 partner companies with average dividend rate in 2015 at 1.34%. Besides, PTI also invested more than 57 billion dong in 7 other businesses with only 0.48% average dividend rate in 2015. State Capital and Investment Corporation's

investment in projects of Thai Nguyen Iron and Steel joint stock Corporation, Phuong Nam Pulp Production Company, Quang Ninh Thermal Power Joint Stock Company, Hai Phong Thermal Power Joint Stock Company, Vinh Son – Song Chinh Thermal Power Joint Stock Company all showed poor results [8]. It is also notable that Industry and Trade Department reported total 12 projects and enterprises that under developed or under great loss, some infamous name such as Dinh Vu Fiber Factory, Thai Nguyen Iron and Steel Factory stage 2, Dung Quat Bio-Ethanol Factory, Ninh Binh Fertilize Factory... While total property of 12 factories was estimated at 57,600 billion Vietnam dong, total debt was more than 55,000 billion. Major corporation such as Petrolimex, Coal Group, Electricity Vietnam, Chemical Vietnam constantly broke regulation causing severe unrecoverable debts and manufacturing delays.

## 5. PROPOSED RESOLUTIONS

Vietnam still keep the same concept of “state-owned enterprise” for years despite the obvious unsolved problems that inflicted many damage on national economy. To resolve these problems, a correct definition and understanding of “state-owned enterprise” must be agree upon. Suitable adjustment will help guide these enterprises to be a true part of socialist-oriented economic market. Currently there are many legal documents, especially under law documents, law instruction documents, that allow state agencies to interfere directly into business through non-economic tools, obstruct or effect manufacturing process of these enterprises. The government needs to adapt new concept in economic management so enterprises can active in manufacturing and trading process, take responsibility about productivity and result before law and owner. These adaptations should be legalized as economic management tools.

From the aspect of economy, state-owned enterprise must be “a company have primary government invested capital or 100% government funded”. “State-owned enterprise” is still one of five business sectors according to Law of Enterprise, in which state-owned enterprise can only exist and operate under 2 types: joint stock company and one member limited liability company. Only then, organization, management and operation system will obey the regulations of law, especially the updated and adapted version Law of Enterprise 2014. State-owned enterprise’s operation will be closer to the market, higher responsibility to the investor and better productivity. State management agencies such as ministry or state department will not directly control the business, decide trading and manufacturing strategy, salaries, compensation without based on reasonable outcome, results as well as contribution of individual and team. Stakeholders, Board of Administration and member in the enterprises will take responsibility for every activity and productivity of trading and manufacturing process before the law and owner.

Under publicity owned of capital goods and socialist-oriented economic market, it is essential for government’s investment to form new business and join the economy in order to ensure economic function of the government. This means the government can invest 100% capital or invest capital under primary rate to take charge and run the enterprise for government’s aims and targets. The enterprise’s operation and management still has to obey the law. It depends on the field and key profession of the enterprise that the government wants to manage in order to determine the investment of the government itself. Especially landing or mineral resources that are national owned, publicity owned, the government has to take control of such enterprise in those fields.

About state management, it is necessary to separate direct management from state agencies to “state-owned enterprise”. The government can no longer interfere with manufacturing plan, organization system ... of the enterprise. The government has to monitor and manage the economy based on law, applied to all state-owned enterprise. Criminal law, Civil law, Law of enterprise, Law of Contract, Law of competition, Law of bankruptcy, law of Accounting... are foundation for all business’s operation without any exception. Enterprise and business can only operate under law, regulations and market’s demands.

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