VIET NAM'S EQUITIZED ENTERPRISES:

AN EX-POST STUDY OF PERFORMANCE, PROBLEMS AND IMPLICATIONS FOR POLICY

August 2002

DISCUSSION DRAFT

This draft is preliminary in two senses. First, it awaits feedback from the real experts, the managers of the equitized enterprises themselves and concerned officials. This will be obtained in two steps. On August 29 and 30 there will be a conference in Ha Noi, principally designed (note its length) to elicit comments from attendees. Given their input, a second draft will be prepared and widely circulated to obtain further suggestions for improvement. Only then will a final draft be prepared. This draft is also preliminary because the data are tentative. Data cleaning, and attendant re-questioning of firms, began only on August 8 and is ongoing. This has quite different implications for two kinds of questions. Qualitative data, based on the opinions of managers, show low variance and are highly unlikely to change significantly as work progresses. The reader can therefore interpret such results with some confidence. Quantitative results based on financial performance data, on the other hand, show high variance, are based on a small usable sub-sample, and could change significantly. The reader should therefore interpret such results as merely indicative.

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CONTENTS

EXECUTIVE SUMMARY

This section will be written only after feedback is received from those willing to read the full report.

Chapter One:

INTRODUCTION

I. OBJECTIVES

Since the early 1990's, some 800 of Viet-Nam'sState-Owned Enterprises (SOE's) have been equitized. The objectives of this study are to:

a. do an empirical evaluation of the results of this process; and,

b. draw policy implications there-from.

The study is based primarily on a sample survey with two sets of questions: first, quantitative measures of performance trends, and second, qualitative assessments by senior enterprise managers of the nature of resulting behavioral change and problems remaining.

The report is intended for both a domestic and an international audience. Domestically, the principal target is senior policymakers. Internationally, the target is both those involved in directly providing support to Viet Nam and those more broadly interested in issues of SOE reform worldwide. Given the breadth of the intended readership, it is inevitable that some of the material will be unsuitable for parts of the audience: for example, Vietnamese will be bored by the historical background, while foreigners will be bored by reference to particular laws and decrees. Selective reading is advisable.

II. ISSUES

The study will address three sets of questions:[1]

1. Performance Evaluation: How did the enterprises perform after, as opposed to before, equitization? Performance is to be interpreted broadly to include the economic impact on all stakeholders.

2. Performance Explanation: What caused these results? Answers will be discussed in five areas:

   a. External Factors: Some of the change would have happened without equitization (oil prices would have risen and costs increased; the economy would have grown and demand for enterprise output increased, etc.) These factors should be evaluated, their impact deducted, and only the residual attributed to equitization.

   b. Exploitation: Some fear, and some charge, that equitized enterprises prosper because they exploit workers, consumers, loopholes in the Enterprise Law, etc. To what extent are these claims justified?

   c. Tilted playing field: others charge that equitized enterprises are themselves exploited by being discriminated against by state

[1] This list is meant only to be illustrative of the classes of questions to be asked, and is by no means exhaustive.

bodies with regard to credit, land use, licensing, regulation, inspection, etc. To what extent are these claims justified?

d. Corporate Governance: to what extent is the way in which State shares are managed responsible for positive or negative aspects of enterprise performance? Are employee run firms noticeably better or worse than others, and if so why?

e. Entrepreneurship: In other countries, there is evidence that equitization creates incentives leading to improved products, lower costs, better marketing, innovation, etc. To what extent has this occurred in Viet Nam?

3. Policy Analysis

Answers to the foregoing questions will have implications for policy, and these will be discussed out in the following categories:

a. Equitization success: to what extent has equitization benefited the country? Should the policy be continued, dropped, or modified?

b. Equitization process: how could the results have been enhanced by modifications to the process of equitization pursued to date. The study will not go into detail on the process, but will focus on the consequences of the process. For example, other studies with far more resources have already done a huge amount of work on valuation and this studies' value-added would be small and detract from its main purpose of empirical analysis. Similarly for other process questions such as dealing with debt, workers rights and transparency.

c. Post-equitization policy: how could the net national benefits be enhanced via modifications in the various rules and regulations affecting the equitized enterprises?

Given resource constraints, limitations on data availability and the large number of enterprises in the set it is not to be expected that all these questions will be answered definitively. However, they seem to be the right questions, and each will all be addressed to the extent possible working within the constraints. Before doing so, we provide a bit of background on equitization.

III. WHAT IS EQUITIZATION?

The first thing a foreigner will want to know is just what "equitization" means. Is it the same as privatization? Alas, this is not a simple issue. Early in 2002, the Prime Minister referred this very question to the three State ideological institutes for priority consideration this year. Pending their decision, we can only describe equitization and let the reader decide for him/herself.

The basic model has six salient characteristics for the enterprises surveyed here[2]:

[2] Important changes were made to the model in 2002. They will be discussed in Chapter Five.

1. The equitized enterprise is registered as a Joint Stock Company, operating under the Enterprise Law applicable to private enterprises, rather than the State Enterprise Law applicable to SOEs.

2. Ownership is diffuse: if the government retains a majority shareholding, no individual is allowed to hold more than five percent of the shares and no institution may hold more than ten percent; if the government holds less than a majority, then the limit is ten percent per individual and twenty percent per institution.

3. Shares are sold at a price determined by a valuation committee. Competitive bidding is not used.

4. Workers and managers usually become majority owners, and always receive at least some share.

5. The State most often retains some share, but seldom is it the majority shareholder and often it retains no share.

6. Third parties almost always take some share but this is seldom a majority stake.

The last three points are roughly quantified in Figure One-1, using information from a database maintained by the National Steering Committee for Enterprise Reform and Development (NSCERD) as modified by CIEM (henceforth, we shall refer to this simply as the Equitization Database).

Figure One-1

SHAREHOLDERS IN EQUITIZED ENTERPRISES

GROUP	% OF SHAREHOLDING			# OF CASES OF SHARE %		
	MEAN	HIGH	LOW	=100	=0	>50
STATE	23	80	0	0	208	66
WORKERS	63	100	7	139	0	453
OUTSIDERS	14	90	0	0	47	35

The quantification is "rough" because, of the 766 enterprises in the database, only 695 had values adding to 100% (+/- 1%) and are included below. They nonetheless seem sufficient to support the cautious level of generalization above.

The variance in these results will have important ramifications throughout our study. For example, has the performance of enterprises with a larger State share been better or worse than that of those with less? Or, has a larger State shareholding made it easier to deal government bodies? Or, more generally, has the large share of workers and the State yielded performance enhancements comparable to other countries where larger shares went to independent entrepreneurs?

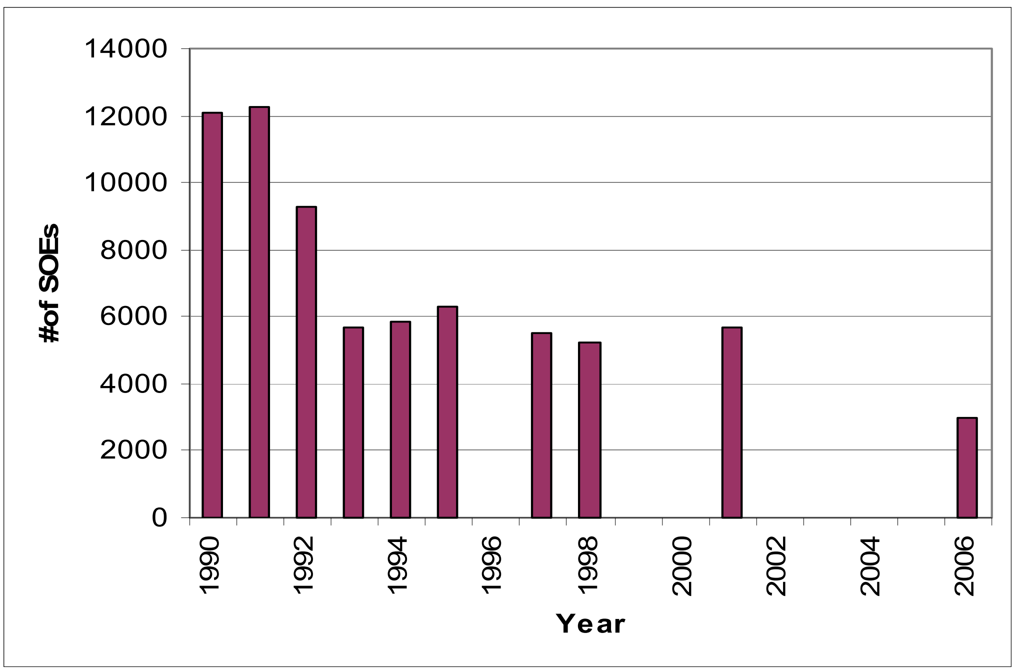
IV. BRIEF HISTORY OF EQUITIZATION[3]

A. Overview

Figure One-2 presents a time series of the number of SOEs in Viet Nam. The history of equitization is manifest therein, though in far less dramatic fashion than is suggested by the substantial reduction in mere numbers. There is some inconsistency in reports from various sources and periods[4], so the chart should be read only in gross terms, as follows: from 1991 to 1994 the number of SOEs was roughly halved; from 1994 to 2001 it has been roughly stable, or perhaps declined marginally; in the next five years it is planned that it will be roughly halved again. What lies behind these figures?

Figure One-2

NUMBER OF SOEs BY YEAR



B. 1991-1997 Consolidation, Liquidation and Re-Registration:

This can be thought of as a precursor to equitization, though it was co-temporal with the early thereof. In 1991 the Government issued a decree requiring that all State enterprises be re-registered or closed[5]. At that time there were about 12,000 SOEs; by 1994 there were only a little over 6000 thanks to about 2000 mergers and 3000 liquidations. Most of the change came from small locally managed SOEs with less than 100 employees and capital of less than VnD 500 million (about US$ 45,000). Total assets of liquidated

[3] This section is based on Chapter Eleven of: Brian Arkady and Rayomnd Mallon, *Doi Moi: Continuity and change in the Vietnamese Economy* (Hanoi: unpublished manuscript in progress, forthcoming 2003.

[4] Problems are particularly severe in the 1993 to 1994 period as some enterprises had not re-registered and were thus not counted and as their was ambiguity about counting firms falling under the Enterprise Union controlled by line ministries.

[5] Decree 388-HDBT (20/11/91), "Establishing and Liquidating State Enterprises".

enterprises accounted for less than 4 percent of total State enterprise assets and about five percent of SOE turnover[6]. A second phase of this process[7] resulted in a further reduction to about 5500 by 1997.

C. 1991-1997 Pilot Equitization

In 1991 a Party resolution decreed that there would be a conversion "of a number of eligible State enterprises into joint-stock companies... [which] ...should be undertaken on a pilot basis and under close guidance, and experience should be drawn with utter care before divestiture is conducted on an appropriate scale"[8]. A key feature of the ensuing implementation was voluntarism. The first seven enterprises to volunteer, subsequently un-volunteered. A new list of 221 enterprises was drawn up, including a mix of true and designated volunteers, but most eventually declined the honor. The first few enterprises were actually equitized late in 1993 and a total of seventeen achieved that status by the end of 1997.

Why was progress so slow? Given our focus on post-equitization, it is not in our mandate to critique the early stages of equitization, but it is worth quoting one informed listing of the problems:

- "concerns by managers that they would lose the preferential treatment given to State enterprises (access to land, quotas, subsidized credit, and less strict financial reporting requirements),
- the lack of clear and transparent guidelines on equitization procedures, especially those for valuation, formal classification of what enterprises can be equitized, and what to do with the social welfare services, funds and facilities provided by SEs prior to equitization,
- many SEs are too small for a joint-stock company structure to be economic,
- the lack of liquidity in share trading because of restrictions under equitization and the lack of formal share trading institutions,
- limited institutional capacity to implement equitization,
- complex institutional arrangements provide opportunities to slow progress,
- political concerns about the impact of equitization on the leading role of the State in the economy and, consequently, on State control over the economy."[9]

D. 1996-2001: Accelerated Equitization

To address such concerns, the government adopted a series of modifications to the equitization process. Notably, Decree 28 of 1996 abolished voluntarism and strengthened the institutional framework. Most importantly, Decree 44 of 1998 provided a new and comprehensive framework under which most of the equitizations have been executed. Consideration of the provisions of this decree will be deferred to Chapter Five

[6] Tran Ngoc Trang, (1994). "Re-registration of State Enterprises". ,Paper presented to a workshop on State enterprise reform in Hanoi (8-9 Mach 1994).

[7] Decision No. 90-TTg (7/3/94), "Work to Re-arrange State Enterprises".

[8] Resolution 2-NQ-HNTW (4/12/91).

[9] Arkady and Mallon, previously cited, p.____.

when we discuss ways to improve the equitization process. Here it is only worth noting the motivation for equitization:

> "1. Mobilizing capital of the whole society, including domestic and foreign individuals, economic organizations and social organizations, for the purpose of investment in renovation of technology, job creation, development of enterprises, improvement of the competitiveness and changes of the structure of State owned enterprises.
>
> 2. Facilitating shareholding (by) employees of enterprises and persons contributing capital to be real owners, changing methods of management, creating a motive for enterprises to do business effectively, increasing assets of the State, raising income of employees and contributing to national economic growth."[10]

With these changes, the pace of equitization accelerated considerably, as can be seen from the following time series.

[10] Socialist Republic of Viet Nam, Decree on Coversion of State Owned Enterprises into Shareholding Companies, (Hanoi: 44-1998-ND-CP; June 29, 1998), Article 2.

Figure One-3

NUMBER OF EQUITIZATIONS BY YEAR

YEAR	NUMBER	
	FLOW	STOCK
1993	2	2
1994	1	3
1995	4	7
1996	8	15
1997	10	25
1998	102	127
1999	242	369
2000	211	580
2001	173	753
Unknown[11]	23	766

E. 1997-Date: Related Transformations

One problem with the equitization program has been its application to the smallest SOEs, with tens of workers and low turnover. How could such an enterprise afford the complex steps necessary to become a joint-stock company? To deal with this problem, the government promulgated Decree 103[12] providing for the Entrusting (to labor collectives), Leasing, Contracting Out and Sale[13] of SOEs with less than VnD 1 billion (about US$70,000) in capital for enterprises showing profits and VnD 5 billion for enterprises showing losses. Transfer to labor collectives was particularly encouraged, with discounts up to 100% under some conditions. Under these provisions, by the end of 2001, 37 SOEs had been sold, 4 contracted out and 61 entrusted to labor collectives (none were leased).[14]

11 The Equitization Database is a work in progress, and some cells are presently blank, including 23 cases for the date of transformation (28, before incorporating results from our Survey). It would be possible to eliminate this category in Figure One-3 by combining a variety of sources and a little guesswork. However, this would contribute to the continued inconsistent reporting of equitization results. Instead, we have decided to simply report what the Database says, and no more. Others can then check our results and improve upon them.

12 Decree 103-CP (9/9/97), Regulation on Entrusting, Selling, Business Contracting or Leasing State Enterprises.

13 "Sale" is a slightly confusing term. It does not mean "asset sales", in which the pieces of the enterprise are sold off; this is specifically excluded by the decree. In Vietnamese legalese means "the change of ownership with money collected for the entire property of the State enterprise into the ownership by a collective, individual or other legal person". In practice, it differs from equitization in that: the firm need not organize itself as a joint-stock company, but can take the simpler limited liability form; ownership is transferred to an existing entity; and the State never retains a share.

14 Nhan Dan (The People) (No. 17077; April 22, 2002). Citing the Business Information Center of MPI. This and all subsequent citations from the Vietnamese press are taken from the very valuable Weekly Media Monitoring Report (WMMR) on SOE Reform produced by the Danida funded Technical Assistance to the Economic Reform Project (TARP).

It is reasonable to think of these activities simply variants within the equitization process. It is also reasonable to think of them as related but distinct activities. Given the small size of the enterprises involved, and the complexity it would add to the analysis, we take the latter view and exclude them from further consideration. Further, CIEM has already made an in-depth, survey-based study of these enterprises.[15]

We shall henceforth refer to the sum of liquidated, equitized, leased, contracted-out, transferred and sold enterprises as transformed enterprises. It may be useful to point out that one major source of conflicting reports of the number of enterprises equitized is that, at least in English, people sometimes use "equitized" in the narrow sense just given, and sometimes in the broader sense of "transformed".

F. 2002-2005: A Plan

Earlier this year, the government announced a five year plan calling for the number of SOEs to be halved by transformation. Some reports refer to this as equitization, and if so, it would require that the pace of annual equitization would need to be roughly doubled from its peak year of 2000. In fact, equitizations are only projected to be about half of the transformations. According to Dr Pham Viet Muon, Vice-Chairman of NSCERD, 2622 small or loss-making SOEs will be transformed during this period, with 1319 equitized, 562 sold, contracted or leased, 351 merged, 368 liquidated and 27 converted to administrative units. [16] Achieving the equitization target thus will thus require only roughly matching the pace of 2000. Nonetheless, pessimists doubt that this will be possible, pointing to the slow-down of the pace in late 2001 and early 2002, and the fact that the easier cases have already been dealt with. Optimists point to the fact that many of the earlier problems have been solved by the new Decree 64[17] (which in April 2002 replaced Decree 44 governing equitization), attribute the slow-down to firms delaying action until the new decree was issued, and point out that there has been considerable learning-by-doing to date. Empiricists will wait and see.

We shall return to consideration of Decree 44 in Chapter Five. Before proceeding however, it is worth recoding the long-run vision of the Party for the SOE sector.

NEED SOMETHING FROM THE 2002 PARTY PLENUM ON THE VISION OF THE LONG RUN REMAINING SOE SECTOR

G. Empirical Consequences

What has been the economic impact of equitization to date? The best answer to this question would come from looking at the share of the equitized enterprises in GDP, but these data are not available. A proxy is to look at the share of SOEs as GDP, though this also includes the growth of the SOE sector relative to the Non-State sector[18]. This measure is available through 1996 and provided in row one of Figure One-Four. It shows that at least during the first half of the 1990s the decline in the number of SOEs was trivial relative to the growth of remaining SOEs, with the share of SOEs increasing substantially. For more recent data we have to rely on a still more distant proxy: the share of the State Sector in GDP (which also contains administrative organs). These data

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[15] CIEM, "Study Report on Divesture and post Divesture Problems- A Comparison With Equitization of State Owned Enterprises (Hanoi: CIEM, January 2002.

[16] The Saigon Times Weekly (No. 551; April 27, 2002), as reported in Weekly Media Monitoring Report.

[17] Get full citation.

[18] The Non-State Sector includes Collecitves, Private Enterprises, Households, Mixed Enterprises and Foreign Investment Sector.

are readily available and given in the last two rows of Figure One-4. The State share also shows a significant increase in the first half of the 1990s, with rough stability thereafter.

Figure One-4

INDICATORS OF SOE SHARE IN GDP (%)[19]

GDP SHARE OF:	90	91	92	93	94	95	96	97	98	99	00
SOE SECTOR	23	24	26	28	29	29	28				
STATE SECTOR	33	33	36	39	40	42	41	40	40	39	39

The direct economic impact of equitization has thus been small, not to say miniscule. What about the indirect impact. There are at least two of these, and possibly three. The first is the achievement of a major goal of SOE reform which is to shed the small and unprofitable firms, freeing financial and administrative resources for the larger enterprises, whose success is critical to the economy. Second, the number of equitizations, while small relative to the number of SOEs has been large relative to the number of SOEs, has been large relative to the number of join-stock companies. There were only about 100 of these when the equitization process began, but today there are___________. This expansion can be expected to have a substantial positive impact on the evolution of the modern private sector. Third, to the extent that equitized enterprises outperform SOEs in terms of job creation and investment, it is at least possible that public policy will in some years shift towards supporting a further reduction in the SOE sector, beyond what is currently envisioned. We will examine the evidence for this possibility in Chapter Three.

Figure One-4 has one other obvious implication in an international context. Viet Nam has emphatically not followed the full-speed-ahead Russian or Eastern European transformation models. Neither has it emulated the Chinese model, where though divestitures have been small, an exploding private sector has swamped the SOE sector, with the SOE share falling from about three-quarters in 1980 to about one-quarter today. Critics of the "Washington consensus"[20] may therefore be particularly interested in the Vietnamese model.

V. OVERVIEW OF PAPER

[19] Source for SOE Sector: Raymond Mallon, Enterprise Restructuring to Create More Equitable Opportunities for Private and State Enterprises in the Industry Sector, (Ha Noi: Background paper prepared for the Enterprise Reform Project Ministry of Planning and Investment and Asian Development Bank**,** February 1998), p. . Source for State Sector: General Statistics Office, *Statistical Yearbook* (Hanoi: Statistical Publishing House, various issues).

[20] For the Vietnamese audience, in recent years these critics have grown to include some highly respected economists who question some of the practices of the IMF (for example in the Asian debt crisis of the late 1990's) and the World Bank (for example, the rapid privatization in Russia in the early 1990's.

This completes the background to the study. In the next chapter we cover our Methodology, which many readers may prefer to skim or skip. We then proceed to the substance with chapters on Performance, Performance Explanation, Equitization Policy, Post-Equitization Policy, and Conclusions.

Chapter Two:

METHODOLOGY

I. QUESTIONNAIRE DESIGN

The questionnaire is provided in Appendix One. We now describe the process by which it was arrived at. Good questionnaires are devilishly difficult to design, and this is all the more true in a developing Socialist country. Considerable effort was therefore devoted to problems of both inclusion and exclusion. Of particular relevance was the IFC's 1998 survey[21] of thirteen of the first seventeen enterprises equitized, but we also looked at surveys of SOEs, and private enterprises. To organize our work, all relevant and interesting questions were entered in column 3 of a design form. Since we were comprehensive, this ultimately ran to more than sixty pages, but a few illustrative pages are provided in Appendix Two. Questions were organized logically according to our analytic framework, as follows:

0. General Information
1. Did Performance Change?
2. Who Won and Who Lost From the Change?
3. Performance Explanation: Factors External to the Firm
4. Performance Explanation: Factors Internal to the Firm
5. Miscellaneous

An explanation of the purpose of each question was also entered in column two. By starting with issues, we can search (though not always successfully) for instruments to illuminate important but thus far unaddressed questions. The final instrument is of course organized quite differently, taking into account both administrative logic (separating quantitative from qualitative questions), and psychology (trying to set the respondent at ease with early questions and slipping in tougher ones later).

Turning to exclusion, we were aware that it is common for questions to yield no informative results because, among other things:

1. the question is maladroitly phrased;
2. respondents will not answer candidly;
3. respondents do not, and cannot know, the answer;
4. answers are subject to more than one interpretation;
5. even candid, knowledgeable answers reveal nothing one didn't already know;
6. answers, while useful, inform on issues not central to the study at hand;

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[21] M Reza Amin and Leila Webster. Equitzation of State Enterprises in Vietnam: Experience to Date. Hanoi: Mekong Project Development Facility of the International Finance Corporation, March 1998.

7. answers, while interesting and accurate may have no correlation with anything we are trying to explain, such as performance

Because there is an opportunity cost of time, bad questions drive out good ones. It follows that what is left out of a questionnaire is as important as what is included. Accordingly, we added a statement of relevance and probability of success for each question (column 4) and a numerical priority of inclusion (1 being highest, 5 being lowest).

An initial draft of the table was done by the external consultants and provided a framework for initial discussions with CIEM and ICBI. Based on this work a first draft questionnaire of seventeen pages was drafted. This was carefully discussed and eventually cut to ten pages. This version was distributed and discussed with a variety of informed observers of SOE reform, and non-randomly field-tested at enterprises both through informal discussion of tough issues and formal testing of the entire questionnaire, with revisions made as we went along. To minimize linguistic misunderstanding an illuminating round-trip translation was done (from English to Vietnamese by one translator, and from Vietnamese back to English by another).

One particular difficult issue was the number of years of data to request. At one extreme, simplicity and the desire for a high response rate argued for asking for only the year prior to equitization and 2000. On the other hand, serious performance evaluation requires a full time series from three-years prior to equitization to date, in order to distinguish trends from blips. The current version reflects a compromise: the most recent two years, plus the last full year prior to equitization and the first full year after equitization (thereby omitting the year in which equitization took place, which reflects performance both in the private and public sectors).

IV. SAMPLE SELECTION

The sample was selected from a universe of 877[22] enterprises for which transformation decisions were issued by the end of 2001. The way in which the sample was drawn from this universe is illustrated in Figure Two-1. We first eliminated enterprises which were transformed, but not equitized (sold, entrusted or contracted out), as described in Chapter One.

The next consideration was that to provide evidence of changes in performance, there should ideally be two, or even three, years of post-equitization performance. However, for policy purposes, more recently equitized enterprises are a better reflection of current problems with the process. Compromising between performance and policy analysis, it was agreed to include all enterprises with at least one full year of post-equitization results (that is, for which a transformation decision was issued before the end of 2000). Since 173 enterprises were equitized in 2001, we were left with 603 which met this test.

The obvious next step would be to draw a stratified random sample from this group. Using information in the Equitization Database, we could stratify by provincial location, economic sector, capital, and parent body (Central Ministry, Province, General Corporation). Illustratively, aggregating to 8 provincial/parent groupings, 4 economic sectors, and two size classes would yield 64 strata from which to sample. Two factors

[22] All numbers in this section are derived from the Equitization Database, described in Chapter One.

argued against this. First, we know little or nothing about how variance differs across strata and across variables[23].

Figure Two-1
SAMPLE DERIVATION

CATEGORY	NUMBER
TRANSFORMATIONS THROUGH 2001	878
-TRANSFORMED BUT NOT EQUITIZED	
SOLD	37
ENTRUSTED (to labor collective)	61
CONTRACTED-OUT	4
= EQUITIZED	776
- EQUITIZED IN 2001 (per database)	173
= EQUITIZED IN 2000 AND EARLIER	603
- OF WHICH, UNKNOWN LOCATION	59
= FEASIBLE SET FOR 2000 AND EARLIER	544
- 46 PROVINCES WITH FEWEST EQUITIZATIONS	122
= PLANNED SAMPLE	422
- PROVINCE SUBSTITUTION	9
+ DISCOVERED EQUITIZATIONS (NET)	29
= ATTEMPTED SURVEYS	442
- EQUITIZED IN 2001 (per survey results)	17
- TRANSFORMED BUT NOT EQUITIZED (survey)	0?
= ADJUSTED SAMPLE	425

Second, and more importantly, is the economics of survey administration in Viet Nam. Those experienced in such work felt strongly that there were high fixed costs per province and low variable costs per firm within each province. That is, it is expensive to add provinces and cheap to add enterprises within a province. In part this is due to travel and per diem costs, and in part to the critical importance of establishing relations with provincial officials who are uniquely positioned to motivate enterprise cooperation. CIEM estimated that, given the budget constraint, it was not feasible to attempt surveys in any more than 10-15 provinces, but that within each province it could survey all firms.

What would such a sample look like? Figure Two-2 shows the provincial distribution of equitized firms: column 1 giving the total, column 2 those in 2001 and column 3 those of interest to us, namely those equitized in 2000 or earlier. As can be seen, the 15 provinces with the most equitizations (9 or more per province) had a total of 422, which was 73 percent of all equitizations in 2000 or before. However, since the Equitization Database is a work in progress, the province is unknown in 59 of the 603 relevant cases.[24] Since it is difficult to survey a firm when you don't know where it is, there are only 544 firm in the feasible set, and 422 is 81 percent of that. So, complete enumeration in 15 provinces would cover a very substantial fraction of the feasible set.

Figure Two-2
EQUITIZED FIRMS BY PROVINCE

[23] Oversimplifying a bit, sampling theory says that to achieve a desired degree of accuracy, the sampling percentage differs with the variance in a strata. At one extreme, if everyone is the same (no variance), then you need only sample one person and you have the answer for everyone, with perfect accuracy. At the other extreme, if everyone is different, you need to ask everyone to be perfectly accurate.

[24] And in 86 of 776 total cases.

	Province	Total Equitized	-2001	= 2000 & Before	Planned Sample	Sampling Rate
1	Ha Noi	128	14	114	121	1.06
2	HCMC	126	28	98	100	1.02
3	Nam Dinh	32	3	29	28	0.97
4	Thanh Hoa	32	4	28	28	1.00
5	Hai Phong	28	4	24	32	1.33
6	Nghe An	28	7	21	28	1.33
7	Dong Nai	19	7	12	12	1.00
8	Binh Dinh	16	3	13	13	1.00
9	Khanh Hoa	16	11	5		
10	Da Nang	15		15	15	1.00
11	Lam Dong	15		15	15	1.00
12	Dac Lac	14	9	5		
13	Quang Ninh	14	1	13	17	1.31
14	Phu Tho	12	2	10	11	1.10
15	TT Hue	12	3	9		
16	Tuyen Quang	12	1	11	11	1.00
17	Cao Bang	10	4	6		
18	Ha Tay	10	3	7		
19	Hai Duong	10	3	7		
20	Ninh Binh	10		10		
21	Thai Binh	9	5	4		
22	Can Tho	8	3	5		
23	Ba Ria-Vung Tau	7	4	3		
24	Bac Ninh	7		7		
25	Bac Giang	6	1	5	5	1.00
26	Ha Nam	6	1	5	6	1.20
	Other Provinces	94	26	68		
	Unknown	86	27	59		
	Total	776	173	603	442	0.73
	Total - Unknown	690	146	544	442	0.81

The obvious drawback to such a sample is that it tells us nothing about what happened in the more remote and poorer regions. Consideration was therefore given to alternative designs such as: the two premier locations (Ha Noi and Ho Chi Minh City) plus a random selection of four of the next nineteen richest provinces with more than one relevant equitization, plus four of the poorest nineteen provinces with more than one equitization. The difficulty here is that the second group would have only about 20 firms and the last less than ten, with each to represent the experience of nineteen provinces. This is a bit small to draw meaningful generalizations from.

It was therefore concluded to go with the proposal of complete enumeration in fifteen provinces. This should answer the questions in the most important places and if the results are worthwhile and additional funds made available, a separate study could be done of the less densely equitized regions.

The story does not end here, because as is usual in empirical work, adjustments need to be made as you go along. In this case there were three:

1. A minor fact was that for administrative reasons, Bac Giang and Ha Nam were substituted for Ninh Binh and Dac Lac, reducing the sample by nine.

2. Much more importantly, surveyors working with provincial officials in the fifteen provinces discovered that in some cases there were more equitizations and in some cases fewer than in the database. The net effect of this was to increase the number of firms by 29, bringing to 445 the total of firms where surveys were actually attempted.[25]

3. When questionnaires were returned, it was discovered that in seventeen cases they had been equitized during 2001[26], and should not have been surveyed.

4. We have been told of analogous cases where firms did not respond because they were transformed but not equitized. At this point, we have not been given any names, so only enter a zero place-holding reminder in Figure Two-1.

After making these changes, the final Adjusted Sample was 425 firms. The reader may be interested in other characteristics of these firms. These will be given in Section VII below.

V. SURVEY EXECTUTION

By far the biggest risk of the study was that enterprises would not respond or would respond incompletely, particularly with regard to financial information. This might introduce sample bias sufficient to invalidate any results. To minimize the risk, two steps were taken.

First, surveyors were chosen to maximize response. Our original intention was to utilize independently trained and hired surveyors (perhaps university students). This was rejected on the grounds that in Viet Nam, they would often not get in the door, let alone walk out the door with Profit and Loss data. Instead, two or three provincial officials (typically, someone on the Enterprise Reform Committee, and/or from the local branch of the General Statistics Office, and/or the Department of Land and Investment) were put in charge of administering the survey and selecting and overseeing surveyors. This sends shudders down one's back at the thought of the bias that will be introduced on questions such as the role of provincial officials in the equitization process. However, given the critical importance of the quantitative performance data, it was decided that it was worth incurring the cost of reduced reliability on some qualitative questions in order to get the benefits of substantially improved quantitative responses.

Second, surveyors were instructed as to the central importance of complete responses. Table Three gives the summary instructions to be given to surveyors (note particularly the last paragraph).

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[25] It would obviously be desirable to update the Equitization Database to reflect this new information (as well as the next point). Since it does not affect the rest of our work, and we are short on time, we have not done so.

[26] There were also several cases where the database said December 2000, but the firm said January 2001. Allowing for the mail, we judged the two stories to be consistent and included such firms.

Figure Two-4
SURVEYOR'S RESPONSIBILITIES

It is the responsibility of surveyors to ensure:

- That all questions are understood by the company.

- That, to the extent possible, ensure that all questionnaires are returned, unless the enterprise is no longer operating in the province.

- If the firm is no longer operating in the province, to find out whether:
    - It is now operating elsewhere
    - It was merged into, or otherwise acquired by, some other firm (and if so, under what conditions at what price).
    - Liquidated as part of a business strategy to maximize value/return to owners (eg selling off land-use rights to higher value user)(and if so, under what conditions at what price).
    - Bankrupt (or otherwise closed).

- To check that all questions are answered completely, and in the form requested (for example, ensure that the P&L adds up, etc).

- If, in any instance, all efforts fail and a questionnaire is not completed, surveyors will document the steps taken to try to obtain responses, and the reasons given by firms for not providing data. They will also use provincial sources to provide basic information about the firm to see if non-respondents differ significantly in any way from non-respondents.

Two other suggestions were ultimately deleted from this list as not being feasible in Viet Nam.

1. Most of surveyors' pay in a particular province may be withheld until these conditions are met.

2. A random sample of firms will be revisited by Quality Control Officers from CIEM and/or international consultants to check on whether the answers really came from the enterprises rather than the surveyor

How successful were these efforts?

VI. RESPONSE RATE

The answer is, "not very", as can be seen from the results displayed in Figure Two-5

Figure Two-5

RESPONSE RATES BY PROVINCE

PROVINCE	SAMPLE SIZE (adjusted)	RESPONSE RATE					
		DISAP-PEARED	NO RESPONSE		RESPONSE		TOTAL
			WITH	W/O	QUAL	QUANT	
HA NOI	116	0.15	0.05	0.21	0.37	0.22	1.00
HO CHI MINH C	98	0.00	0.36	0.00	0.30	0.35	1.00
HAI PHONG	28	0.00	0.25	0.00	0.68	0.07	1.00
THANH HOA	28	0.00	0.46	0.00	0.46	0.07	1.00
NAM DINH	27	0.00	0.59	0.00	0.22	0.19	1.00
NGHE AN	21	0.00	0.29	0.00	0.52	0.19	1.00
QUANG NINH	16	0.00	0.00	0.00	0.38	0.63	1.00
DA NANG	15	0.00	0.00	0.00	0.73	0.27	1.00
LAM DONG	15	0.00	0.13	0.00	0.80	0.07	1.00
BINH DINH	13	0.00	0.00	0.00	0.54	0.46	1.00
TUYEN QUANG	12	0.00	0.08	0.00	0.42	0.50	1.00
DONG NAI	11	0.00	0.00	0.00	0.45	0.55	1.00
PHU THO	11	0.00	0.27	0.00	0.36	0.36	1.00
BAC GIANG	6	0.00	0.00	0.00	0.00	1.00	1.00
HA NAM	5	0.00	0.00	0.00	0.60	0.40	1.00
TOTAL 1	422	0.04	0.21	0.06	0.41	0.28	1.00
TOTAL 2		0.04	0.27		0.69		1.00
TOTAL 3		0.15	0.16		0.69		1.00

The second column reminds us of the weights of different province, while the remaining columns give us the different types of response. Note the following:

1. Overall, 69 percent of firms returned questionnaires (see Total 2 row).

2. A further 4 percent of the firms are shown to have disappeared (also see Total 2), meaning that they could not be found by the surveyors. This is an underestimate of this important category, because only in Ha Noi were the numbers reported. Elsewhere, we have stories about this happening, but no quantification.

3. One reason the disappearance rate is important is that if affects our interpretation of the no-response rate. As shown in Total 2, it is 27 percent. But, if Ha Noi's 15 percent rate of disappearance were typical of the rest of the country and had been reported, then the overall rate of refusal to respond would have dropped to only 16 percent[27], and we would have something like the Total 3 row, which is probably much closer to the truth than the Total 2 row.

4. Disappearance is also critical to our entire interpretation of the economic consequences of equitization. To take extreme cases, what if we knew that 15 percent of equitized firms had gone bankrupt? This would be rather different than if we learned that 15 percent had prospered mightily and had to move to new and bigger quarters? Or, that they had sold their valuable land-use rights to someone who could

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[27] .27-(.15-.04)

use them more productively? Or, that they simply moved down the street and were still doing the same old thing? Since we cannot distinguish between these quite different possibilities, it is going to be hard to reach any general conclusions about equitization, because the missing 15 percent could be either much better or much worse than the average of respondents.

5. Now look at the substantial variance in response rate across provinces (for the moment, ignoring the two sub-categories). At one extreme, in six provinces (Quang Ninh, Da Nang, Binh Dinh, Dong Nai, Bac Giang, and Ha Nam) 100 percent of the questionnaires were returned; at the other, in one province (Nam Dinh), only 41 percent were returned. What explains this difference? An earlier draft of this paper observed that by far the lowest rates were in Ha Noi and Ho Chi Minh City and attributed this to managers there being tired of being pestered for interviews. While it is certainly true that it is harder to get good results in the big cities, it is now evident that it is not an overwhelming obstacle. Surveying simply started later there and responses have caught up to the point where they are only modestly below the mean (Ha Noi, 59 percent; Ho Chi Minh City, 64 percent; mean, 69 percent). Elsewhere, the response rate probably has more to do with the dedication and persistence of the surveyors.

6. Now consider the two subcategories of responses. About 60 percent of the questionnaires returned were incomplete or inconsistent and therefore usable only for qualitative reporting (QUAL column), while the remaining 40 percent were complete and usable for both quantitative and qualitative analysis (QUANT column). How was this assignment made? All data were entered into a computer by one person and each and every entry independently verified by another. A series of computerized consistency checks were run on all financial data to see that they were internally consistent. Another program ran plausibility checks, identifying implausibly high or low levers of various variables such as output per worker. Each questionnaire was also visually inspected for missing data. Finally, all this was put on a one-page summary sheet for each enterprise, and the questionnaire either accepted or rejected. It had been intended that this information would be used to re-contact each firm and ask for the missing our incomplete information, but in the end only a handful were contacted, resulting in only 9 more completed questionnaires.

The bottom line, then is that the response rate was only 69 percent for qualitative analysis and a miniscule 28 percent for the most important forms of quantitative analysis. Under these conditions, should an intelligent but busy person waste his/her time even skimming the results? In the next section we provide some data to help answer this question.

VII. HOW SERIOUS WAS THE SAMPLE BIAS?

A. Issues

Non-response does not introduce bias if it is random; that is, if the non-respondents do not differ from respondents in significant ways. For example, if non-response is a function of grumpiness (or being tired of filling out questionnaires and giving interviews), and this is in no way related to performance, governance, etc, then we have no bias. In this case, we could use the respondents' answers to represent those of non-respondents. But non-random bias is also a possibility. Here are two possibilities that brought smiles to faces of participants at an equitized enterprise workshop in Ha Noi.

1. Embarrassment: People don't respond because they are afraid to reveal how badly they have done.

2. Fear: People don't respond because they have done so well, and don't want the tax authorities to find out.

The two explanations of course introduce opposite biases, but the presence of either distorts our study and precludes generalizations to the set of equitized enterprise as a whole. In this section we therefore try to use independent information to see whether or not non-respondents are similar to, or different from, respondents. To the extent the former is true, we accept our results, even with the small response rate. To the extent the latter is true, we can't.

The same issue applies to possible differences between our Qualitative and Quantitative Respondents. To what extent can results from the latter be used to generalize to the former?

B. Differences in Sample Characteristics

As a starting point, Figure Two-6 compares the various response categories according to each of the dimensions in the Equitization Data Base (other than Provincial location, given earlier). Are the Respondents similar to, or different from the Non-Respondents. We need to look across rows in each sub-panel and see if the distributions are roughly similar. Hard to tell? Then take a look at Figure Two-7 which provides the same information in percentage terms. There are obvious differences, for example in the first row, only 15 percent of respondents were headed by Ministries, but only 1.5 percent of non-respondents were. Still, a lot of the numbers are quite similar. We still find it hard to tell, and include these tables largely to describe the sample and universe characteristics. To answer the bias question, we turn to statistics.

Figure Two-6

CHARACTERISTICS OF FIRMS IN DATA BASE BY SAMPLE STATUS

(Number of firms)

CATEGORY	DISAPPEARED	NON-SAMPLE	NON-RESPOND	RESPONDENTS			ALL
				QUALITATIV	QUANTITAT	SUB-TOT	
BY PARENT ORGANIZATION							
Ministries	1	84	2	24	17	41	*128*
GCs	6	29	16	12	2	14	*65*
Provinces	10	213	114	138	99	237	*574*
Unknown	0	0	0	0	0	0	*0*
Total	*17*	*326*	*132*	*174*	*118*	*292*	*767*
BY OWNERSHIP							
State >=50%	2	83	18	27	22	49	*152*
State<50%	8	169	68	96	75	171	*416*
State=0	7	33	19	35	16	51	*110*
Unknown	0	41	27	16	5	0	*89*
Total	*17*	*326*	*132*	*174*	*118*	*292*	*767*
BY ECONOMIC SECTOR							
Agriculture	0	15	7	0	7	7	*29*
Fishery	0	6	2	4	7	11	*19*
Industry & C	4	124	56	65	43	108	*292*
Telecomm	3	0	0	2	0	2	*5*
Transport	1	36	6	56	9	65	*108*
Services	9	65	44	9	32	41	*159*
Unknown	0	80	17	38	20	58	*155*
Total	*17*	*326*	*132*	*174*	*118*	*292*	*767*
BY CAPITAL							
< 1 billion	4	41	28	24	12	36	*109*
1-2 billion	0	74	28	38	14	52	*154*
2-5 billion	6	102	33	54	35	89	*230*
5-8 billion	7	43	17	19	26	45	*112*
> 8 billion	0	58	26	33	26	59	*143*
Unknown	0	8	0	6	5	11	*19*
Total	*17*	*326*	*132*	*174*	*118*	*292*	*767*

Figure Two-7

CHARACTERISTICS OF FIRMS IN DATA BASE BY SAMPLE STATUS

(percentage of firms in each category in each sample status)

CATEGORY	DISAPPEARED	NON-SAMPLE	NON-RESPOND	RESPONDENTS			ALL
				QUALITATIV	QUANTITAT	SUB-TOT	
BY PARENT ORGANIZATION							
Ministries	0.059	0.258	0.015	0.138	0.144	0.140	0.167
GCs	0.353	0.089	0.121	0.069	0.017	0.048	0.085
Provinces	0.588	0.653	0.864	0.793	0.839	0.812	0.748
Unknown	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	*1.000*	*1.000*	*1.000*	*1.000*	*1.000*	*1.000*	1.000
BY OWNERSHIP							
State >=50%	0.118	0.255	0.136	0.155	0.186	0.168	0.198
State<50%	0.471	0.518	0.515	0.552	0.636	0.586	0.542
State=0	0.412	0.101	0.144	0.201	0.136	0.175	0.143
Unknown	0.000	0.126	0.205	0.092	0.042	0.072	0.116
Total	1.000	1.000	1.000	1.000	1.000	1.000	5.000
BY ECONOMIC SECTOR							
Agriculture	0.000	0.046	0.053	0.000	0.059	0.024	0.038
Fishery	0.000	0.018	0.015	0.023	0.059	0.038	0.025
Industry & C	0.235	0.380	0.424	0.374	0.364	0.370	0.381
Telecomm	0.176	0.000	0.000	0.011	0.000	0.007	0.007
Transport	0.059	0.110	0.045	0.322	0.076	0.223	0.141
Services	0.529	0.199	0.333	0.052	0.271	0.140	0.207
Unknown	0.000	0.245	0.129	0.218	0.169	0.199	0.202
Total	1.000	1.000	1.000	1.000	1.000	1.000	1.000
BY CAPITAL							
< 1 billion	0.24	0.13	0.21	0.14	0.10	0.12	0.142
1-2 billion	0.00	0.23	0.21	0.22	0.12	0.18	0.201
2-5 billion	0.35	0.31	0.25	0.31	0.30	0.30	0.300
5-8 billion	0.41	0.13	0.13	0.11	0.22	0.15	0.146
> 8 billion	0.00	0.18	0.20	0.19	0.22	0.20	0.186
Unknown	0.00	0.02	0.00	0.03	0.04	0.04	0.025
Total	1.00	1.00	1.00	1.00	1.00	1.00	1.000

C. Respondents versus Non Respondents in Equitization Data Base

To test for similarities between groups, we ran tests of the most of the possible relationships in the foregoing table. For example, is the size (measured by capital) significantly different between Respondents, Non-Respondents and the Un-sampled? We generated tons of results which we will not bore you with. The only statistically significant difference is that Respondents had a much larger state share (mean = 25 percent) than Non-Respondents (16 percent).[28] Un-sampled firms were understandably intermediate since they were mostly excluded for being equitized in 2001, so they should share the characteristics of our Respondents and Non-Respondents. So, what explains this result? Well, the positive correlation says that the greater the government share, the more likely it is to cooperate with a government sponsored survey. That isn't too hard to believe, is it? If not, what bias does it introduce? Well, if we learn in Chapter Four that firms have significantly better/worse performance if they have more/less government involvement, then we will have to modify our results appropriately to generalize to the less government-owned non-respondents. Otherwise, there is no evidence in the Equitization Database of potential sample bias.

This is good, so far as it goes, but it doesn't go far, since there are not a lot of variables in the Equitization Data Base. We therefore took another step to try to increase your confidence in our work.

D. One Page Respondents versus Sample

It is still possible that that respondents and non-respondents might differ in the way they answer questions. So, a simple one-page questionnaire (Appendix Three) was designed, incorporating some opinion questions from the long-form. This was administered to a group of non-responding firms at a workshop in Ha Noi, and a few returns were retrieved via mail from Ho Chi Minh City, for a total sample size of 29. Their responses are compared in Figure Two- (only the question number is given here as we do not want to give away the meaning of the questions until they are discussed in context later). As can be seen, the pattern of the order-of-magnitude of the responses is broadly similar, with the notable exception of the third question from the top. But are the differences statistically significant? The answer is that at the 95% level of confidence, only the difference in the third question is significant.[29]. The exception is important however, because the third question has to do with respondents opinions as to how much wages rose after equitization and this is a fairly important variable. However, the other important variable is the first question, which concerns financial performance after equitization and here there is no significant difference. The other questions are less important, having to do with problems faced and the nature of changes after equitization. In sum, the evidence from the one-page questionnaire provides some, but by no means unambiguous, support for the hypothesis that there is no sample bias.

Figure Two-8

ONE PAGE VS RESPONDENT ANSWERS TO SELECTED QUESTIONS

(mean responses on a 1 to 5 scale)

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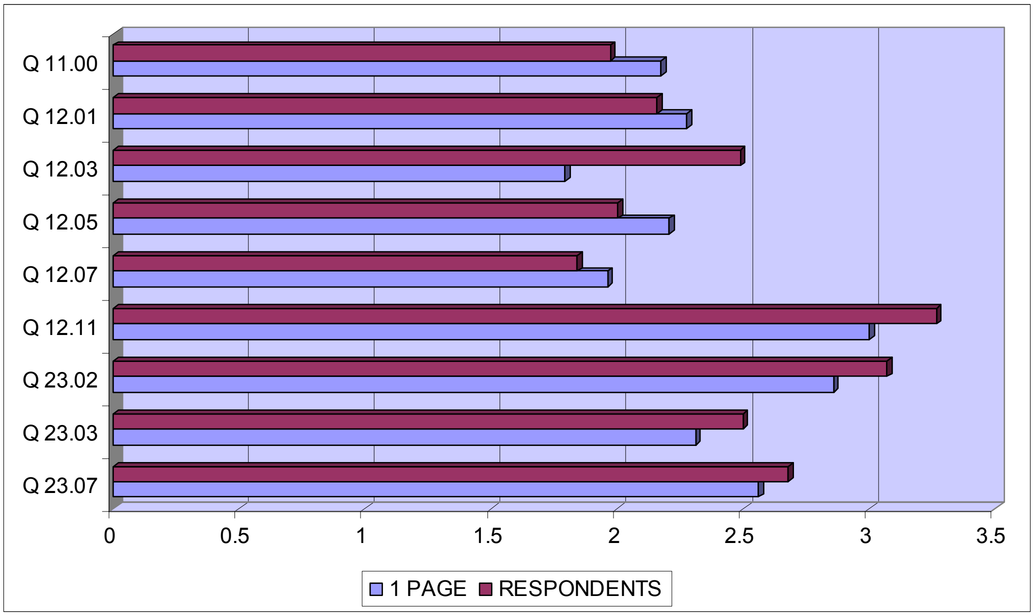
[28] There was also a statistically significant negative relationship between responding and the labor share, but this is just the same thing again, as a higher labor share means (mostly) a smaller government share.

[29] Also, the fourth question is pushing significance.



E. Qualitative versus Quantitative Respondents

We now ask whether or not the Qualitative and Quantitative Respondents are similar. We first perform the same tests as reported in Section C utilizing the Equitization Data Base. Results are an extension of the previous set with the only statistically significant correlations being on government share. That is, the larger the government share (and the smaller the worker share), not only is the firm more likely to provide any response to the survey (Section C), but it is also more likely to provide a complete and careful response and be placed in the Quantitative rather than the Qualitative group. This will require adjustments of the same sort under the same conditions as described at the end of Section C.

We can also compare the two groups on their responses to the Qualitative questions in the questionnaire. Utilizing the same set of questions used in Section D, we found only one statistically significant difference. That is, on a five point scale concerning labor management issues, Quantitative Respondents were 0.21 further to the right than Qualitative Respondents. This may be statistically significant, but it hardly seems material.

F. Conclusion

So, what is the answer to the question at the end of the last section? Should you continue reading? Our answer would be, yes, and with more confidence than in most studies, but less than you would like. There is clear evidence that the disappeared firms are different from the Respondents, and that the Respondents are more likely to have a larger government share, but we can adjust for both of these factors as we go along. Still, we will try to be cautious in our generalizations.

Chapter Three

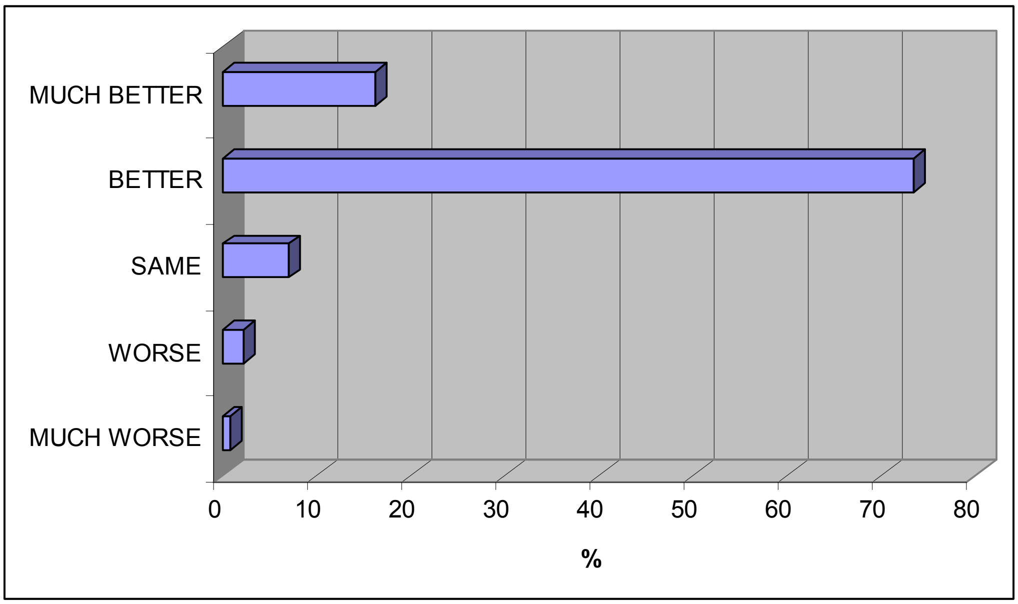
PERFORMANCE RESULTS[30]

I. QUALITATIVE EFFICIENCY RESULTS[31]

To what extent has financial performance improved or declined after equitization? The simplest way to answer this question is to just ask the experts—the managers of the firms themselves. We did this, with the following result:

Figure Three-1[32][33]

Since equitization, has the firm's financial performance (compared to its not having been equitized) been:



With ninety percent of respondents saying that financial performance was rated "better" or "much better" and only three percent saying it was "worse", or "much worse", this is clearly a strongly positive result for equitization. Some readers may be content to stop

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[30] We now begin the core empirical presentation of the results of our Survey. Survey statistics are notoriously open to competing interpretation. To minimize resulting confusion, it is standard practice to not provide the underlying data and to suppress inconvenient results. We recognize our own fallibilities and think the equitization issues facing Viet Nam are too important for the standard approach and so give complete answers to all questions in Appendix Four. If the reader does not like our interpretations, he/she is invited to provide alternatives.

[31] In the balance of the paper, whenever we report qualitative results, it is for the full sample of 367 firms (or for however many respond to a particular question). When we report quantitative results, or results which involve both quantitative and qualitative responses, it is for the smaller sample of 118 firms.

[32] Missing values = 0.37% of respondents.

[33] In this figure, as in most of what follows, we do not provide precise numerical values, because we think only order-of-magnitudes are important. Readers wanting actual numbers can go to Appendix Four.

here and move on to the next chapter, especially since they have seen this sort of qualitative result reported elsewhere and it corresponds to contemporary conventional wisdom in Viet Nam. Others may wonder just what managers meant by "better" financial performance. It could mean reducing losses from minus twenty percent to minus eighteen percent, or it could mean going from minus five percent to plus five percent, and there is a big difference between those two meanings. Readers with such concerns would be more impressed by reports in the form of the following one from Ho Chi Minh City:

> "A survey in 22 enterprises equitized for more than 1 year showed an increase of, on average, 41.07% in revenue; 39.49% in profit, 18.04% in value of capital of state shareholders, and 30.09% in budget contribution."[34]

This is quite impressive, but does it apply more broadly across Viet Nam, or at least to the provinces and cities in our survey?

II. QUANTITATIVE EFFICIENCY RESULTS

A. The Big Picture

Because of their familiarity, we begin with the simplest possible indicators; that is, without adjusting for price changes and/or industry trends. However, we do depart from the common practice in Viet Nam of reporting average gains from the inception of equitization to date. This is useful measure of the cumulative impact of equitization to date, and so we shall report it later. However, it amounts to giving equal weight to the growth of firms who have been equitized for one year, and those that have been equitized for five years, so we do not use it as our primary measure. Instead, we give the average annual compound growth rate for each variable. These measures are displayed in Figure Three-2.

Figure Three-2

AVERAGE (MEAN) ANNUAL GROWTH RATES

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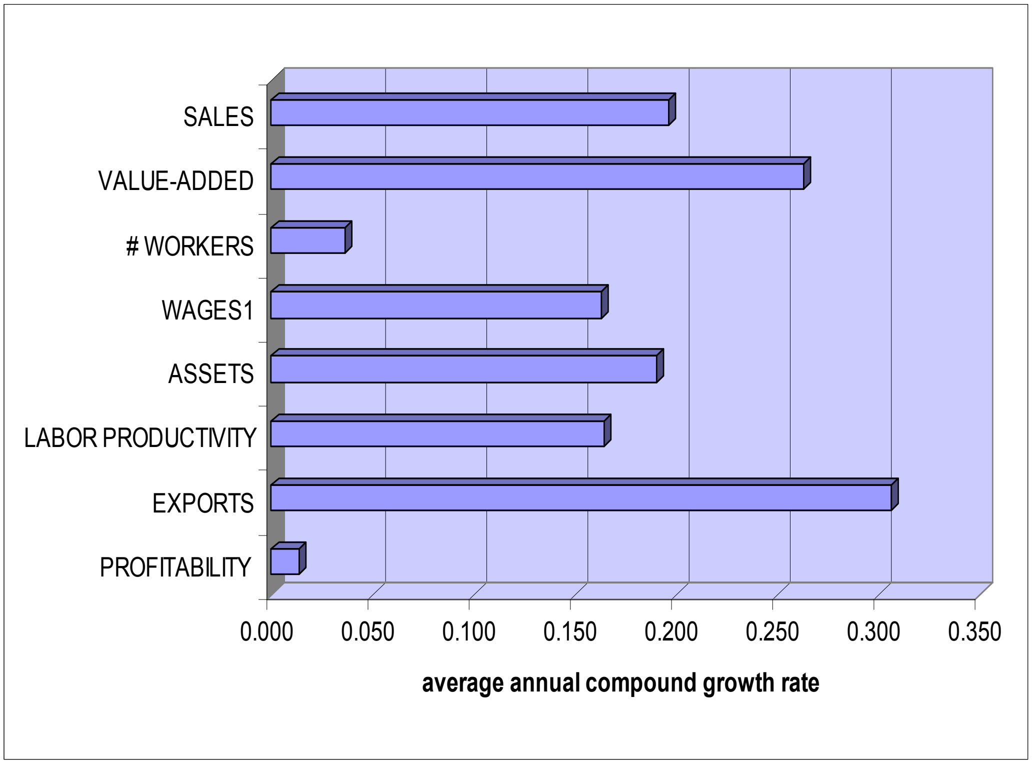
[34] *Thoi Bao Kinh Te Viet Nam* (Vietnam Economic Times), (Number 94 -972, August 7, 2002) as reported in WMMR.

OF IMPORTANT PERFORMANCE INDICATORS[35]



It is obvious at a glance that this performance is impressive overall, but some of the more interesting details follow, reading down the figure:

1. Sales grew at almost twenty percent per year. This is impressive, but it is not necessarily good if the firm consumed more resources in the process.

2. Value-added brew considerably faster (26 percent per yer). This is both impressive and good, because it means that efficiency rose as intermediate input consumption rose less rapidly than output.

3. Contrary to the expectations of some, employment overall rose at almost four percent per year.

4. Average wages grew about twelve percent per year.

5. Combining the two previous factors, it is not surprising that the total labor costs rose sixteen percent.[36]

6. Combining points 2 and 5 yields an important result, namely that most of the benefits of increased efficiency in the form of value-

[35] These are generally compound growth rates measured by: [(2001 value)/(before value)]^(1/age) -1. Profit changes cannot be measured this way, however, because they can take negative values. Instead me take [(2001 value)-(before value)]/age = average annual profit increment.

[36] This is not precisely necessary, because total employee compensation includes items other than wages and benefits.

added, went to workers (including managers). We shall return to this point in the equity section.

7. The asset growth could be impressive if it all represented new investment and retained earnings. However, it also includes the impact of revaluation at the time of equitization, and we don't seem to know much about the net sign of the adjustments, let alone their magnitude. Pending information on that, real asset growth could be a lot higher or a lot lower than displayed

8. Labor productivity doesn't add anything new as it just says this grew at about the rate of growth of output less the rate of growth of the work force, both already reported.

9. The growth of exports looks impressive, but it was from a small basis. Total exports in the year before equitization[37] were only about USD 20 million by 19 enterprises and by 2001 this had grown to USD 61 million by 31 firms (out of 118 in the quantitative sample). The growth in numbers of exporters may be more important as an indicator of entrepreneurial behavior than the growth in value itself.

10. In comparison with the other variables the growth rate of profitability seems both tiny and anomalous. The explanation is simple, however. Profitability is profits over assets. We have already seen that assets grew at nineteen percent and so profits grew a smidgen faster than that. Illustratively, total profits of the equitized enterprises before equitization were about VnD 80 billlion, but had grown to VnD 425 billion by 2001.

This completes the big picture, which is one of impressive achievement. We now examine a few of the details.

III. PROFIT DETAILS

Given that most of the enterprises were equitized relatively recently, might the foregoing results understate the true impact? That is, might it not take time to learn to run an equitized enterprise and might growth not accelerate over time. Figures Three-3 and Three-4 investigate this by displaying scatters of profitability before and after equitization by age (number of years from the year before to 2001; for a firm equitized in 2000, we compare 1999 performance with that of 2001, an age gap of two years). Visual inspection reveals no obvious correlation and a statistical test confirms this. That is, it appears that accelerating growth starts immediately upon equitization and neither accelerates nor decelerates with time.

Figure Three-3

PROFITABILITY BY AGE BEFORE EQUITIZATION

[37] Yes, we are committing the sin of adding up numbers from different years, but how else do we establish the small base?

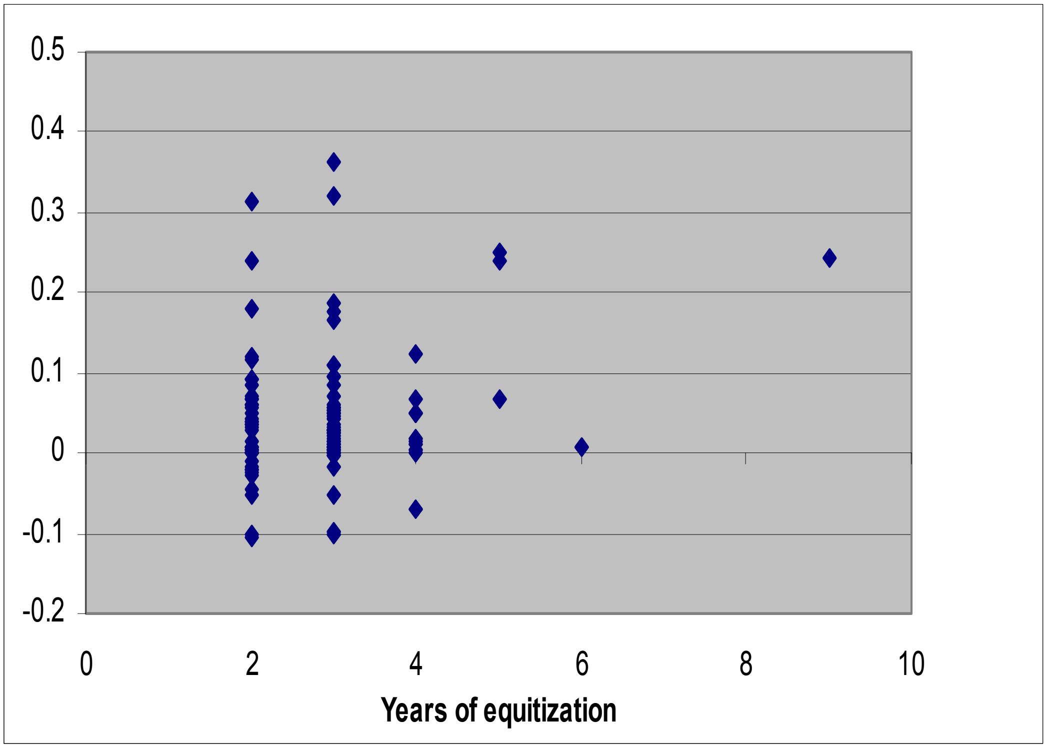
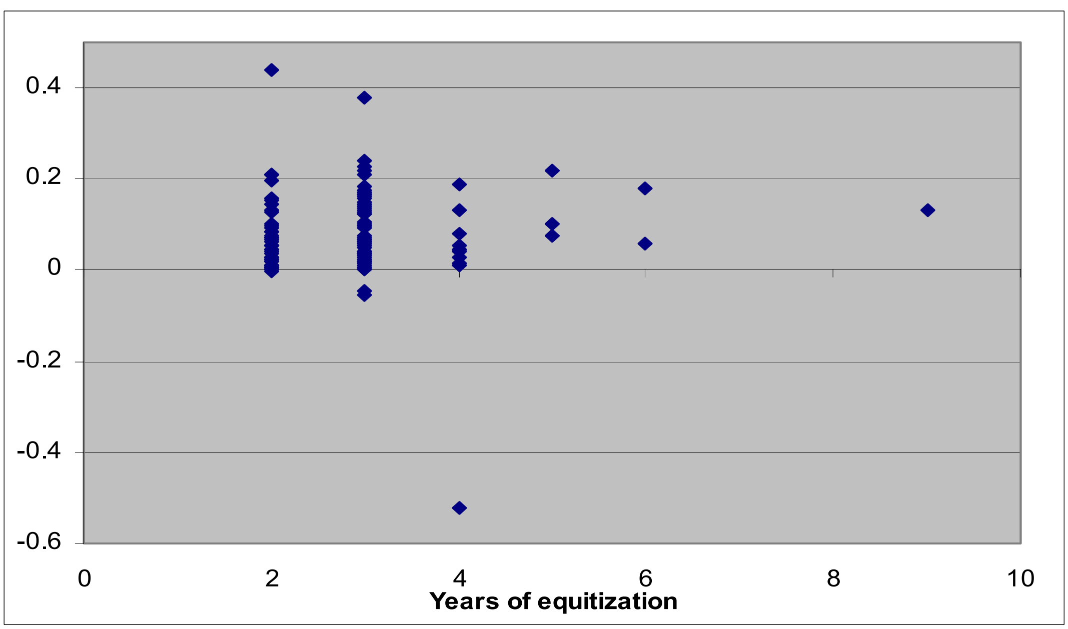


Figure Three-4

PROFITABILITY BY AGE IN 2001



With the usual serendipity of data delving, the figures reveal more than was intended. It is known from reputable, though not publicly quotable, sources that the profitability of SOEs clusters tightly slightly above zero. A look at Figure Three-3 readily reveals that this is emphatically not the case for the equitized firms in their last year in SOE status.

Most were highly profitable, but many were significantly in the red and only a handful were in the usual range of zero to two percent. This says that equitized firms were emphatically not a random draw from the SOE set. There are at least two possible explanations for this. The first is the announcement effect, which is well known in the privatization literature from other countries. This says that performance begins to improve, not on the day equitization takes place, but when it is first credibly announced that the firm will be equitized in the future. At that point, profits begin to matter, and steps begin to be taken to achieve them. This may or may not be relevant in Viet Nam, but it cannot be the whole story, because of the many substantial loss makers in the year before. A second explanation might be lie with the selection process. That is firms that are doing well push to be equitized, explaining the high-profit subset. On the other hand, firms that are doing badly are often pushed into equitization, explaining the low-profit subset. Visual inspection of Figure Three-3 would seem to support this, as there are no loss makers in the older cases when voluntarism reigned to some extent. A test of variance between profitability before equitization for firms aged 4 or more years and those 3 or younger is statistically significant and so further supports this.

Figure Three-4 shows something else dramatic as well, namely the firm whose losses were more than 50 percent in the Age=4 class. This is the one firm that reported its financial performance as "much worse" in the qualitative results of Section I above, and its questionnaire includes a statement to the effect that they should have shut down last year and will certainly shut down next year. This serves as a reminder that equitization is no guarantee of success. The market is a merciless master and weeds out those who are unlucky enough to be in a weak market position, or lack the competence to take advantage of a decent one. It would be interesting to know why they didn't shut down earlier. It also serves as a reminder that the averages (means) reported earlier are a summary statistic which hide a good deal of information. We therefore now look at variance.

IV. VARIANCE

Figure Three-5 gives the median[38] results for each of the variables reported in Section II above. The numbers are much lower than for the mean. This tells us that the distribution is asymmetric, with the firms doing better than average doing a lot better, and the firms below average, only a little below. This is apparent from Figure Three-6, which gives high, low and median results for each of the variables. Highs are over 300 percent, while lows are only about minus fifty percent.

Figure Three-5

MEDIAN ANNUAL GROWTH RATES

OF IMPORTANT PERFORMANCE INDICATORS

[38] The median is the mid-point of the distribution, with half of the firms above this figure, and half below it.

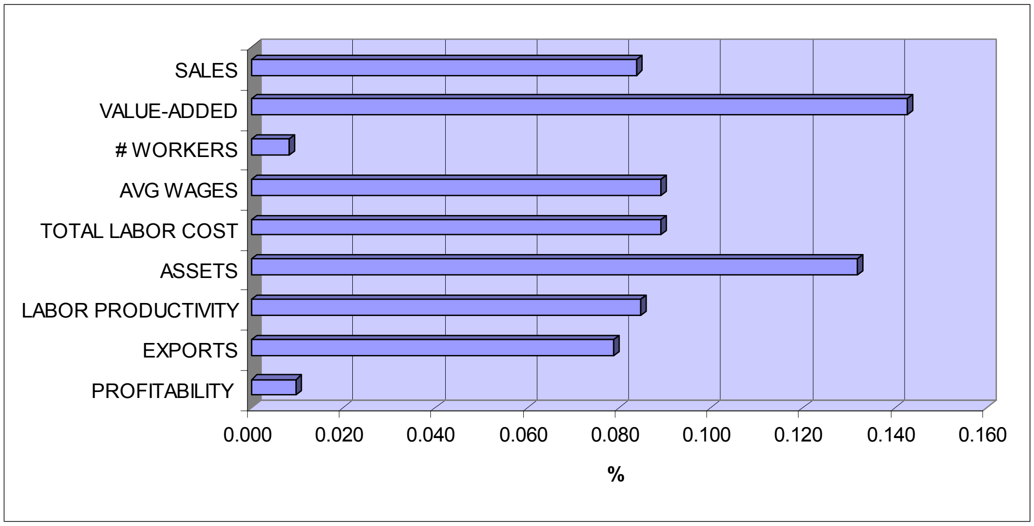
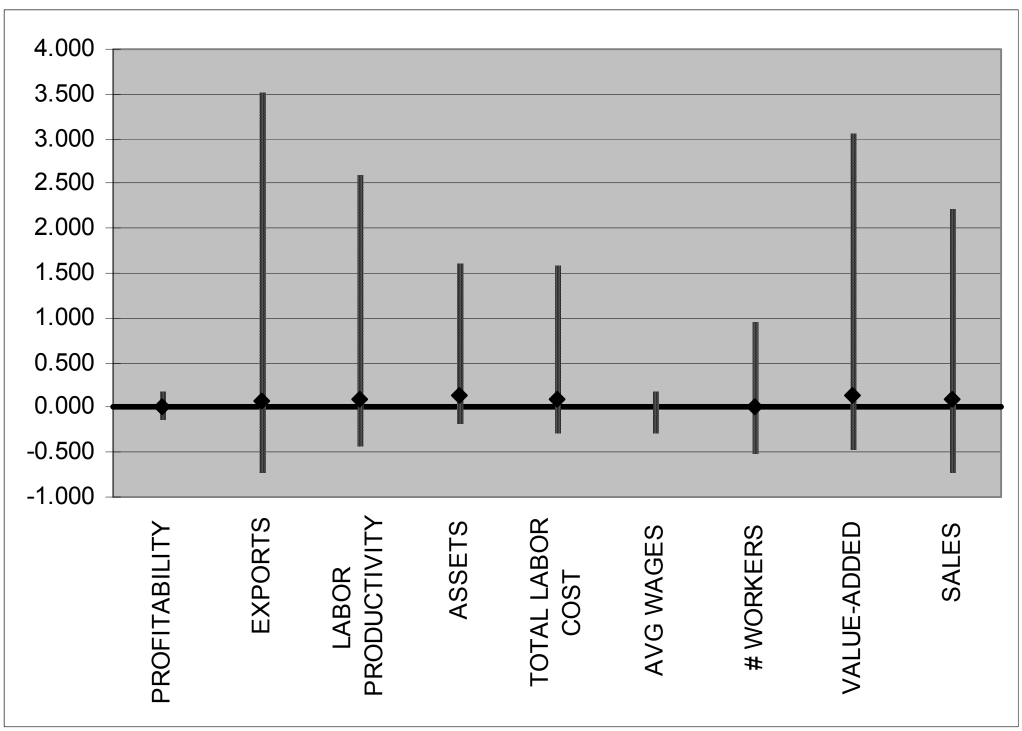


Figure Three-6

HIGH, LOW AND MEDIAN ANNUAL GROWTH RATES

OF IMPORTANT PERFORMANCE INDICATORS



This raises a couple of questions. The first is how many firms show the extraordinarily high growth rates. This is answered in Figures Three-7 and Three-8, which give scatters of profits against the growth of sales and value-added. The second question is whether or not such extremely high growth rates are plausible and correct, or simply the result of bad data. The answer to this is that as part of the earlier quality control effort, we listed the high and low performers on various indicators and manually inspected the questionnaires for evidence of error. Some highs and lows were removed at this point, but those that remain are at least internally consistent. We cannot of course, rule out Enron accounting. What is behind these very high rates of growth? We would like to answer this question by telling individual company stories, but are precluded from doing so by the survey protocol which promises to keep individual data confidential. However, we strongly suggest that it would be highly revealing for someone to write case studies for a number of the outliers (both high and low). One might learn a lot about just what it takes to prosper (and stumble) in the environment of equitized enterprises in Viet Nam.

Figure Three-7

GROWTH RATES OF PROFITS VERSUS SALES

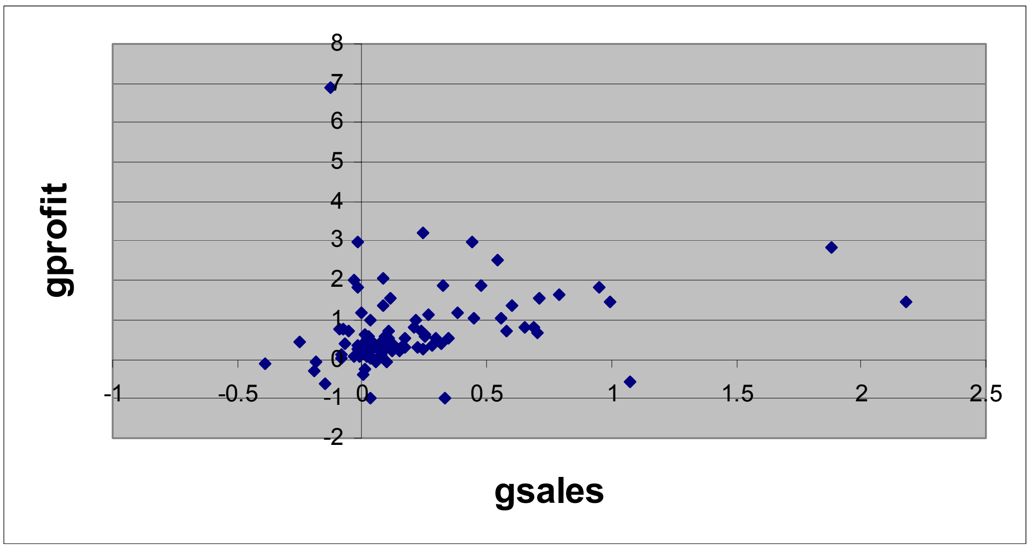
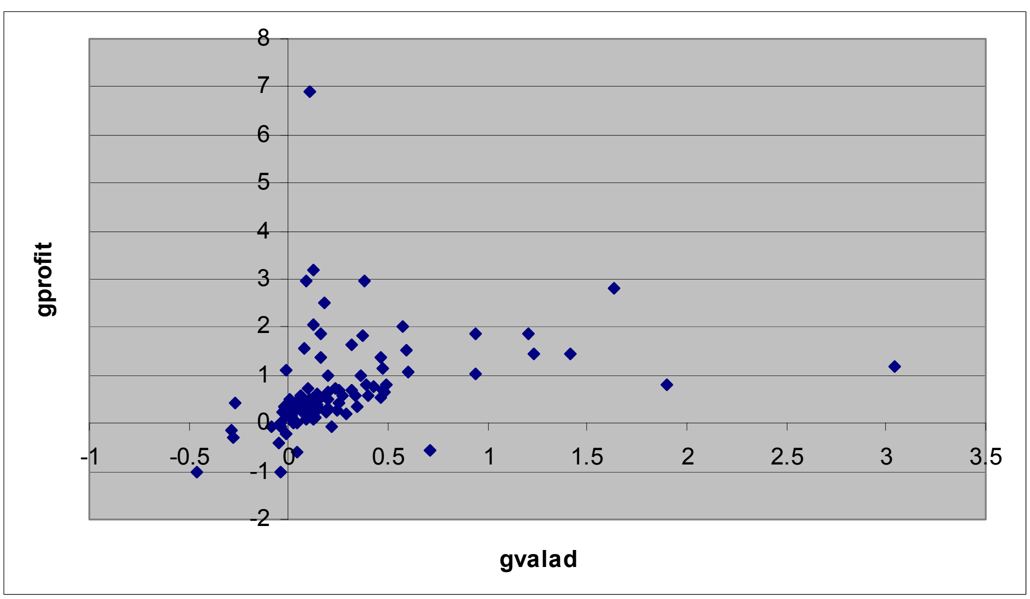


Figure Three-8

GROWTH RATES OF PROFITS VERSUS VALUE-ADDED



What else can we learn from Figures Three-6 and 7? Well, there is an obvious and unsurprising positive correlation between profits and increases in both sales and value-added. But, there is also a lot of variety. Confining ourselves to Figure Three-6, note that while some firms increased profits by growing sales, some did so with only modest sales growth and a number made money by shrinking sales but becoming more efficient at a smaller level of output.

VI. OMITTED ANALYSIS

We had originally intended to extend our analysis to somewhat more sophisticated measures of performance, but time pressure has precluded this. Failure to convert to constant prices is probably not to big a loss, given that Viet Nam had virtually no inflation during the three most important years covered. We had hoped to allow for sectoral differences in inflation rates by assigning each firm a VISIC code, but although we did this, it may not have been viable given the large variety of products produced by most firms in the sample. A greater loss was failure to use investment data and detailed inspection of the first two years balance sheets to produce crude estimates of capital stock and better estimates of its change, using the perpetual inventory method. Potential remains to be exploited in the data base.

VII. DISTRIBUTIONAL EQUITY

We emphasized in Chapter One that not only was it important whether or not performance improved, but that it also mattered who won and who lost from these changes. We emphasize "attempt" because we by no means have all the data necessary to answer this question correctly. We do, however, feel we have enough information to provide an order-of-magnitude answer. Hopefully, this will be a useful starting point. As additional data are substituted for our assumptions, the estimate can be improved upon.

The starting point is Figure Three-9 which first converts the businessman's profit and loss statement to the economist's production and distribution flows. We do this for the total of the enterprises in the year before equitization (column 2), again for 2001 (column 3), take the difference as the total change (column 4), and divide by the median age of the equitized firms to get a crude estimate of the average annual change in the equitized firms. The last column then says that workers in equitized enterprises are taking in VND 51 billion more than when they were SOEs, the government is collecting 8 billion more and owners (previously the State, now a mix) is earning 130 billion more. This is, however, only one roughly estimated element of their respective gains and losses.

Figure Three-9

PRODUCTION AND DISTRIBUTION ACCOUNTS

BEFORE EQUITIZATION AND IN 2001

(VND Billion)

	Before	2001	Change	Average Annual Change
SALES	3816	6698	2881	960
- INTERMEDIATES	3365	5727	2362	787
= VALUE-ADDED	452	971	519	173
- LABOR RETURN	274	427	153	51
+ NET OTHER INCOME	28	76	48	16
- CORPORATE TAXES	39	64	25	8
= OWNERS' RETURN	167	556	389	130

Another partial element of the calculation is that the new owners were worse off to the extent they had to pay for the privilege, and the government was correspondingly better off. Figure Three-10 gives the payments as reported by the firms on the Survey. These numbers make us nervous as we have nothing available to compare them to. Presumably, someone in Ha Noi has a comprehensive list of payments to the government by the buyers of equitized shares and it would be highly useful to check this. For now, we just take the numbers the enterprises have given us. We will also make the assumption that the "Net Other Costs" entirely represent the transaction costs of organizing the equitization process. These are costs which reduce the net Benefits from equitization. Figure Three-11 gives the distribution of shareholding at equitization and thus the groups which made the payments to the government, reducing their net benefits proportionately.

Figure Three-10

EQUITIZATION PROCEEDS

(VND Billion)

	TOTAL	TOTAL/10
TOTAL PAR VALUE OF EQUITY SHARES	799	80
- DISCOUNTS	214	21
= TOTAL COSTS TO BUYERS	585	58
- NET OTHER COSTS	77	8
= PAYMENTS TO STATE	508	51

Figure Three-11

SHAREHOLDING DISTRIBUTION AT TIME OF EQUITIZATION

(share of each group)

	AT EQUITIZATION
MANAGERS	0.089
WORKERS	0.400
STATE: CENTRAL	0.020
STATE: PROVINCE/LOCAL	0.145
STATE: GC	0.141
OTHER SOE	0.037
OTHER VIETNAMESE INDIVIDUALS	0.131
OTHER VIETNAMESE FIRMS/ENTITIES	0.036
FOREIGNERS	0.002
TOTAL	**1.000**

Figure Three-11 is interesting in its own right, since it gives more detail than is commonly available. The high share of workers and the low share of foreigners matches our priors, but the trivial share of the central government (only two percent) is somewhat surprising, with the rest of the State residual share being split about evenly between provincial authorities and General Corporations. Since the original parent split was 14 percent Central, 81 % provincial and 5 percent General Corporations (from Table Two-7), it is tempting to conclude that the central Ministries have chosen to retain a significantly smaller share than the General Corporations. This is not necessarily the case, since this could be the result of the center having much smaller enterprises than the General Corporations. It might be worthwhile to explore this more fully.

The data given thus far are summarized in Figure Three-12. The first panel gives the sources of the net benefits from the data available. This consists of the change in value-added, less the transaction costs. From this should be deducted the opportunity costs of any factors of production (land, labor and capital) added to the firm over the period of change. We assume that this is zero for land, and that capital is provided by banks at its opportunity cost, so its value is also zero. For labor we assume that new employees were hired at their opportunity cost, and that old employees were originally getting their opportunity costs, so we only deduct the cost of new workers. Since employment grew 3.5 percent while wages grew 12.5 percent, we deduct 28 percent of the wage increment as opportunity costs. This is all very rough and ready, but it perhaps presents a reasonable first approximation to what really happened.[39] If so, the bottom line is clear. The result is annual net gains of VND 151 billion or USD 11 million.

Figure Three-12

DISTRIBUTION OF ANNUAL NET BENEFITS OF EQUITIZATION

(VND Billion)

	VND BILLION		SHARE	USD MILLION
NET BENEFITS		151	1.00	11.0

[39] A second approximation would first convert the text's assumptions into facts. It would also look more carefully at the pattern of growth, rather than just at the year before equitization and 2001. It would then take into account the counter-factual, the fact that some growth or shrinkage would have taken place independently of equitization. It would consider the impact of price changes on a market by basis, and so forth.

CHANGE IN VALUE ADDED	173			
TRANSACTION COSTS	-8			
OPPORTUNITY COSTS	-14			
= NET BENEFITS	165			
DISTRIBUTED TO				
WORKERS AS		60	0.40	5.0
INCREASED WAGES	51			3.4
OWNERSHIP SHARE	71			4.8
COST OF SHARES	-48			-3.2
OPPORTUNITY COSTS	-14			
STATE AS		84	0.56	5.6
TAXES	8			0.6
OWNERSHIP SHARE	25			1.7
EQUITIZATION PROCEEDS	51			3.4
OTHERS		7	0.04	0.4
OWNERSHIPS SHARE	17			1.2
COST OF SHARES	-11			-0.7
TOTAL		151	1.000	11.0

How were these benefits distributed? This is given in the second panel of Figure Three-12. It's construction is straightforward, given what was said above. The benefits of equitization were roughly divided between the government and the workers, with the government getting somewhat more (56 percent versus 40 percent) and others getting a negligible four percent. In most countries, one would also want to add benefits to consumers, but that is only applicable to monopolies. So far as we know, all of these enterprises are competitive, so prices would not have differed significantly without the small contribution of marginal participants.

VIII. PERFORMANCE IN INTERNATIONAL PERSPECTIVE

The gains in efficiency reported above will not surprise Vietnamese observers, since the same sort of thing has been widely reported in other studies (though our results may be somewhat better documented than usual). International observers are also used to reports of substantial efficiency gains associated with reduced State ownership of enterprises. However, they may be at least somewhat intrigued in this case because elsewhere, large residual government shares and large worker shares are often believed to have negative effects on growth. We shall have more to say on this in the next chapter.

IX. PERFORMANCE IN VIETNAMESE PERSPECTIVE

It is clear from the foregoing that equitization unleashed considerable productive talent in the former SOEs. But, given the small size and small number of equitizations, the overall economic impact has certainly been modest. However, is it not possible that similar talents are present in the remaining SOEs? What if they could, in some way be reformed (we have no idea how) to produce similar quantitative performance enhancements?

Answering this question depends critically on what we don't know about the disappeared enterprises. It is probably realistic to believe that most of them died, but let's be very conservative and assume that they all did. There is a substantial economic cost to this in the form of lost jobs for workers. But, there are also economic gains in the form of reduced subsidies and the freeing up of resources (especially human and land) for higher-yielding productive activities. The transformation from unprofitable, subsidized SOE to dead, equitized entity would probably produce a net economic gain for the economy. But, let's be conservative and assume that the net is a wash. What about the non-respondents? Here we are less ignorant, but far from knowledgeable. Give the evidence presented at the end of the previous chapter the most reasonable hypothesis might be that they were differed from respondents only in having a smaller government shareholding. We shall see some evidence on that in the next chapter, but until then let us again be conservative and assume the non-respondents were half as good as the respondents.

Then, the back-of-the-envelope calculation is simple. Value added of respondents grew at an annual rate of 26 percent; non-respondents at 13 percent; and disappeared at 0 percent. The respective weights on each group (from Figure Two-5) are .69, .16 and .15, so the growth of the sample as a whole was almost exactly 20 percent.[40] The SOE sector is responsible for something like one-third of GDP, and GDP is simply value-added at the aggregate national level. So, if the SOEs were reformed so as to grow like the equitized enterprises, the national GDP growth rate would be six or seven points higher. If this rate of accelerated national growth could be maintained for eleven years, the Vietnamese people as a whole would be twice as wealthy as otherwise.

The point of this little exercise is not to suggest anything about the SOE sector, which we have not studied quantitatively. The point is only to put the accomplishments of the equitized enterprises in perspective. Despite their many difficulties, which we shall turn to in Chapter Six, they have accomplished substantial gains, which if replicated on a larger scale, could be of significant benefit to the Vietnamese people.

[40] In most countries you would need to convert this nominal figure into a real (price adjusted) growth rate, but inflation in Viet Nam has been negligible since February 1999.

Chapter Four

PERFORMANCE EXPLANATION

I. ISSUES

What explains the foregoing efficiency results? In an effort to shed some light, but by no means to answer, this question, we here present three sorts of evidence from the Survey. First, we asked managers and report their qualitative responses. Second, we look at various known characteristics of the sample and ask if any of them correlate individually with performance. For example, did firms in some regions, or with more or less government shareholding, perform better or worse than average. Third, we consider a very simple multiple-regression.

II. QUALITATIVE EXPLANATIONS

A. Incentives

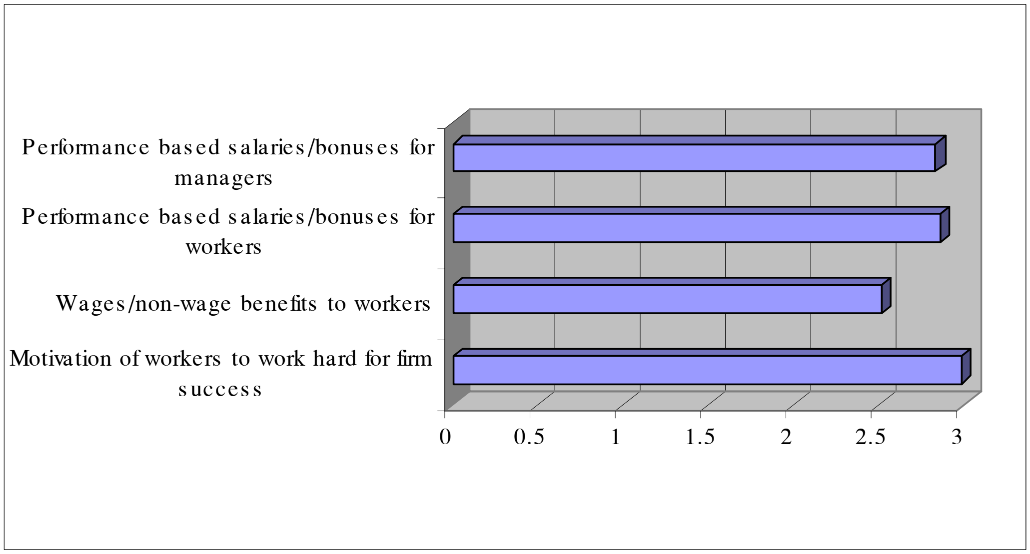
One would expect that equitization would bring changes in two main areas conducive to improved performance. The first of these is incentives, in two forms. First, with a share in profits, the new owners should be more inclined than the old to pursue efficiency, entrepreneurial opportunity and profits. Second, freed from SOE constraints on wages, management should be able to attract a better quality of employee (think of the wage differential between public and private sector accountants), and use performance based salary scales to motivate greater efforts from existing employees. Is there any evidence that any of this happened in the equitized enterprises? See Figure Four-1 for responses from the Survey.

Figure Four-1

IMPROVEMENTS IN INCENTIVES

12. Since equitization have there been any changes in the following?

(4=much more now; 3=more now; 2=same; 1=less now; and 0=much less now)



Since the means are in the "more now" range, this would seem to provide some support for the notion that incentives improved. It is of interest that the least support (though still substantial) was for the proposition that workers wages increased. Since we know from Section Three-II that these rose at the impressive annual rate of twelve percent, improvements in the other areas may have been particularly noteworthy.

In interpreting these effects, two factors should be borne in mind. First, workers and owners roles are mixed in many of these enterprises. Therefore when Vietnamese managers say, as many do, "We now manage for dividends", this should be modified to "We now manage for dividends and wages" in some enterprises. As a test of this proposition, we asked whether or not wages rose more in enterprises with a larger worker share. Results were of the expected sign (the rate of growth was higher where worker control was higher, but the difference was statistically significant only at the 90% level of confidence (rather thant the 95% level we usually use).

The second factor is that creative accounting is not limited to big American corporations. SOEs are also creative and there is considerable evidence that in other countries, the low profits of the SOEs are in part due to rents being collected by management from accounting practices which disguise surplus as costs. Whether or not this is relevant in Viet Nam, we do not know. To the extent that it is, then the true gains from equitization are lower than reported in the previous chapter, with economic rents merely being recognized on the books.

B. Autonomy

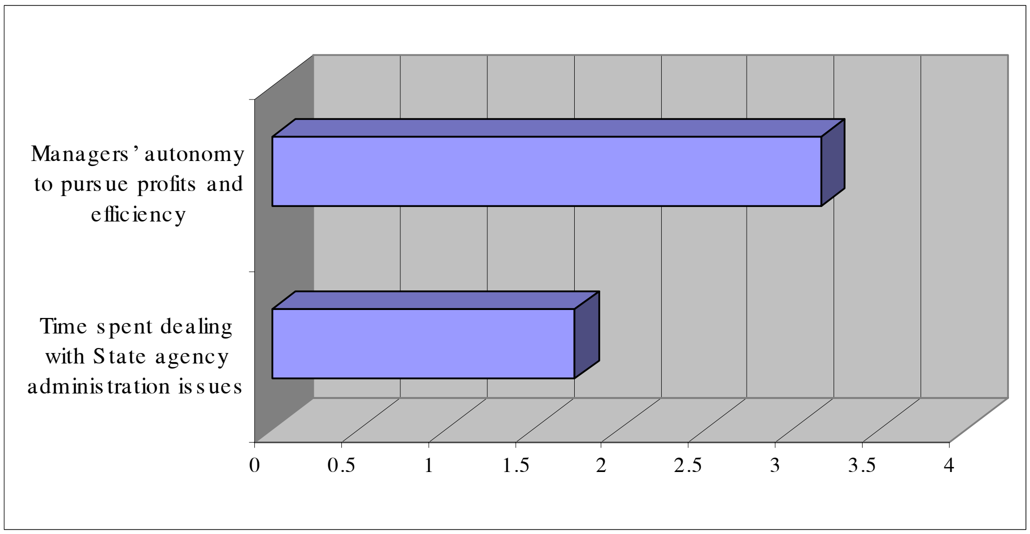
The second area in which equitization might be expected to improve performance is autonomy. That is, freed from bureaucratic controls and political goals, managers are freed to pursue efficiency. A related factor is that SOEs spend a lot of their time dealing with bureaucrats. To the extent this is reduced by equitization, managers can instead devote their time to things that really matter, and performance can then be expected to improve. As demonstrated by Figure Four-2, equitized enterprise managers support the first hypothesis strongly, but the second only weakly. The latter effect suggests that either the State's role is independent of SOE status or the residual share attenuates the effect. To distinguish between the two possibilities, we asked whether or not answers to the second question varied with the State residual share. The answer….PLEASE RUN THE TEST

Figure Four-2

IMPROVEMENTS IN AUTONOMY

12. Since equitization have there been any changes in the following?

(4=much more now; 3=more now; 2=same; 1=less now; and 0=much less now)



C. Corporate Governance

Autonomy is obviously related to corporate governance, which can be described by asking who makes which decisions. We therefore asked a series of questions about the influence of various stakeholders in making various decisions. The first of these is probably the most important ownership decision, namely who appoints the Director, both before equitization and today. We asked the same question about the appointment of the Deputy Director. There is a lot of information in the answers and a number of figures are required to exploit it. First, Figure Four-3 and Four-4 give the answer for today.

Figure Four-3

WHO APPOINTS THE DIRECTOR TODAY?

27. Who had the most influence on the selection of the Director?

(Change in mean responses; none=0, small=1, significant =2, major=3, dominant =4)

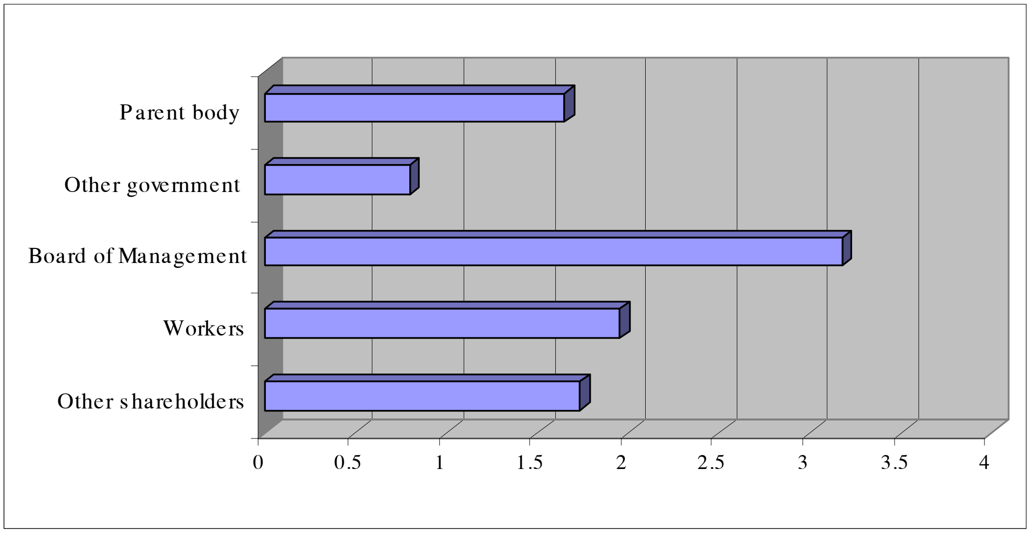
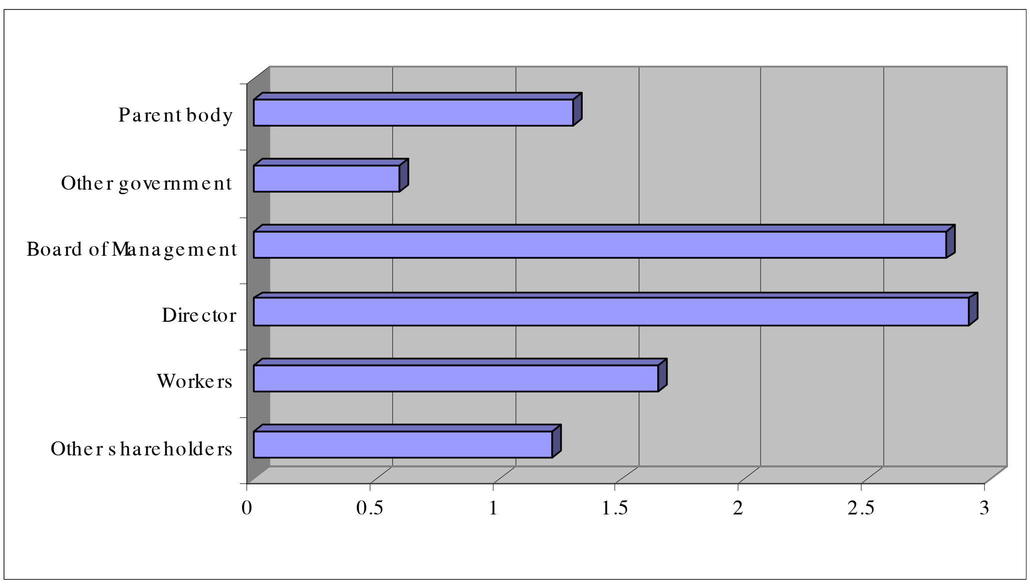


Figure Four-4

WHO APPOINTS THE DEPUTY DIRECTOR TODAY?

28. Who had the most influence on the selection of the Deputy Director?

(Change in mean responses; none=0, small=1, significant =2, major=3, dominant =4)



As can be seen, the two pictures are broadly similar outside of the obvious fact that the Director plays no official role in his/her own selection. What is interesting is that the State (including organs other than the parent body) and workers have a substantial role. How much of this is due to the ownership shares of these two groups? To see this, we repeat the exercise, for the Director only, distinguishing between the answers of those with majority, minority and no government share (Figure Four-5) and those with above and below the median worker shareholding today (Figure Four-6).

Figure Four-5

WHO APPOINTS THE DIRECTOR? BY GOVERNMENT SHARE

27. Who had the most influence on the selection of the Director?

(Change in mean responses; none=1, small=2, significant =3, major=4, dominant =5)

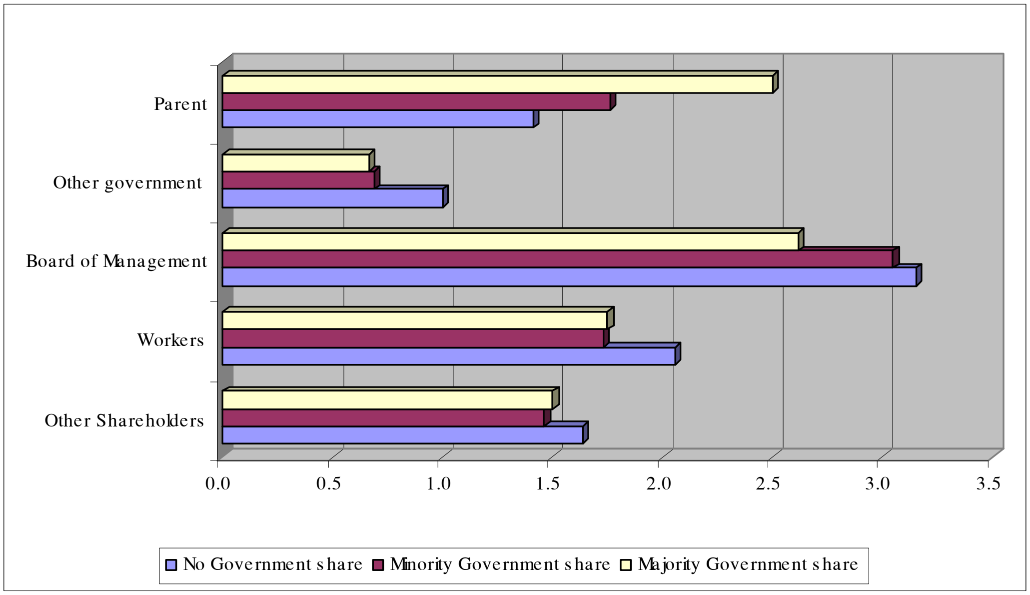
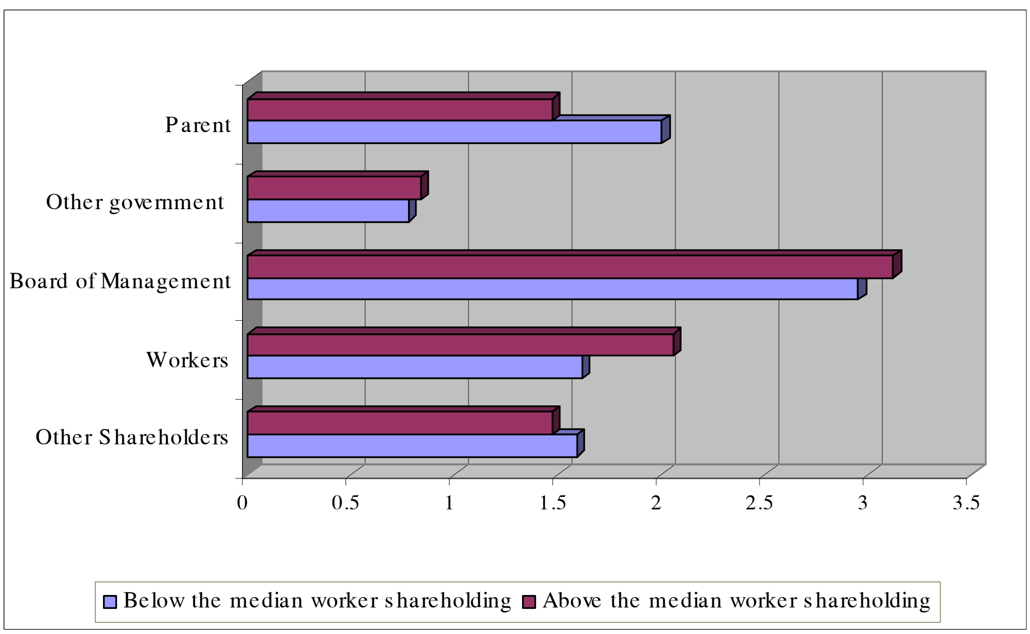


Figure Four-6

WHO APPOINTS THE DIRECTOR? BY WORKER SHARE

27. Who had the most influence on the selection of the Director?

(Change in mean responses; none=1, small=2, significant =3, major=4, dominant =5)



We see that the government role increases with government shareholding and the worker share increases with worker shareholding. The differences are statistically in the case of majority government ownership.

This suggests that the results are at least in part in keeping with good corporate governance. That is, the owners decide.

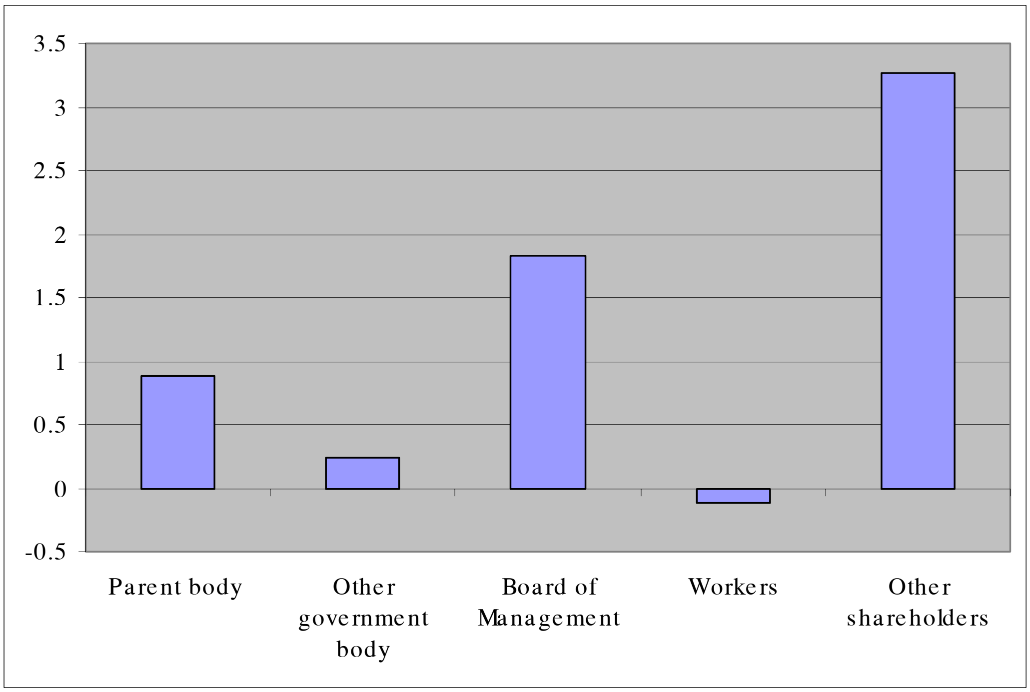
But, how did the distribution of decision-making power change with equitization? This is answered in Figure Four-7 as the change in the answer from before to after; that is, a minus indicates a reduction in the individual/group's role and a plus an increase

Figure Four-7

WHO APPOINTS THE DIRECTOR? BEFORE AND AFTER

27. Who had the most influence on the selection of the Director?

(Change in mean responses; none=1, small=2, significant =3, major=4, dominant =5)



There is nothing very surprising here. The role of the new groups (Board of Management and Shareholders) rose at others expense.

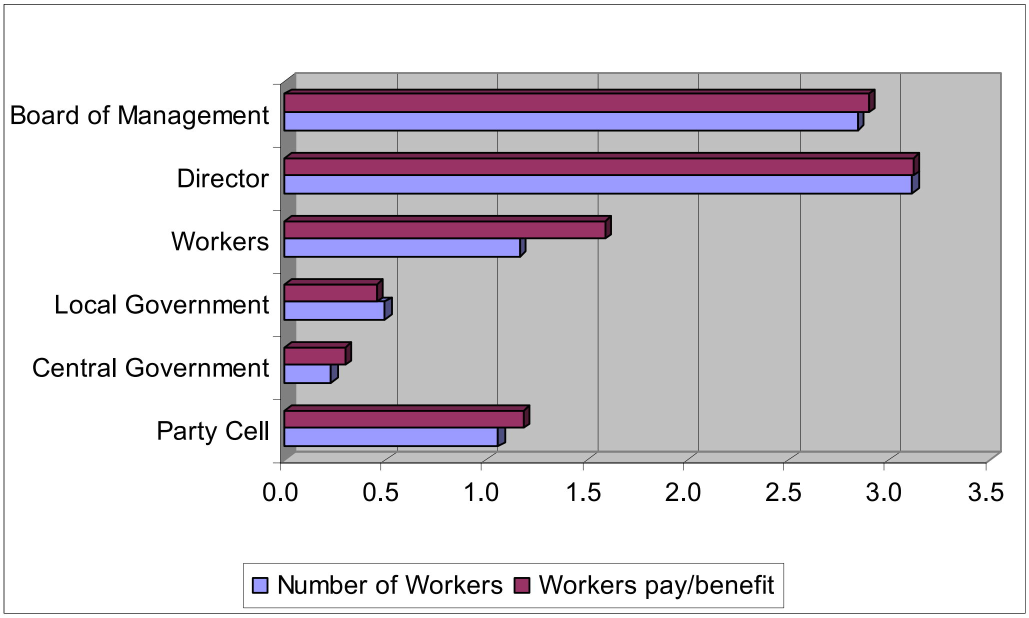
We also asked about who made other management decisions. Figure Four-8 gives the results for two decisions directly affecting workers.

Figure Four-8

WHO MAKES DECISIONS AFFECTING WORKERS?

29. In practice, how important is the role of each stakeholder in making the following key management decisions?

(1=sole decision maker; 2=major role; 3=significant role; 4=small role; 5=no role)



As would be hoped, the Management Board and the director have the strongest roles, but with a very substantial input from workers. The role of the central government is negligible, but the role of local government and the party are not.

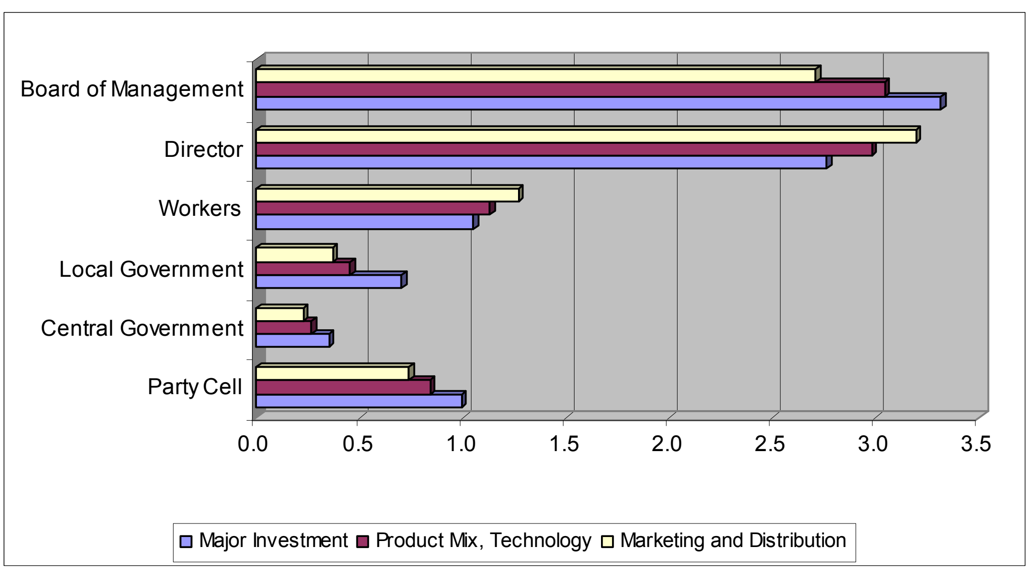
We now look more briefly at other decisions, as shown in Figure Four-9.

Figure Four-9

WHO MAKES OTHER DECISIONS?

29. In practice, how important is the role of each stakeholder in making the following key management decisions?

(1=sole decision maker; 2=major role; 3=significant role; 4=small role; 5=no role)



These results are ordinally encouraging in that the Board of Management has the biggest influence where it should (major investment decisions) and the least influence where it should (marketing and distribution). Further in line with good management, the Director has the most influence in all cases. Participative management is still apparent, however, as workers and the party also are said to have significant input.

We also asked respondents to compare the actual levels of influence above with desirable levels. Responses were curious to say the least: Directors overwhelmingly said that they had “too much” power (or much “too much”) and workers and the party had “too little” (or “much too little”). After some digging, it was revealed that the net effect of the Vietnamese version was to ask who had “much” power, or “little” power thanks to subtle linguistic differences that were missed by our round-trip translation. The new question is thus redundant, because it merely replicates the foregoing results in summary fashion, and is therefore not reported.

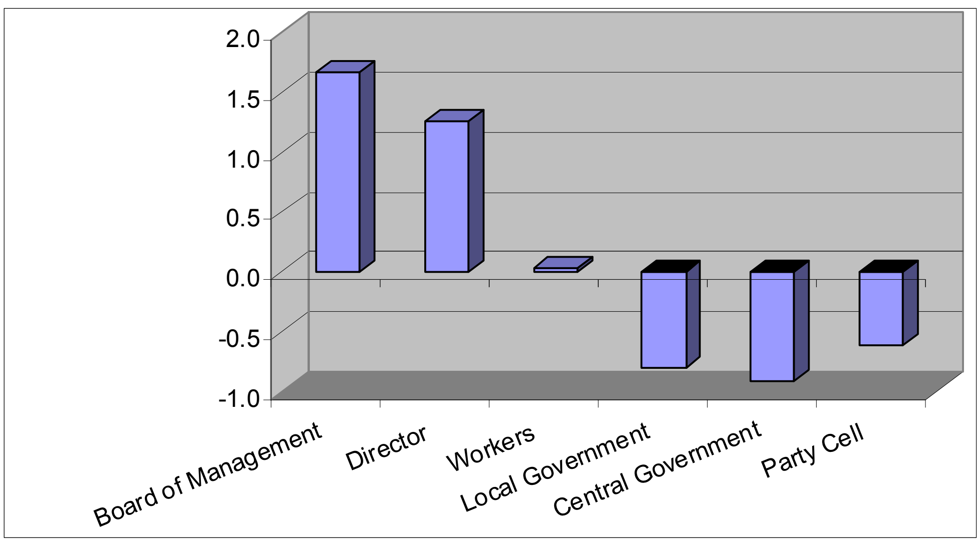
Finally we asked how the pattern of corporate governance had changed with equitization. Answers are in Figure Four-10.

Figure Four-10

HOW HAS THE PATTERN OF GOVERNANCE CHANGED?

19.7 How has the influence of each stakeholder changed following equitization?

(1=much more now; 2=more now; 3=no change; 4=less now; 5=much less now)



Results are confirming rather than revealing. That is, the role of the Board has tautologically increased, the power of the Director has, comfortingly and non-tautologically also increased, the power of workers has changed little, and the power of others has declined. While the desirability of the lack of change in the workers’ role is open to interpretation, the other changes are what one would expect and desire from equitization. In theory, this should also affect performance positively. Whether or not we can demonstrate this empirically will be deferred to Section III, after we examine another set of management qualitative responses.

E. Entrepreneurship

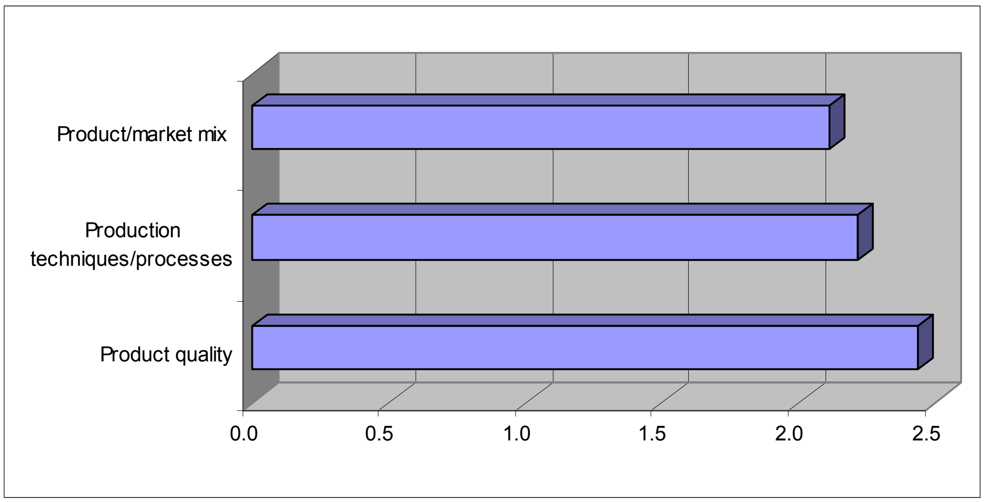
Entrepreneurship is the introduction of new resources, products, processes, markets, and methods of operation to the firm. Some might expect equitization to unleash such forces. Has it? Managers opinions for some variables are given in Figure Four-11.

Figure Four-11

ENTREPRENEURIAL CHANGE?

12. Since equitization, have there been changes in the following?

(1=no change; 2=some change; 3=substantial change; 4=much change; 5=complete change)



Answers are somewhat skewed downward by our including “complete change” as the top category, a standard which is not likely to be met. Bearing that caveat in mind, self-reported changes are substantial, falling above “some” towards “substantial”. The greatest change, is in product quality, which is not surprising given that this is the easiest and quickest to alter. Might this have been greater still if so many of the enterprises had not been done fairly recently? Perhaps, but there is no statistically significant difference by age to confirm this.

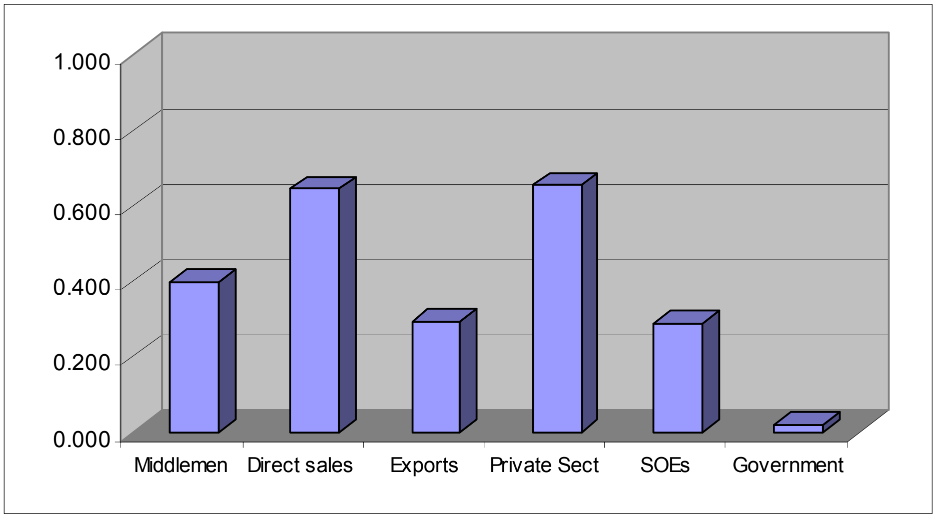
To try to get more detail on one of these characteristics, we asked how the customer mix had changed after equitization.

Figure Four-12

CHANGE IN CUSTOMER MIX?

Since equitization, have there been changes in the following?

(1=no change; 2=some change; 3=substantial change; 4=much change; 5=complete change)



F. Personnel Changes

Another thing that might have changed with equitization is senior management. As can be seen from Figure Four-13, it didn't, much. At the time of equitization, about ninety percent of managers kept their job, and those few that left did so because of age or other personal reasons. Less than four percent of Directors were voluntarily changed. Turnover has also been modest since equitization, with an average of less than five percent changing involuntarily over an average age of three years or about 1.5 percent turnover per year.

Figure Four-13

CHANGES IN SENIOR MANAGEMENT?

(percentage of answers in each row, in each time period)

20. Were senior staff changed during, and/or after, equitization? Please indicate nature of any changes

Senior Management Position	During equitization				After equitization			
	No change	Retirement age	Voluntary departure	Involuntary change	No change	Retirement age	Voluntary departure	Involuntary change
1. Chairperson					85.2	4.2	4.6	6.1
2. Director	88.6	5.7	2.0	3.7	81.5	6.0	7.0	5.6
3. Deputy Director	91.1	4.3	2.1	2.5	77.9	6..2	7.0	9.0
4. Chief Accountant	90.9	3.9	3.2	2.1	78.2	5.1	9.9	6.8

This is an interesting result. It says that the improved performance was accomplished by-and-large by the same managers who previously ran the SOE. What changed was not the people, but their incentives and autonomy.

A related question is what happened to workers. We have seen that overall employment rose with equitization, but this is consistent with layoffs in some companies being less than new hiring in others, so some workers may have lost their jobs. We first asked managers about labor redundancy at various points. They reported an average of 12.8 percent one year before equitization, 11. 4 percent at the time of equitization, and 6.5 percent today (Question 18). We than asked how any reduction was achieved.

Figure Four-14

HOW WAS REDUNDANT LABOR REDUCED?

(percentage of responses in each row)

19. If redundant labor has been reduced since equitization, how was this achieved?

	Only means	Primary	Significant	Used some	Not used
1. Laying off workers	0.98	2.94	1.96	22.06	71.57
2. Expanded output increased demand	14.91	24.56	25.44	22.37	12.72
3. Voluntary departure	3.18	12.27	6.36	56.36	21.82

Apparently layoffs were rare, being "significant" or more in only about six percent of the cases, and not used in 72 percent. Instead, redundancies were reduced primarily by growth requiring more workers (65 percent "significant" or more frequent) and also by voluntary departure.

G. Ownership Changes

Since we are talking about changes it is natural to ask about whether or not ownership changed after equitization. We give an approximate answer in Figure Four-15. It is approximate because most firms were unwilling or unable to give the value of their shares in 2001. We therefore must use par values at issue when calculating weighted averages of shareholdings by different groups in 2001.

Figure Four-15

HOW DID SHAREHOLDING CHANGE?

(share)

SHAREHOLDER	LEVEL		CHANGE
	AT ISSUE	2001	
Managers	0.089	0.101	0.009
Workers	0.400	0.355	-0.039
State: Central	0.020	0.021	0.000
State: Prov/Local	0.145	0.133	-0.016
State: GC	0.141	0.129	0.000
Other SOE	0.037	0.015	-0.024
Other VN Individual	0.131	0.205	0.069
Other Vn Firm/Entity	0.036	0.029	-0.009
Foreigners	0.002	0.011	0.009
Total	1.000	1.000	0.000

As can be seen, not much has changed, with non-enterprise Vietnamese individuals picking up about seven percent of shares, primarily from workers and provincial authorities.

III. WHAT CHARACTERISTICS CORRELATE WITH PERFORMANCE?

A. The Question

In this section we ask whether or not the performance of the firm correlates with selected characteristics of the firm, and thus might be part of the explanation of growth. While we have explored the use of various variables for measuring performance, we will here use report the most important one, namely average annual growth of value-added. Using other variable gives similar results.

B. Quantitative Characteristics

Here are two things that matter: having more than VND 5 billion in assets[41] and having as state majority (yes, majority) share were each associated with significantly better performance on all three of our performance variables—growth of sales, value-added and profits. How much did they matter? See Figure Four-16.

Figure Four-16

HOW DID GROWTH VARY WITH CAPITAL AND STATE SHARE?

(average annual growth rates)

IF	THEN MEAN ANNUAL GROWTH RATES WERE		
	SALES	VALUE-ADD	PROFITS
ASSETS < VND 5 BIL	.08	.23	.10
ASSETS > VND 5 BIL	.24	.53	.31
STATE SHARE <=50%	.17	.24	.10
STATE SHARE<50%	.39	.44	.36

Two points stand out substantively. First, it is not astounding that size matters, at least up to some fairly large size where diseconomies of scale and scope set in. Since the threshold level above is only equal to about USD one-third million, they have a ways to go. On both theoretical and empirical grounds, then it seems plausible that larger equitized firms, over the range studied here, do better.

The second substantive point may be more surprising, at least for foreigners. The table shows that firms with a government majority share do significantly better than firms with less (unreported results also replicate this relationship; for example, firms with a government majority also do significantly better than those with zero government share). Why might this be so? There are at least two competing hypotheses. The first is that the playing field is not level, so firms that are closer to the government do better. The second is that for a few generations, the State sector has attracted the best talents in the nation, and that therefore the closer you are to it the better you will do. How can we decide between these two alternatives? Give us a much large sample including private, state and equitized enterprises and we might try. For now, we will merely call attention to the result, and say something about the level playing field story in Chapter Six

One point stands out methodologically. Look again at Figure Four-16 and note the size of the spreads: the difference in performance is double or even triple between the groups. Why is this? The reason is that given our very small sample relative to the variance, it takes a huge difference in performance to convince the test that the difference is systematic rather than accidental. Elsewhere in the data there are some very large and intriguing performance gaps which might someday tell a good story if someone could only expand our sample response rate.

[41] Averaged over before equitization and 2001.

Under these standards, here are some of the things that do not matter in a statistically significant way. The number of workers doesn't matter. Firms with a handful of workers do as well as those with tens or hundreds of workers. Location doesn't matter. Hanoi and Ho Chi Minh City are indistinguishable, and the two big cities together are indistinguishable from everybody else (to say nothing of a dozen other combinations we tried. The date of equitization doesn't matter. The pioneers look like the newcomers. Whether the parent is the Central Government, Provincial Government or General Corporation doesn't matter, given our sample size. And so forth.

C. Qualitative Characteristics

How did performance vary with responses to qualitative questions? Given the methodological point just made, not much can be expected here, and we didn't get much. Confining ourselves to growth in value-added as the performance variable, the entrepreneurial variables got some action. Firms which were above the median level on technical change (Question 13.2) grew significantly faster (.41 annual rate) than those that were below the median (.16 annual rate). Similarly, firms which were above the median level on change in the quality of their product (Question 13.3) grew significantly faster (.34 annual rate) than those that were below the median (.07 annual rate). Also, firms which reduced the level of local government control at above the median level (Question 29.7) grew significantly faster (.29 annual rate) than those that were below the median (.15 annual rate).

Other variables tested often showed intriguingly significant differences in means, but these were not significant. These included the various incentive, motivation, autonomy, corporate governance, and entrepreneurial variables not reported in the previous paragraph.

IV. CONSIDERATION OF REGRESSION ANALYSIS

The obvious problem with the foregoing analysis is that the single-characteristic explanations of performance change may interact. For example, we saw that both larger capital and greater State share enhanced performance. But it, as is the case, greater State role and larger capital go together, then we are to some extent explaining the same thing twice. The solution is multiple regression analysis which takes all of the factors into account at the same time. However, given that our sample size was too small to get much action from even single-variate analysis, it is clear that we would have even less luck with the more demanding multi-variate effort, so it was abandoned.

Chapter FIVE

POLICIES TO IMPROVE THE EQUITIZATION PROCESS

I. ISSUES

We now turn to policy implications. The first set of policies concerns what can be done to improve the equitization process. These are important questions and we shall contribute whatever we can to the policy debate. However, our primary purpose is to report on the Survey results, and there are several limitations on the ability of our Survey to make such a contribution.

1. Our managers equitized some years ago, and many of the problems they encountered have already been fixed (for example by Decree 64 in 2002).

2. A survey focused on problems of the equitization process would also have surveyed those who tried to equitize, but failed. Looking only at those who passed the test gives some information, but only partial.

3. A survey designed for problem resolution would also have surveyed other stakeholders. We only asked questions of senior management, but a broader survey would have also included workers, Ministry of Finance officials, other government officials, etc. Our Feedback Conference does some of this, but not in the systematic way that a survey would.

4. A lot has already been written on these problems. For example, the valuation issue has already seen dozens of studies focused on this issue alone, and with far more resources than we have, so our contribution is likely to be modest.

We will nonetheless try to make some small contribution at the margin, but this chapter will be comparatively brief. We first look at the opinions of managers, then review the problems that have already been fixed, and finally address a few of the problems that remain to be fixed.

II. QUALITATIVE EVIDENCE

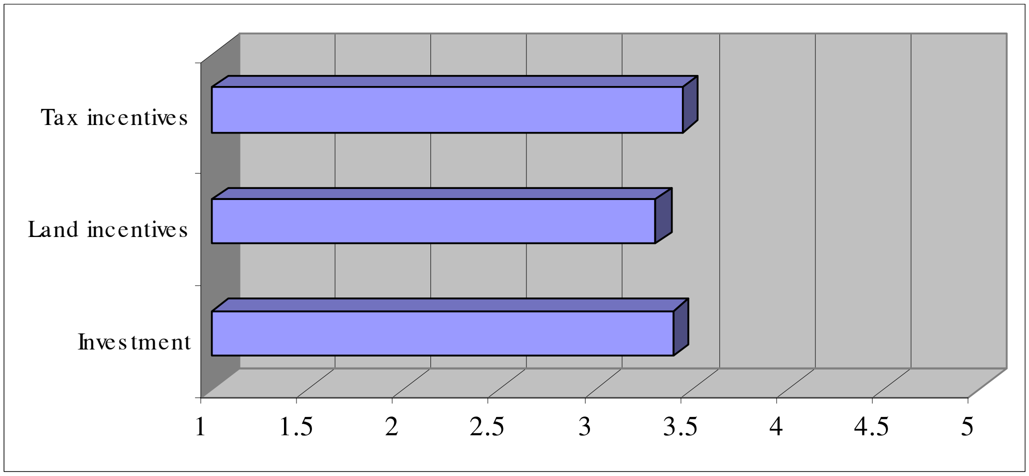
Enterprises were first asked about the importance of various incentives. As shown in Figure Five-1, they liked them (ranking between "important" and very "important"). This doesn't tell us incentives are good. We already knew that. Instead it tells us that these particular incentives were big enough to take notice of. A separate question asked whether or not the resulting gains had a major or minor impact on the financial viability of the form. Results look very much like those in Figure Five-1, so they are not reported.

Figure Five-1

WERE EQUITIZATION INCENTIVES IMPORTANT?

14. Were the following incentives provided under the equitization regulations important in encouraging the firm to agree to be equitized?

(1=not important, 2=not very important, 3=important, 4=very important, 5=critical)



Around the world, workers are often the strongest opponents of reducing the State role in enterprises . What induced workers to support equitization in Viet Nam? As can be seen from Figure Five-2, none of the mean answers were negative. While the differences are not large, it is apparent that items with a cash impact (share ownership, job security, salary level, and subsidized shares) had the highest support. That "support of national leaders for equitization" was not far behind the pocketbook issues, says something special about Viet Nam, as it probably wouldn't get this kind of rating elsewhere. Some have suggested that two other country-specific factors (loss of cadre status and concerns over social assets) led to workers opposition to equitization. However, at least in the opinions of the managers at the Surveyed enterprises, these were the least important factors.

Figure Five-2

WHAT GOT WORKERS TO SUPPORT EQUITIZATION?

16. What factors were important in determining the level of worker support (or lack thereof) for equitization?

(1=big minus, 2=small minus, 3=no impact, 4=plus, 5=big plus)

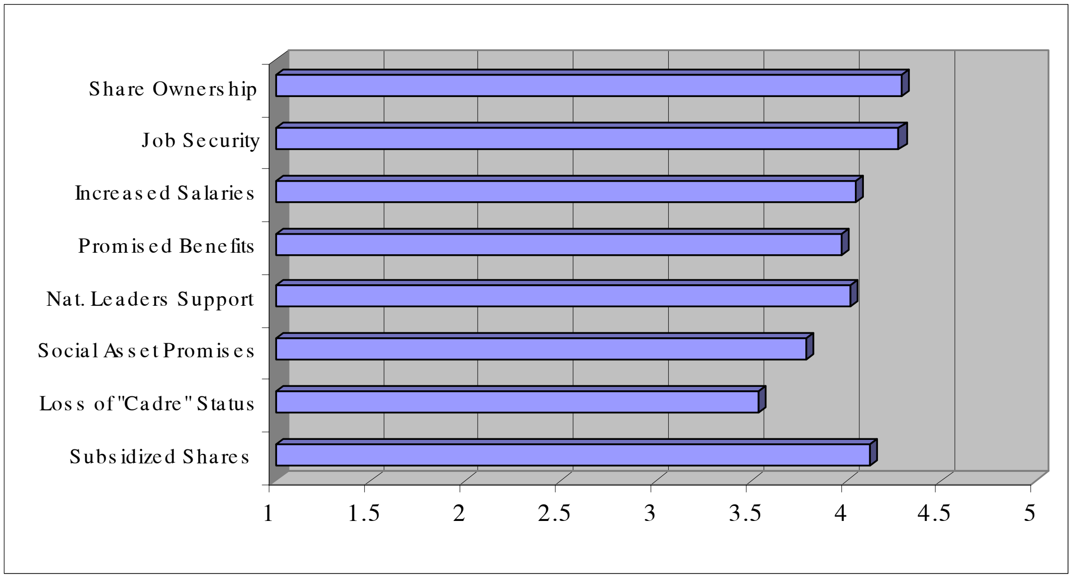
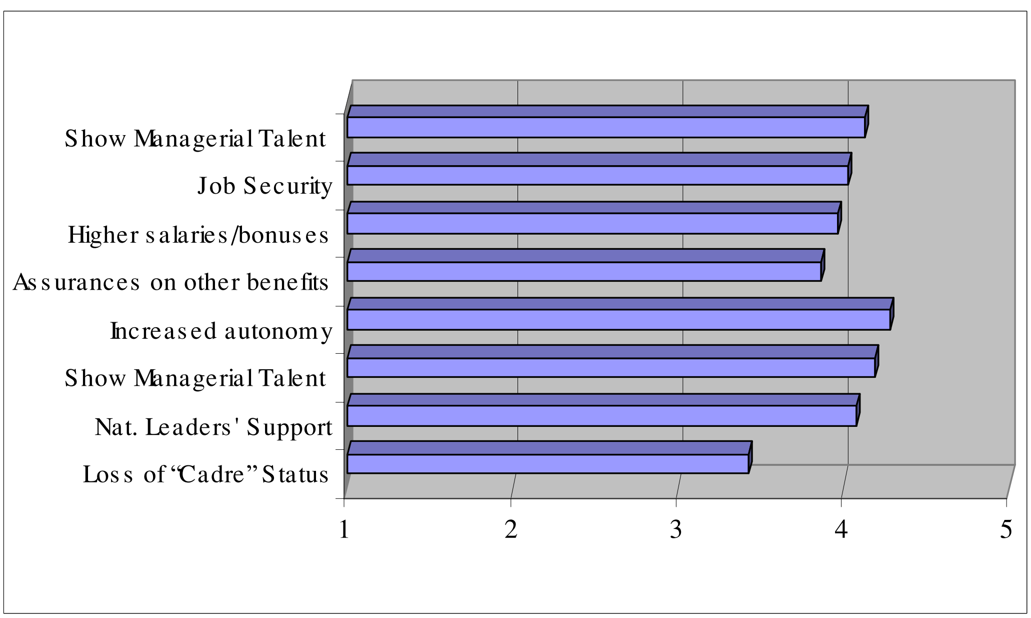


Figure Five-3 gives the same information for managers. While it is similar in that all the factors except loss of cadre status were positive, there is one important ordinal difference. Whereas workers put pocketbook issues foremost, managers put a still higher value on non-monetary issues. Most of all they wanted more autonomy, which is necessary for the second highest ranking factor, "chance to show managerial talent", once bureaucratic influence is reduced.

Figure Five-3

WHAT GOT MANAGERS TO SUPPORT EQUITIZATION?

16. What factors were important in determining the level of worker support (or lack thereof) for equitization?
(1=big minus, 2=small minus, 3=no impact, 4=plus, 5=big plus)



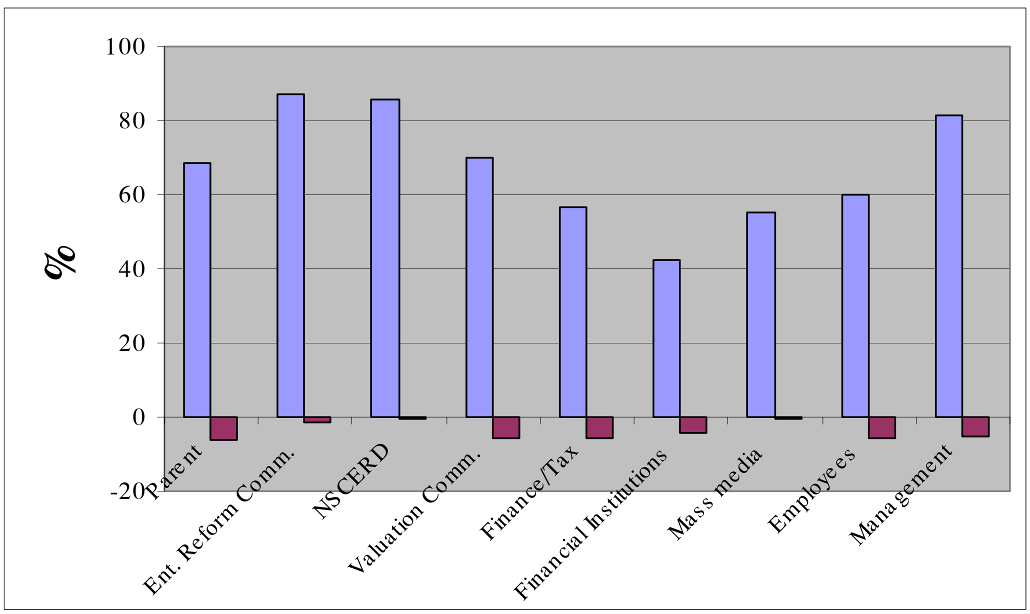
Which institutions and groups of individuals helped equitization and which hindered it? To see the differences more clearly, we sum the two help categories and display their percentage above the line, while summing the two negative categories and showing their percentage below the line (zero-impact responses are deleted). To the international observer, one thing jumps out at you from the results. That is, more than sixty percent of managers rated workers either a small or a big plus in achieving equitization, while only about five percent rated them a hindrance (the other 35 percent rated them as neutral, but this is not shown on the chart). Vietnamese readers will be impressed by the very high approval rating of NSCERD. No one should be surprised at the positive role of managers and the enterprise reform committee, since if this had not been so, they would have in the failed-to-equitize category, rather than this one (and also because managers were answering the question). The lowest ranked group is financial institutions, presumably, because they were not at all involved in many/most cases and therefore deserved a neutral rating. It might be interesting to follow up with the handful of outliers to see what their negative votes meant.

Figure Five-4

WHO HELPED, AND WHO HINDERED, EQUITIZATION?

25a.To what extent did the following factors help/hasten (plus) or hinder/delay (minus) equitization of your enterprise?

(percentage rating group a plus—above axis; percentage rating group a minus—below axis)



A similar question was asked about policies and processes (Figure-5). A curious result is that "preparation of documents" is rated a plus or a big plus by more than half of respondents and minus or big minus by well under five percent. One might conclude that equitized enterprise managers are weird and just love paperwork and red tape. Alternatively, Southwest Airlines Syndrome[42] may explain this, since we stacked the previous question on top of these and all of those things were good, and the inattentive

[42] Frequent Flyers in the USA are often asked to rate different airlines on different characteristics. Southwest Airlines is regularly rated among the top three for its food. Sadly, Southwest doesn't serve food. What explains this? When asked to rate something or someone on various dimensions, they first decide whether they like it or not and then rate everything the same way. Southwest is a great airline so everything about it is great, even if they don't have it.

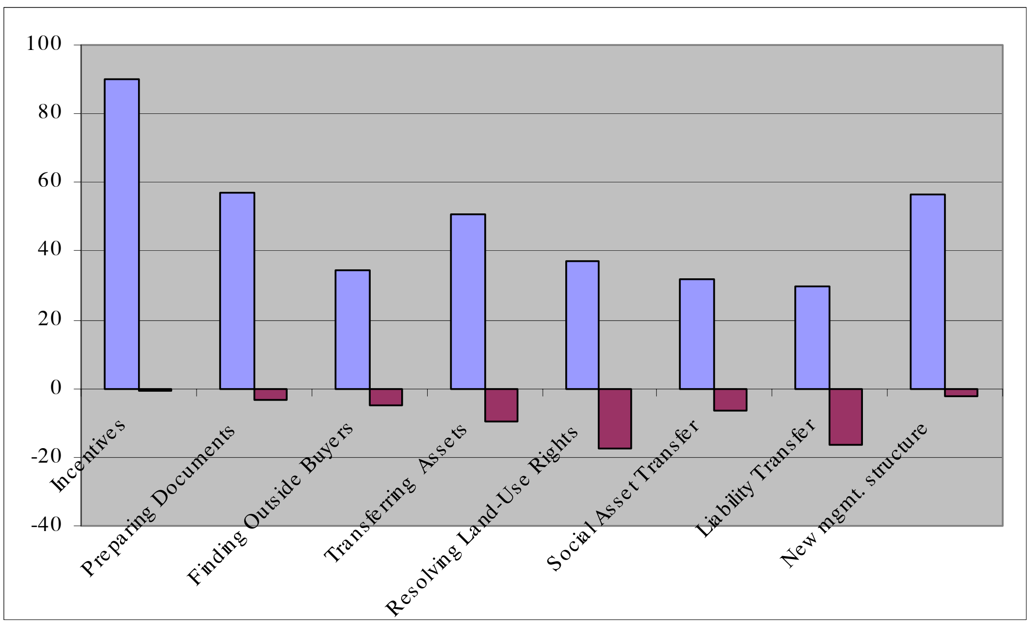
respondent just went on down the list checking the same column again and again. That may explain a general upward bias to the answers of this whole section, but some respondents must have been paying attention, because there is considerable variance across the questions. Even so, paperwork is the second only to incentives as the most helpful factor. Reviewing the questionnaire, it appears that again a subtle translation error has crept in, with managers meaning by their answers that paperwork was highly necessary. If either of the second two explanations are true, then there are two important ordinal facts to be taken from this question, namely that the biggest problems involved land-use rights and bad-debts. We shall return to this in the next section.

Figure Five-5

WHAT HELPED, AND WHAT HINDERED, EQUITIZATION?

25a.To what extent did the following factors help/hasten (plus) or hinder/delay (minus) equitization of your enterprise?

(percentage rating group a plus—above axis; percentage rating group a minus—below axis)



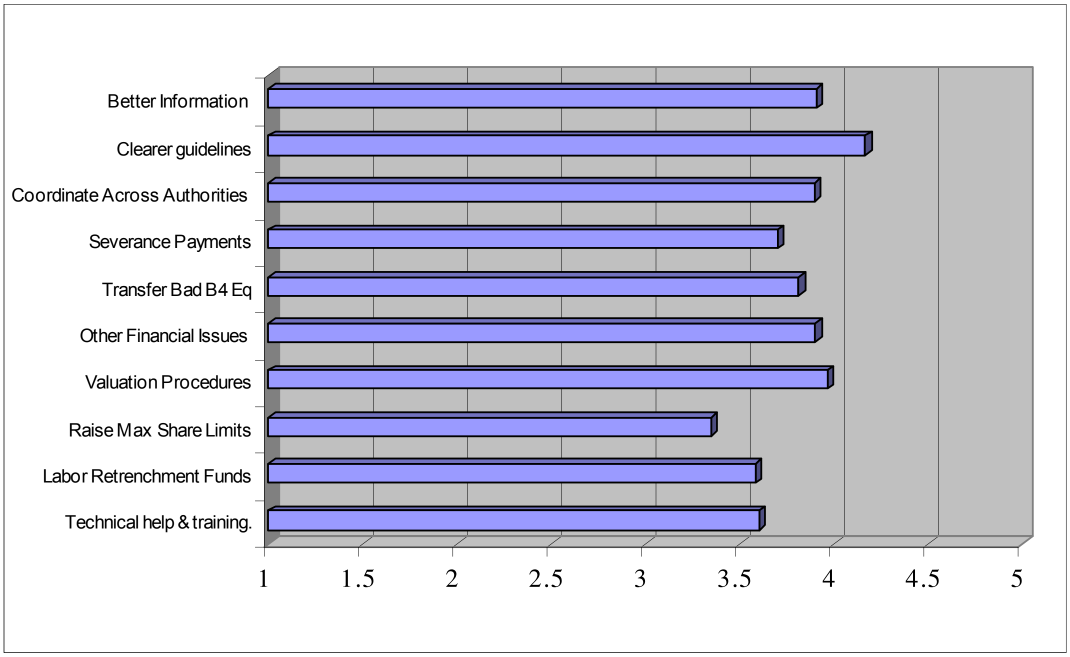
The final question we asked in this areas concerned views of the disrability of various possible policies to facilitate future equitizations. The greatest support was for "Issuing clearer guidelines on equitization including information on priorities and timescales." This could be interpreted as telling the government: " It doesn't matter so much what you do, as that you tell us something clearly and consistently and then let us get on with it." Other policies all garner support in the "important" to "very important" range, and will be commentede on in the next two policy sections.

Figure Five-6

POLICIES TO AID FUTURE EQUITIZATIONS

26. Which following factors do you think are important in facilitating future implementation of the equitization process?

(1=no help; 2=marginal help; 3=important;4=very important; 5=critical)



III. PROBLEMS THAT HAVE ALREADY BEEN FIXED

The government of course, has been neither ignorant of, nor inattentive to, these problems. Responsible authorities have studied them thoroughly and introduced reforms to deal with many of them. The most recent and comprehensive set of these, as already mentioned was Decree 64 in June of 2002,[43] replacing Decree 44. We summarize the more important changes (indented below).[44] Selected are interspersed.

1. It is no longer compulsory to re-employ all employees at the time of equitization; enterprises are just requested to use the maximum possible number. Redundancies will be handled by the Support Fund for Redundancies due to SOE reform.

This is a good example of point 1 of the introduction to this Chapter. Since Surveyed enterprises averaged only eleven percent redundancy at equitization, they had a problem, but it was manageable without major layoffs via growth and voluntary departure, so they were nonetheless able to equitized, and it does not therefore appear as a critical problem in our Survey. However, for firms with much larger redundancies, say thirty percent, it was an obstacle that precluded them from equitizing, but you wouldn't know it from our Survey.

2. Permanent employees are allowed to buy 10 shares for every year working in the State sector at a discounted price of 30% of the face value. The face value is VND 100,000. The total preferential share issue must be no more than half of the state capital.

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[43] Decree 64/CP (June 19, 2002).

[44] Slightly edited.

3. Previously, no individual or legal entity was allowed to buy more than 10 or 20% (if State minority) or 5 or 10% (if State majority), respectively, of total shares of an enterprise. This limit is now abolished.

4. Managerial staff, from deputy manager position upwards, are no longer subject to the limit on average preferential shares sold to employees.

Points 3and 4 are supported by managers in the Survey (see Figure Five-6). They also are supported by international standard corporate governance practice wherein it is recognized that larger strategic investors improve performance because they have enough at stake to make it worth their time to monitor and encourage firm performance.

5. Decree 44 did not allow for selling initial shares to outsiders, but Decree 64 makes it a requirement that at least 30% of the shares remaining after selling preferential shares to employees goes to outsiders.

6. Shares sold to the public must be auctioned through financial intermediaries.

Points 5 and 6 were not addressed directly by the survey, but they are certainly supported by international best-practice. External shareholdings help diversify governance and auctions enhance transparency while increasing government revenue from sale.

8. Previously, only one method of valuation was allowed (book value plus "business advantage". Now, "others' will also be allowed with details to be provided by the Ministry of Finance.

This would seem to introduce desirable flexibility into valuation, but there was a lot of flexibility in the old system as well. This was because "business advantage" was ill-defined and subject to many interpretations. For example, if one wanted to use discounted cash flow (or anything else), then you did the calculation your way, subtracted book value and then called the difference "business advantage". You then were then technically in compliance. Also recall that what the Survey enterprises seemed to want most of all was simplicity and clarity. It is not clear, therefore, that this provision makes a major step forward, and we predict that valuation will continue to be a problem in the future.

8. The value of land-use rights was not previously included in the value of the firm for sale purposes. Henceforth it will be, but only for enterprises dealing with housing and infrastructure. It is also specified that it be calculated based on the local standard price list and inclusive of ground leveling and clearance costs.

Two separate points might be made here. First, land-use rights are clearly part of what the new owner is buying and should in fairness be included in the sale price. And, why for some but not for others? But, how much does it mater given that, again, it could be included in "business advantage" anyway? The second point is that it is a step forward to have specified the way in which land-use values are calculated. It may not be "right", but it introduces clarity and simplicity and lets the process proceed.

Decree 64, augmented by Decree 69 also helps deal with the various debt issues.

IV. PROBLEMS THAT REMAIN TO BE FIXED

It is a bit too early to identify the residual problems after equitizers become accustomed to Decree 64, Decree 69 and the other newer policies. However, based on what managers have told us and what we know from experience and common sense, we predict what valuation and the related issues of debt, bad debt, bad assets and land-use rights will be among them.

The most important reason for our prediction is that there is no "right" way to value a firm. To see this, start by considering the economics of private asset sale. What if I, as a private individual, want to sell my company to you? The economics of the potential sale may be summarized in our respective reservation prices: the maximum you are willing to pay and the minimum I am willing to take. If my reservation price is higher than yours, then no sale is possible; if yours is higher, then it is. What are these reservation prices? In both cases they are the expected net present values of the future earnings (quasi-rents or return to equity). I won't take less than I could earn by keeping the company, and you won't pay more than you could earn by taking the company. Assuming you are willing to pay more than I am willing to take, then a sale is possible. The economic gains from the sale are simply the difference between the two streams of earnings or the two reservation prices. Who gets these gains? That depends on the sale price, which will divide up the gains. If it is closer to your reservation price then I get most of the gains; if it is closer to mine then most of the gains go to you. What is the right way to set this price? Absent a competitive market with a lot of people selling similar companies and a lot of people wanting to buy such companies, there is none. It will depend on our respective negotiating abilities.

How does this apply to equitization? Valuation is just the way that the price is set. The economics are the same. A higher price/valuation leads to more gains for the government seller and less for the buyers, and vice versa. This was hopefully made clear in our rough estimate of the respective gains to date in Chapter Three. How should the price be set? The problem has been solved with the introduction of auctions for outsiders, but what about for insiders? There is only one seller and a pre-determined small number of buyers, so the competitive solution is out and there is no right way to do it.

To move towards a resolution, it may help to take into account two ways in which the government as seller differs from the private seller above. The first way is that the government cares about more than the sale price, which is all the private seller cares about. The government also cares about benefits accruing to society as a whole in terms of jobs, mobilized savings etc. Since its other benefits are greater, its reservation price is lower. How low? The answer is surprising at first blush. It can be proven mathematically that under quite general conditions, the government's reservation price is negative. That is, it should be willing to pay the buyer to take over the firm. One's first reaction on seeing this result is that there must be a sign error in the algebra. However, upon reflection, it is perfectly understandable. If equitization is good policy and worthwhile, then it makes the country better off. Just as when building a bridge, the government should be willing to pay for this improvement. The government should of course try to get more, because of the useful public purposes to which the funds can be put. How much more? This is partly resolved by considering the second way the government differs from a private seller. There is some minimum price which is politically acceptable to the populace and necessary to help maintain popular support for the program.

What is the politically acceptable minimum? That is where the valuation exercise comes in. It can be viewed as a way to set a politically acceptable price in an environment where the right economic price is unknown. What is the best way to do this? It helps to get reasonably close to the economic value (and the discounted cash flow method is the best for this), but the key is to have something the people will accept as fair. It should also be simple and clear, and err in favor of the worker-buyers, in the interest of speeding things up. The implication is that you should choose one simple, clear plan from the many that have been proposed, explain it to the people, and get on with it.

If this is accepted then some of the other problems fall away. Debt is simple. If the enterprise keeps it, then the valuation/price goes down by an equal amount; if the government takes it on, then the price is correspondingly higher. Bad debt and bad assets are similar, but much harder because you don't know how much to add or subtract, but an expert panel of accountants, armed with clear and simple rules, can be utilized. Similarly for the value of land use rights.

This brief digression on valuation issues has diverted us from our core expertise on the Survey. We now return to this, by considering another area of policy concern.

Chapter Six

POST-EQUITIZATION PROBLEMS AND POLICIES

I. EQUITIZED ENTERPRISES: A HYBRID

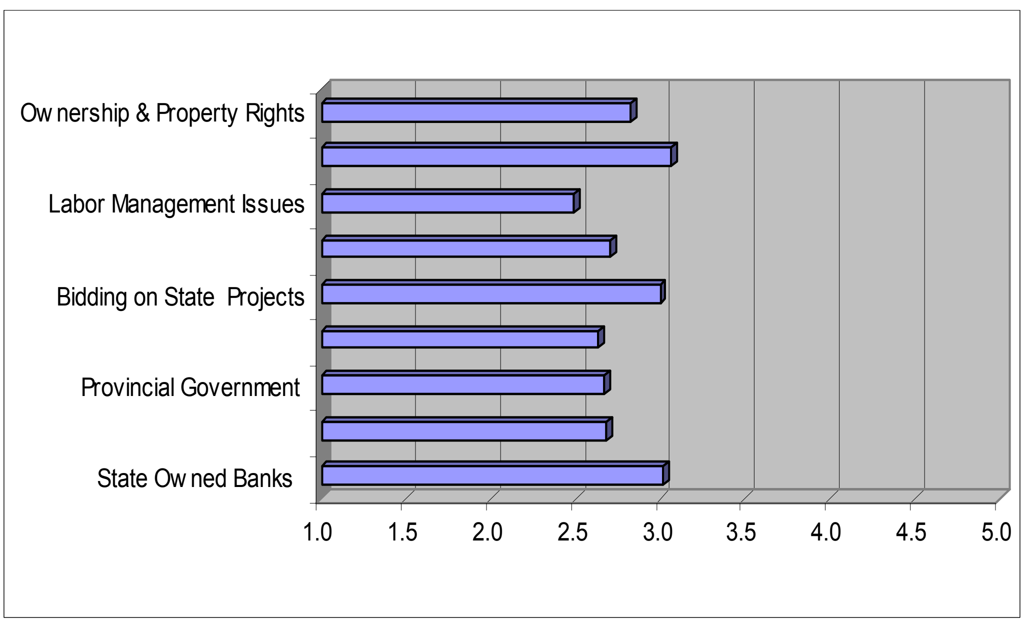
What are the problems of equitized enterprises, and what can and should be done to solve them? This is the basic question of addressed in this Chapter. The question raises a question. Why do we need such a Chapter? Viet Nam has underway a huge program of State Enterprise Reform and a significant set of programs aimed at private sector development. Shouldn't the answers to the equitized enterprise problems be found in one of these? We return to this question in the concluding section, but first let us ask the enterprise managers, which of these worlds they fit into.

Figure Six-1

ARE EQUITIZED ENTERPRISES MORE LIKE SOEs OR PRIVATE ENTs?

23. Do you believe that in resolving or dealing with the following problems/agencies your firm is more like other state enterprises (SEs), or other private enterprises (PEs)?

(1=much more like SOE; 2=like SOE; 3=like both; 4=like PEs; 5=much more like PEs)



If managers thought they were like private enterprises, they would be at the far right of this scale. If they thought they were like SOEs, they would be at the far left. Instead, they are very much in the middle, though tending to the SOE side. One would expect this to vary with the degree of government ownership. Does it? According to statistical tests, only to a small extent. Comparing enterprises with zero and some government share, there is no statistical difference. Comparing the two extreme groupings of zero and majority government share, we get a little action, with differences in the first two questions being statistically significant, but not the other seven. The assertion that equitized enterprises share the characteristics of private and public companies thus appears to hold regardless of state share-holding. History matters.

The equitized enterprises are thus clearly a hybrid. As such, do they have the best of both worlds, the worst of both worlds, or some of each? Variance across the questions above provides at least a hint at an answer. In dealing with labor, they are more like SOEs. In dealing with credit, investment and bidding on government contracts, they are more like private enterprises. Does this not sound like the worst of both worlds?

II. LEVELING THE PLAYING FIELD

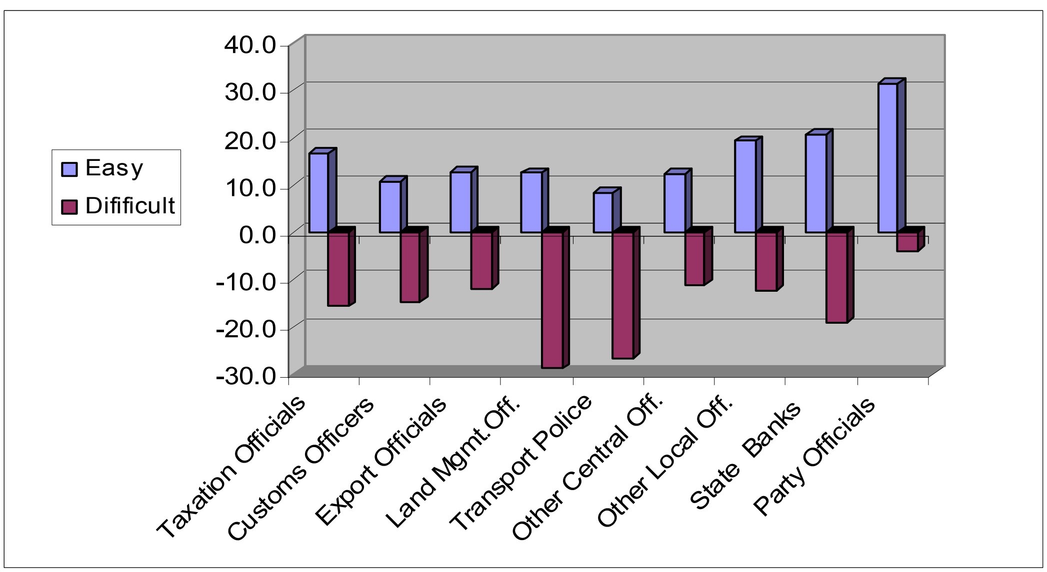
The foregoing suggests the commonly voiced view that the playing field needs to be leveled across enterprises in Viet Nam. But there are many games and many playing fields. Which needs leveling the most? To get a feel for this, we asked managers how hard it was to deal with various agencies and institutions. Answers are given in Figure Six-2.

Figure Six-2

WHICH INSTITUTIONS ARE EASY TO DEAL WITH AND WHICH HARD?

22. Do you face difficulties in resolving issues with the following agencies/ institutions? Please indicate how easy it is for your firm to resolve issues with the agencies below

(1=very easy; 2=easy; 3= Not an issue; 4=Difficult; 5=Very Difficult)



This is a rather interesting set of responses. First note that the answer was “not an issue” in 59 to 75% of the cases (and thus not shown in the plus/minus display above, except in that the total in the columns come to 41 to 25%). Is this not a curious result if like is so tough for the enterprises? Some of this is of course due to the fact that not everyone deals with all institutions. For example most firms don't export and don't have to deal with customs and export officials. But even for those that responded in these two areas, the numbers saying "easy" and "hard" were roughly equivalent. And, doesn't everyone have to deal with taxation officials, since most of the enterprises are earning profits? And again there is about an equal balance between those saying it is easy to deal with tax people and those that say it is hard. How do these results square with Viet Nam's reputation as a hard place to do business? One way would be to say that what we are seeing is the upside of being an equitized enterprise. That is, years of developing good relationships with other government bodies while in SOE status carry over, and make all of this much easier for equitized enterprises than for private enterprises. Or, it might just be easy to deal with government for everyone. To see which of these competing explanations is correct, it might be worthwhile asking the same question of a private sector sample.

Be that as it may, there is are other intriguing features of Figure Six-2, which is revealed if you look at the skewed distributions: those with a lot more weight either above or below the line. There are four such groups. Managers say dealing with Party officials is a pleasure. This does not surprise Vietnamese members of the Study Team, but if you had done interviews with managers during the transition in Russia, Mongolia, and Macedonia and heard of results elsewhere you would be surprised, to put it mildly. Local officials also seem to be easy to deal with, and here we have the same two possibilities as in the previous paragraph. There are also two bodies that are relatively hard to deal with. The first is the Transport Police. We leave it to others to explain this.

The second body that is hard to deal with is the Land Management Office. This may have more to do with the nature and seriousness of the problem than it does with the people. As informal interviews mad clear, for people who had the problem, this is serious. How many had it? We asked this in the Survey, with the following results given in Figure Six-3. About a third had managed to solve the problem, about a third didn't have a problem because they were renting, and a third did have a problem. For those that did, this led to serious problems. These are discussed at the beginning of the next Section.

Figure Six-3

OWNERSHIP STATUS OF LAND AND OTHER FIXED ASSETS

(percent of respondents by row)

	Own with clear title:	Use without clear title	Rent or lease	Do not have any
1. Land use rights	31.15	39.34	27.87	1.64
2. Buildings/Factories/Equipment	83.06	12.70	3.91	0.33

III. PROBLEMS: EVIDENCE FROM THE SURVEY

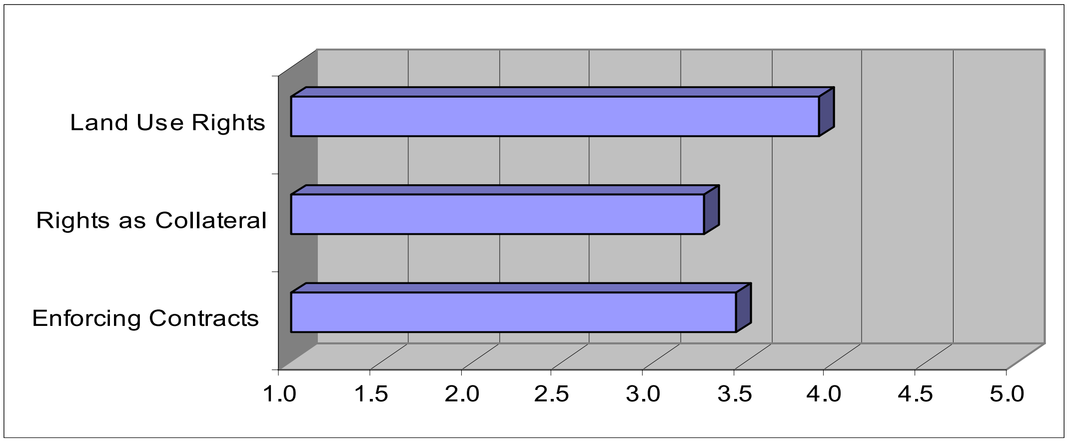
We asked managers how important various problems were for them. Results are given in four sub-groups in Figures Six-4 through Six-7.

Figure Six-4

PROBLEMS WITH OWNERSHIP AND PROPERTY RIGHTS

21a. Please indicate below how important are the following problems/issues for your firm?

(1=not important; 2=not so important; 3=important; 4=very important; 5=critical)



The reader may first want to skim the four Figures and identify the single problem that bothers managers most. It is the first question in Figure Six-4, securing land-use rights, which garnered a score approaching "4", while nothing else got more than "3.5". Note that this is also higher than the second question, using land-use rights as collateral for loans, indicating that the problem has more than simply credit access implications.

The third item in Figure Six-4, enforcing commercial contracts, also gets a relatively high score. This is clearly a problem, but it affects all enterprises in Viet Nam, in whatever sector, so it need not concern us further.

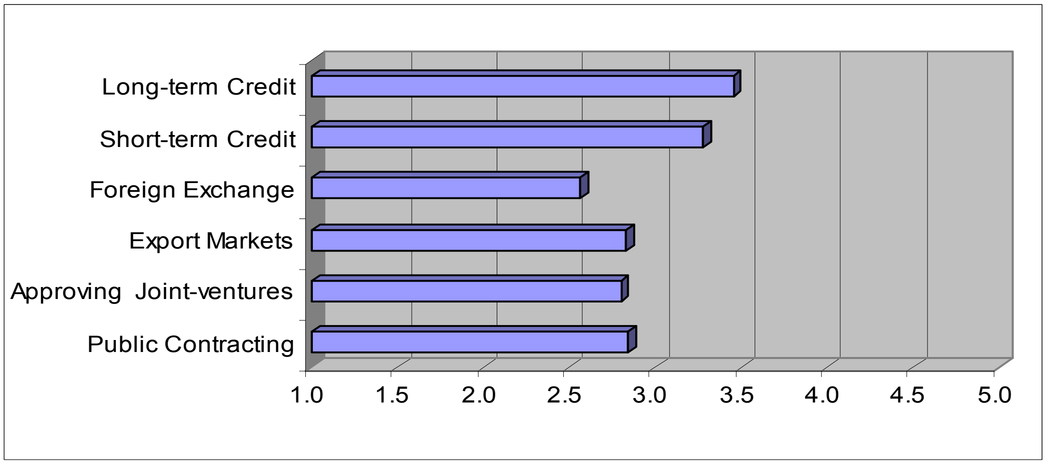
As can be seen in Figure Six-5, access to credit, both short and long-term are also a relatively big problem. This is not just an equitized-enterprise problem, nor just a nation-wide problem, but a world-wide one. Around the world, when managers of any enterprise—public, private, equitized or whatever—are asked to rank their problems, credit is always at, or near, the top of the list. Everyone thinks their problems are unique, and equitized-enterprise managers are no exception. They may be right, but this result does not prove it. The question is whether or not they have more problems than others in Viet Nam. Repeating this question on surveys of SOE and private sector managers might help to answer this important access question.

Figure Six-5

PROBLEMS WITH CREDIT, INVESTMENT & MARKET ACCESS

21a. Please indicate below how important are the following problems/issues for your firm?

(1=not important; 2=not so important; 3=important; 4=very important; 5=critical)



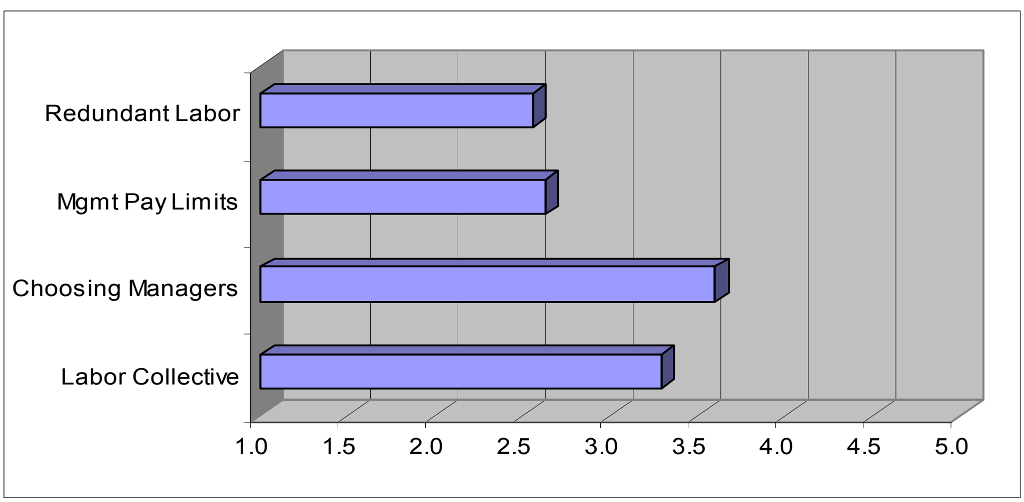
Now consider problems with labor, as per Figure Six-6. The first two questions are perceived, on average as always, as relatively small problems. Given what we saw earlier about the modest level of redundant labor in equitized enterprises, the first result is not surprising. However, it is worth noting that this question shows the highest variance of all of the seventeen questions in this section, suggesting that it does matter a lot for a small number of affected enterprises. [45]

Figure Six-6

PROBLEMS WITH LABOR MANAGEMENT

21a. Please indicate below how important are the following problems/issues for your firm?

(1=not important; 2=not so important; 3=important; 4=very important; 5=critical)



[45] The next two highest variances, and the only others close in magnitude to this one, concern export markets and government procurement, which also obviously affect only a small number of firms.

The relatively high level of difficulty with "Flexibility in the choice of managers" is perhaps somewhat surprising. Shouldn't equitized enterprises just appoint whomever the shareholders want? Apparently not. There are widespread reports of delays and difficulties due to government's role in the process. This raises the question of the role of government representatives in corporate governance, an issue we will return to in the next section. Dealing with the labor collective is also seen to be a significant problem, and this is consistent with the large role of workers we saw in Chapter Four.

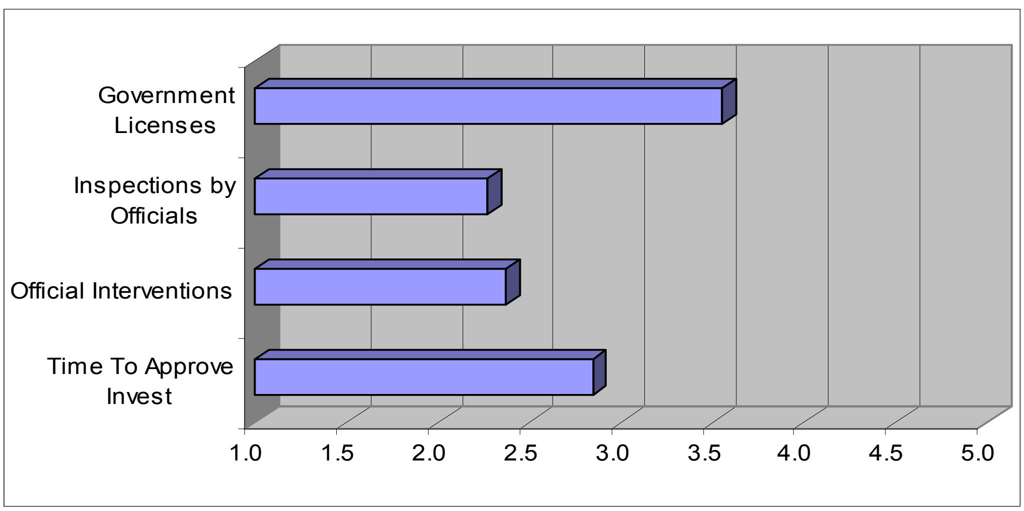
What about relations with government? This is shown in Figure Six-7. Securing government licenses or permits is seen to be a serious problem. Moreover, it has the highest "critical" problem rating (23 percent) of any of the seventeen potential problems examined in this section. Problems of "frequent inspections by government officials" and "government official interventions" are towards the "not so important" side of the scale, while "time taken to approve major investments is intermediate.

Figure Six-7

PROBLEMS WITH GOVERNMENT

21a. Please indicate below how important are the following problems/issues for your firm?

(1=not important; 2=not so important; 3=important; 4=very important; 5=critical)



To repeat, the major difficulty in interpreting all of the responses in this sub-section is that we do not know how much is due to being an equitized enterprise and how much to simply being an enterprise in Viet Nam. It would be nice to have a survey covering all types of enterprises in order to find out.

IV. PROBLEMS: EVIDENCE FROM INTERVIEWS

A. Introduction

Some of the most important things you learn in the course of doing any survey, are all of the things you should have included in the questionnaire, but didn't because you weren't smart enough or knowledgeable enough. In this sub-section we therefore report on the problems revealed by interviews, contacts, reading the newspaper and study of reports, in the course of doing the Survey. We would expect to extend this section considerably after the dissemination conference.

B. Internal Management and Administration

Here are some of the problems that were found:

1. After business registration, many companies do not comply with the Law on Enterprises and the Charter of the company, especially with regard to the roles and powers of the Board of Management and the Director.

2. Many equitized enterprises still maintain their SOE form of organization, just cosmetically altering some titles (for example, the former director becomes Chairman of the Board of Directors, the former Deputy director becomes Director, etc). Such enterprises retain the traditional way of thinking. In other enterprises, especially those with significant and active outside shareholders, their operation is very dynamic and flexible.

3. Many equitized enterprises continue to apply SOE regulations, especially on personnel policies such as social security payments, service grade, and wage increases.

4. The rights, and limitations thereto, of stockholders is not fully understood, so sometimes these rights are under-exercised, (for example in not participating in share-holder meetings), and other times over-exercised (for example in trying to directly influence Director's decisions, rather than by going through the Board.

6. Some enterprises oppose further reductions in the State share, because they want to utilize State status in their business operations, or at least ensure the psychology of "state appearance" after equitization.

7. Companies complain of both too large and too small a role for outside investors. Some believe that it would be better to permit a large share to be accumulated, thereby leading to the incentive advantages associated with having a strategic investor. Others complain that outsiders have illegally already bought out the shares of workers and they have many difficulties in dealing with such people.

C. Corporate Governance and the State Share

A second, and very important, set of problems concerns how the State chooses to exercise its role in corporate governance as a shareholder.

1. At some companies, multiple representatives of State capital have been appointed to the Board of Management by the Shareholders, thus extending the governance role of the State. While managers complain of this, it is hard to see how this is a governance problem, since this is elsewhere perceived as a perfectly natural right of shareholders. If there is a problem here, it is not that shareholders appoint managers, but in one of two other areas. First, the share of the State might be inappropriately large.

Second, the State might appoint unqualified people to the Management Board.

2. Of prime importance in the enterprise's eyes, is that the representatives actually be appointed. There are many stories of enterprise reorganization being delayed for as much as nine or twelve months as Board members and directors appointments are pondered.

3. In its role as shareholder, what sort of person should the State appoint to represent it on the Board? What sort of professional training should they have had? If they are cadre, do they need some special training on joint-stock company issues?

4. More importantly, how should the instructed to vote the government's share's and exercise the shareholder's role on the Board? There are reports of government representatives trying to act like the Parent Ministry representative in the old SOE days. Instead, it is suggested that the representative should be instructed to vote solely for efficiency, growth and profits, unless there is some overriding public interest to the contrary.

5. While government policy is clear (Decision 58/TTG of 2002) on where the State should retain a dominant role and where not, this is not always applied to subsidiaries of General Corporations. Nor is the government share always reduced in existing equitized enterprises when the government threshold is lowered.

6. Another holding company complaint, heard from both sides, is that independent equitzed enterprises sometimes compete with parents, causing losses for the parent or, vice versa. But, isn't this exactly the way competition is supposed to work, with the more capable producer finding greater favor with consumers and thus benefiting the nation?

7. A final problem is, who is in charge of providing a coordinated government position on the governance issues? At present, different Ministries, Provinces and General Corporations all behave differently? Is this desirable? It may be that it is consistent with socialist decentralization to let each Province do as it sees fit, but to unify governance policy in a single government body, perhaps at the Ministry of Finance.

8. It is often complained that employees sell their shares illegally to third parties, due to sloppy or non-existent registration books. Why is this a problem? For one thing it is said to reduce incentive effects. This could be answered by saying, yes, but it also increases independent outside influence. For another thing it is said that it can violate the Law on Enterprises if Founding Members shares (in total) by more than eighty percent over three years. Is this much transfer really likely to place given that the state is often a founding shareholder? And if it is, is it a priority law enforcement issue in Viet Nam today?

V. WHAT SHOULD BE DONE?

Given all these problems, what should be done to help the equitized enterprises? One possible answer is: "nothing. Most of the equitized enterprises have done extremely well, and if some haven't figured out how to play the game yet, that is their problem. It is not a problem the government should worry about given its' many other serious concerns. The equitized enterprises are supposed to be autonomous and they should lose the habit of relying on government in solving their problems." While this is not our position, we recognize that there is enough truth in it that it forms part of our position, applicable to certain problems only.

We suggest that consideration should be given to separating the equitized enterprises problems into three areas, as follows:

1. Problems of all enterprises, or at least all private enterprises: many of the difficulties faced by equitzed enterprises are imbedded in the broader framework of temporarily imperfect Vietnamese financial, legal, economic and administrative institutions. As these are improved for all, the problems of the equitized enterprises will be reduced and nothing special can or should be done for the latter group.

2. Problems specific to the equitized enterprises which are due to government imperfections. This includes at least the corporate governance and state share-holding issues referred to above.

3. Problems specific to the equitized enterprises that are the duty of the enterprise itself to solve. This might, for example, include training for Board Members and staff in the nuances of running a joint-stock company. The government or donor agencies might want to fund start up activities in such an area, but if they are worth doing, then the enterprise ought to eventually be willing to pay. The more successful equitized enterprises have solved the problems. Why aren't they paid handsomely (initially by a donor; later by the enterprises themselves) to pass this information on? Such training might be especially important in the immediate pre- and post-equitization periods. Is there anything in the "internal management and administration" category above that does not belong here?

We further suggest that to save time, attention should focus solely on what legitimately goes in the second category. We have tried to suggest a framework and a few illustrative ideas. We look forward to the Feedback Conference filling in the details.

Chapter Seven

CONCLUSIONS

This section will be provided only after feedback from the Ha Noi feedback workshop.