A STUDY ON PERFORMANCE AND PROBLEMS OF THE VIETNAM'S STATE-OWNED-ENTERPRISE EQITIZATION POLICY IMPLEMENTATION

By

Nguyen Thi Mai

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

2009

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Committee in charge:

Professor Younguck KANG, Supervisor ______________

Professor Kyewoo LEE ______________

Professor Joon Kyung KIM ______________

Approval as of November, 2009

ABSTRACT

A STUDY ON PERFORMANCE AND PROBLEMS OF THE VIETNAM'S STATE-OWNED-ENTERPRISE EQITIZATION POLICY IMPLEMENTATION

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Since 1992, Vietnam has adopted the 'equitization program' as one of the major policy tools for transforming a centrally planned and subsidized economy into the market economy. This study will show that the change of ownership structure has taken a major role in firms' performance improvements in Vietnam. Although the outcome does suggest certain level of accomplishments, some additional factors such as poor management capacity, low transparency in finance, and imbalanced structure of ownership where the State still holds the major portion of equity do affect the degree of performance improvements. Qualitative methods are used to analyze the effects of the equitization policies for SOEs in Vietnam with additional qualitative research to probe into potential policy measures in promoting productivity and business performances.

Dedicated to my family!

Acknowledgment

I would like to take this chance to give my appreciation to KDI School for the great time of enriching me in both theoretical and empirical education which makes me feel self-improved and self-confident of having studied in KDI School and been taught by the qualified faculty.

I particularly present my sincere thanks Professor Younguck Kang for giving me precious encouragement and advices to complete my study. His lectures in summer and fall semesters significantly helped me with policy concepts and analysis to develop my work.

Unquestionably, I would like to give many thanks to the timely and sequent supports and considerate care from the Academic Office staff and the librarians in the KDI School with their great and unique treatment to all students.

Finally, I am really grateful to many dear friends and all members in my family who were sharing happy and stressful moments in several ways. This has strengthened me to step forward on my own way during one year in the KDI School.

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Definition of Terms and Acronyms

Acronyms and Abbreviations

- SOE: state-owned-enterprise
- COE: corporate-owned-enterprise
- LME: large and medium enterprise
- R&D: Research and Development
- IPO: Initial Public Offering
- HM: Human resource
- SBC: soft budget constraint
- VND: Vietnam Dong – Vietnam's currency
- HDBT: Hoi Dong Bo Truong (Prime Minister)
- GSO: General Statistics Office
- CIEM: Central Institute for Economic Management

Technical terms

- *Listing:* action of making one firm's stock/equity public in official security transaction centre
- *Externality:* something extra (by-product) in production or consumption in which over-consumption or under-consumption of goods happen.

(David L. Weimer (2005). Policy Analysis–*Concepts and Practice.* Pearson Education LTD.)

- Natural monopoly (also called *technical monopoly*) refers to situation where the power to set the price is created by the characteristics of underlying technology and market condition.

(David L. Weimer (2005). Policy Analysis: *Concepts and Practice.* Pearson Education LTD.)

- *Information asymmetry* deals with the study of decisions in transactions where one party has more or better information than the other. This creates an imbalance of power in transactions which can sometimes cause the transactions to go awry.

Chapter 1. INTRODUCTION

Since the *Doi moi* (Renovation) Policy released by the Vietnamese Communist Party's the Eighth Summit in 1986, Vietnam has emphasized the transition from centrally planned economy to the socialist market economy. Vietnamese economy has demonstrated comparatively high average economic growth rates ranging from seven percent to nine percent since the mid-1990s. Thanks to the magnificent performance in socio-economic stabilization, rapid export growth, poverty reduction, and human development, Vietnam is globally considered as one of the successful transition economies, where the privatization has been suite instrument as one of the core policies. By definition, privatization affects the roles and functions of state, market and sociopolitical institutions by shifting ownership from government to private entities. The privatization policy has been considerably essential for transforming the subsidized firms particularly and therefore, transforming the centrally planned economy into the market economy mechanism in Vietnam.

Privatization was initially launched and enhanced by the British Prime Minister Thatcher and her administration at the very early 1980s in the United Kingdom for the state-owned enterprises on a wide scope with the purpose to transform the government through privatization (Balaker et al, 2006). With the optimal necessity to change the mechanism of economies, many transition economies had speedily ignited expansive privatization programs that formed the important element of markets to allocate resources at many central and local levels. Accordingly, the Vietnamese government launched this process in 1992 after the institutional renovation of 1986 Doi Moi policy for business reform, yet with very prudential grasp and deliberation to avoid the government and market failures or unfavorable outcomes, given the historical lessons and experiences from other countries in the world.

The Vietnam's privatization program, officially named "Equitization Program" (C*o phan hoa*) has remained as one scheme of the State-owned enterprise (SOE) Reform Program for economic reform, where a government business enterprise or state-owned-enterprise (SOE) is a legal entity monitored by the governmental agency (state representative) to carry out trade or business activities. Equitization is defined as the transformation of SOEs into joint stock companies and trading company's equities to individual and collective investors for the performance's improvements of the firms (Government of Vietnam webpage, 2007).

The privatization in Vietnam's case is officially used and named as 'equitization' because its approach and implementation for privatized SOEs are not similar to any other privatization programs in several countries. Contrary to the purpose of privatization, with the aim at promoting competition, residual state ownership in post-privatization period and the percentage of shares transferred to firms' internal partners are quite large in the case of Vietnam. Moreover, the privatization generally functions as giving firm certain conditions and rights to sell ownership in a form of stock at the security market, whereas, differently in Vietnam, equitization implies that workers of the equitized company have more chances to get ownership of the company.

Equitization is the process of privatizing or dividing one company into different equal shares/equities to stakeholders. The objectives of SOE equitization are to create new types of enterprises including a large amount of laborers, and effectively utilize the state capital of the entire society for investment in technology renovation and production expansion. Equitization of an enterprise functions to stimulate firms' employees and capital investors to be legal owners.

Equitization is considered one of the major policy tools made by the Vietnamese Government during the early stage of economic reform, which proposes to create new type of enterprise to use the national capital and assets efficiently, to mobilize all resources of the entire society and foreign investment, and to secure the harmonized interests of State, enterprises, and laborers. Moreover, it aims to improve Vietnamese enterprises' competitiveness and efficiency of business performance for the process of international economy integration.

The fundamental differences between developed and developing economies utilizing privatization policy are summarized in the following table. Differences in markets, management and governance highlight different effects of privatization among developed and developing nations, which are shown through the sort of goods, capital and labor markets, and private property rights seem to be less well-featured and protected. Additionally, business operation to mutually beneficial is less covered, as well as government integrity less secured (Parker, David and Colin Kirkpatrick, 2005)

Table 1: **Commonly found features of developed and developing countries affect the privatization process**

Criteria	Developing countries	Developed countries
Market competition	Imperfectly competitive and incomplete markets	Competitive product markets
Labor markets	Regionalized and sometimes ethnically distinct labor markets, with appointment through connections	Organized and competitive labor markets
Competition of capital market	Under-developed capital markets	Competitive capital markets
Competition of management	Management weaknesses and patronage in appointments	Competitive managerial labor markets; institutionalized management training
Protection of private property rights; standards of business	Poorly protected private property rights; under-developed business codes of behavior	Protected and well-defined private property rights; understood standards of business conduct
Standards of probity in public administration	Relatively low standards of probity in public administration in a number of countries, including cronyism and corruption	Usually relatively high standards of probity in public administration

Source: Parker, David and Colin Kirkpatrick, 2005.

Technically, the Vietnam's equitization is different from privatization programs in the common Western sense that the Vietnamese government does not necessarily lose its supreme control and domination over equitized firm in the post-equitization period. Another remarkable feature differs from common Western privatization activation is that employees and board of directors of the firms acquire a large portion of capital or equity in the equitized firms whereas the external partnership is rather dominant in the equitized firms in other countries (Truong Dong Loc, 2007).

The purposes of the equitization policy on the SOE reform are to improve enterprises' business efficiency and competitiveness through ownership diversification in line with mobilizing capital resources from own employees and outside investors, including domestic and foreign investors, for advancing technologies and enhancing business performance. In addition, this program has some effects in keeping consensus of balanced interests among the state, laborers and relevant partners within each equitized firm.

Nevertheless, due to uncertainty and inappropriate equitization application, a lot of equitized firms are still challenged by unsolved problems generated from endogenous and exogenous causes. Firstly, lack of timely and proper guidance from the Government toward the program's purposes and enforcement; Secondly, restricted investment access opportunities for all types of investors along with firms' accounting ambiguity, and budget constraints; the third reason is the incompetence of corporate governance in equitized firms regarding to the fact that responsibility and reliability are not adequately considered when having diverse owners with different perspectives and know-how in one single equitized firm. The fourth reason is the slow growth of equitization implementation caused from different authority levels and the enterprises themselves. Finally, the high stake of equity is still possessed by the Government in most of the firm's ownership structure while the insiders (managers and labors) and the outsiders (investors) take fewer portions of that in comparison with other countries, in which privatization policies have been pursued as well.

When the firms are on the equitization process, equity and shares should be equally allocated by internal and external partners. However, in Vietnam's case, the low transparency and moral behaviors still remains problematic thanks to the unstable and inconsistent management of the ownership and managing board. Many firms are seeking financial investment, and solutions for accounting and stock listing, IPO (Initial Public Offering) of issuing stock. A lot of SOEs were not well-prepared for privatization procedures such as public announcement of balance sheet, accounting, and financial transparency before listing in stock exchange transactions. One remaining cause is the hesitance as well as the incorporative administration of executive board which have been seen in many business sectors. In addition, the policy design, policy adoption, and policy implementation are still in slow speed and relatively inconsistent progress at the absence of consecutive actions.

Those problems leave such negative effects on equitized enterprise performance with low pace and incapability of issuing ownership equities for laborers and listing stock in security exchange market as IPO – Initial Public Offering. Moreover, they lead to some risky effects on the society and community such as moral hazard, corruption, and embezzlement etc. Another effect is that some corporations or large firms have postponed the equitization application due to their internal and external difficulties and unfulfilled responsibilities or they have not met the requirements for the equitization process yet.

Participating in the equitization program, the three main stake-holders as the beneficiaries of the policy play important roles in the progress. Every partner has its own roles and responsibilities as well as becomes benefit recipient in this program. Understanding their expectation from this program probably help to study how well the equitization has been working and if the outcomes fit its given objectives or to assess the monitoring role of the Government in facilitating the process.

Firstly, the most important beneficiary is the equitized state-owned-enterprise (SOE). On one hand, owners' aspiration is the post-equitization's benefits for their companies such as profitability, leadership ethics, better management, more opportunities of investment mobilization etc. On the other hand, they don't expect the negative effects such as low transparency, abundance of unskilled laborers, and inequity of benefit. These SOEs also desire to "play" and operate in the fair and competitive market with the equal support and concerns from the Government for every type of enterprise. Equitized SOEs are motivated by the Government and the equitization policies determined by laws.

Secondly, the Vietnamese Government is expecting to bring socio-economic benefits for the country, successful application of equitization process in Vietnam in terms of implementation and better result of equitized firms' performance. In contrast, the Government fears that this Reform Program could impose the negative social effects on enterprise, employees and society as a whole such as unemployment, side-effect of the policies for laborers in accessing their property rights.

Thirdly, the Vietnamese people are the primary subject and beneficiary for every policy. The equitization policy is not exceptional, in which the public is able to get involved in purchasing and owning SOEs in progress of equitization which they were not allowed by law before. Equitization creates more opportunities of employment for capable people in the age of working, which brings social welfare and public benefits.

From the Vietnamese equitization program's stated problems and the situation mentioned above, some hypotheses are listed to be answered below.

1. How have the equitization policies in Vietnam been implemented?
2. What are the changes of pre and post - equitization processes?
3. What shortcomings and consequences remain after adapting the equitization policy in Vietnam?
4. How would law-makers grasp remaining issues to make amendments for the policies?

In sum, this paper desires to provide evidences that equitization policy has made some improvements in financial situation and executing performance of the equitized firms. Besides, the study will point out some significantly remaining problems challenging those enterprises. Therefore, the paper aims at evaluating the overall results of the Vietnam's equitization program in both the pre and post processes and its limitations as well as weaknesses to determine the efficiency and the impacts of these policies upon the firms' business performance to draw policy implications and recommendations to enhance the policy's implementation in the process of enterprise reform in particular, and for Vietnam's socio-economic development in general.

Chapter 2. LITERATURE REVIEW

An overall and closer executive summary of comparisons between two stages of the pre and post equitization in Vietnam will be demonstrated with the aim at evaluating the implementation process of SOE equitization since this policy has been adopted and taken into effect. The study will explain the issue of efficiency improvement, which becomes more essential than ever for entrepreneurs to sustain and develop the competitiveness for their companies. Moreover, the abundance of labor force and the unavailability of skilled workers in the post equitization period remain the crucial difficulty for firms after being equitized, that unemployment affects social issues across the country because a prominent amount of employees would be dismissed by regulations after their companies complete the equitization schemes.

Furthermore, the legal terms, administrative and other unprecedented constraints are determinants for decreasing the pace of the equitization proceeds such as sharp downturn of the Vietnam's security exchange in the early 2007, financial crisis, and the incomplete frame of regulations of which there have been various adjustments. In addition, some external shocks also affected the speed of the program such as the 1997 Asian financial crises, oil price shocks and 2008 global financial crisis. Besides, it is commonly believed that the unwillingness or hesitance in making decisions and incompetence of many SOEs' managers gradually dampen the implementation's progress and keep being steady during the past years.

The prior research in Vietnam also shows the limitation called the informational failure of overlapping statistics about equitized companies nationwide. In other words, several bankrupt or non-operating firms have not been officially reported to the relevant authorized agencies about their status. Thus, still the registered firm number of those types of companies written down in relevant agency's document was at presence in nominal terms, leading to the overlapping and imprecise data for statistic agencies. Therefore, a large scale survey about post-equitized enterprise nationwide is indeed necessary. As a result, information asymmetries about companies merging, dissolution, bankruptcy, financial capacity, equity issuance, and human resources dispersal might be reasonably improved.

2.1. Perspective approach and supporting theory

This study takes the perspective that despite the performance improvements of the equitized enterprises in the post-equitization, the matters of labor force and financial management has become more complex and inconsistent. This originates from the incompetency of leadership or board of directors. In addition, the structure of ownership is not equally appropriate in terms of equity allocation and property rights in one single company in which the share proportion obtained by the State is still sustained at dramatic level in compared with other countries' cases.

Gary H. Jefferson (2006) indicates in his paper *"Privatization and restructuring in China"* about the changing ownership profile of China's large and medium enterprises (LMEs) sector from 1994 to 2001. The portion of SOEs and COEs (corporate-owned-enterprises) represented in the LME data set declines significantly, while the proportions of the other major categories of ownership types grow substantially. One approach to evaluating the implications of ownership change is to compare the performance of firms that are already established in one or another ownership classification. The five categories of firm performance, namely, labor productivity measured as value added per unit of labor; capital productivity measured as value added divided by the net value of fixed assets; profitability, new product sales measured by new products as a percentage of sales; and R&D intensity measured by R&D expenditures divided by sales. Profitability is calculated as the difference between sales revenue and the production costs of sold output and, therefore, excludes certain taxes, pension payments, welfare subsidies, and other costs that are not directly associated with production.

From Jefferson's research, there are three implications coming from the results based on existing ownership structures for firm performance, which are of limited value for predicting the impact on a given firm of a change in ownership from state ownership to shareholding status. First, the differential quality of converted and unconverted firms may reflect selection bias, because the SOEs chosen for conversion may not be typical of the existing population of SOEs. If the chosen SOEs were above-average performers before conversion, any measured quality advantage of the converted SOEs may reflect simply the tendency to select higher quality firms for restructuring. Second, omitted variables such as managerial quality will lead to biased coefficients if such effects are correlated simultaneously with the dependent performance variables and with explanatory variables like the firm's asset composition. Third, following conversion, time may be required to adjust to new governance arrangements and to achieve efficiency improvements associated with changes in the firm's labor force, asset composition, and product mix so that gains ensuing from privatization may appear only one or more years after conversion.

Djankov and Murrell (2002) in their study declare that the main difficulty towards SOEs is probably the efficient methods to discipline the company for the owners. SOEs do face the disciplinary effect of capital markets and the threat of a hostile takeover. Moreover, the owners often fail to run the firm in order, partly because most decisions are based on negotiations, newly-set objectives are vaguely defined, and in the case of equitization, profits and efficiency are typically of considerably less importance in comparison with capitalist systems. The SOEs face "soft budget constraints", meaning that the 'main' owner-the state, bails them out when they are in financial difficulties. The result is shown with an increased drain on the public budget and increased inefficiency.

From that point of view, one question is raised that *"Is public or private ownership more likely to be efficient?"* This question has induced a fair amount of debates in the literature on privatization. Specifically, the literature in this issue can be divided into two branches: the social view and the agency view (LaPorta and López-De- Silanes, 1999). *For the social view,* public ownership has several more advantages than private ownership. In other words, SOEs are viewed as a tool capable of curing market failures by implementing pricing policy with social marginal costs and benefits of production into account. Additionally, SOEs are controlled by government to maximize social welfare and improve decisions of private firms when natural monopoly power or any externalities lead to a divergence between private and social objectives (LaPorta and López-De- Silanes, 1999).

For the agency view, under perfect competition, more recent economic literature has taken a much less flattering view of public ownership and a more favorable view of private ownership. This concept stresses that principle reasons for privatization are the existence of *information asymmetries,* where one party has more or better information than the other. These asymmetries lead to power imbalance or inequality in transactions which can occasionally affect them to go awry. This is one of the market failure's factors causing incomplete contracting problems. These problems include potential incentive problems, and severe insufficiency of SOEs (Weimer, 2005).

The social view is thus in favor of public ownership while the agency view supports private ownership. Both views are considered and weighed of having advantages and disadvantages. This study supports the agency view for private ownership as privatization should be accessed to avoid market failures including information asymmetry, negative externality, and natural monopoly. Thus, that policy is essential to be suitably applied to any economies in the progress of transition.

The economic benefit coming from the private ownership truly depends on the context. Whereas privatization can be expected to result in efficiency improvements in most cases, there are others where it might lead to social welfare losses. Economic theory predicts that private ownership is more efficient than public ownership given a number of assumptions (Fredrik Sjöholm, 2006).

- No externalities in production or consumption

- Not a public good

- No natural monopoly

- Low information costs

Hence, the impact of privatization depends on the degree of market failure: the larger such failure, the less positive impact of privatization. What this means is that privatization will result in the largest positive effects when there is a high degree of competition in the economy. Such competition is delivered from a high degree of trade and foreign direct investment, and from a large number of domestic factors. By the same token, a high degree of competition can sometimes force SOEs to be relatively efficient. Moreover, it is less obvious why privatization should be expected to result in large efficiency gains if the market is characterized by natural monopolies or a public good (Fredrik Sjöholm, 2006).

Fredrik (2006) also stressed that just as there are market failures, which will impact privatization, one should also recognize that government failures might result in poor efficiency even in line with natural monopolies and public goods. SOEs are in practice run by politicians or by bureaucrats and are likely to serve the public interest only when that coincides with their own interest. Bureaucrats will often place limited interest on firm profits since such profits flow into the government budget.

SOEs performance is initially contradicted by two major problems. Firstly, the firm's purposes are not precisely featured rather than sometimes referred to maximize social welfare, which is confusing in definition and how to measure, therefore to precisely authorize and request responsibility to certain people. Secondly, the large number of SOE's owners (the public) is the factor giving difficulties to define the contract and leading to abnormal and unexpected changes in the scheduled targets given to the firm.

After being equitized, SOEs grow significantly and attract more domestic and foreign investment because of the open and encouraging policy mechanism for equitized enterprises. When firms are equitized, equity should be distributed and sold to insiders and outsiders as scheduled by the companies.

Transparency in the executive board in most firms is not reasonably considered and the companies have been controlled by a minority of shareholders. One implication is that there should be involvement of some independent shareholders in the executive board to supervise its decisions.

A lot of SOEs are not well-prepared for the phases of privatization process which consists of the announcement of financial balance, accounting, and financial publication transparency before being listed in the stock exchange markets. Another reason is the inadequacy of readiness for implementation which the enterprises assumed they have reached. That is the readiness and capability of coping with competitiveness. Once the enterprise is equitized, it receives no government subsidies of bailout, or credits but only managerial training, policy and information resource support.

About the corruption and other negative impacts of privatization, Osipian (2008) says that corruption in undergraduate and graduate education is known but not described theoretically. Decentralization and privatization of higher education and the increasing scale and scope of corruption in higher education in the former Soviet Bloc, as well as numerous other countries, urges better understanding of the problem within the context of socio-economic transformations as it touches upon issues of access, quality, and equity. The article also presents an overview of the problem of corruption in education and develops models of corrupt organizations in higher education, including the vertical structure, the horizontal structure, and the vertical hierarchy. Possible potential structures of corrupt organizations are presented as forms evolving from the horizontal structures.

Bjorvatn (2005) in his paper *"Corruption and Privatization"* makes some concluding remarks that corruption likely affects the outcome of a privatization process in terms of acquisition price and post-privatization market structure and therefore economic efficiency. First, the acquisition price tends to be higher when the governmental officials are highly corrupt than when they are moderately corrupt or honest. This means that the potential for embezzlement is typically higher when selling to the inside firm than when the assets are sold to the outside firm. Intuitively, the inside firm has to offer a higher price for the assets in order to compensate for the fact that it generates lower private sector welfare than the outside firm. Secondly, increased fraudulence for highly corrupt officials leads to a lower acquisition price and hence, a smaller potential for bribes. In other words, the more corrupt are these officers, the cheaper they are to buy. Thirdly, privatization in a highly corrupt system is likely to lead to a less efficient resource allocation than privatization in a less corrupt system. More precisely when the government officers are highly corrupt, the assets are sold to the inside firm, and the post-privatization market structure will be characterized by monopoly. When the officers are honest or only moderately corrupt, the assets are sold to the outside firm, resulting in duopoly and thus a higher level of economic efficiency, therefore the corruption and economic inefficiency go together.

2.2. Synthesis on privatization impacts

The impacts of privatization on firm performance have been extensively studied in both developed and developing countries with transition economies over the last decades.

The first impact needed to be introduced here is the government transformation, which means the changes for the whole economy in different aspects. This can be expressed that privatization introduces market-based competition into the government where it, otherwise, does not exist. Competition benefits the public by offering expanded choices, higher quality services, and lower costs. A lot of economies have been transforming the governments through privatization, of which, the approach becomes apparent through bureaucracies, sluggish economies, stifling taxes, and failing government programs.

Additionally, intellectuals, policy-makers, and citizens were getting increasingly interested in market–based policy solutions to improve the efficiency and performance of governments. Moore (Reason Foundation, 2006) offers a concise articulation of the benefits of privatization:

> *Privatization exposes things we otherwise would not see—ideas, processes, innovations in service delivery. Within government rarely is success adequately rewarded, and innovation and new ideas are often quashed. But when privatization brings competition, accountability, and a chance for customers to*

have a say, then excellence and innovation are rewarded, and mediocrity and failure are penalized.

However, the privatization programs in many countries are thoroughly studied to remain some prevailing weaknesses or shortcomings in the policy adoption and implementation. Thus, the governments may introduce the strategies and amended policies from these studies. The poor performance of the SOEs originated from a list of different factors such as unidentified objectives, limited manager capacity and budget constraints, all of which contributed to that deteriorating situation. The former factor was probably the main constraint on improved efficiency; additionally the government kept on bailing out SOEs in financial distress and even encouraged the banks to lend them money without collaterals (Fredrik Sjöholm, 2006).

Lin (2007) proposes a new cause for the pervasive syndromes of *soft budget constraint* (SBC) in socialism and transition economies, which means the policy burdens on enterprises result in the SBC. The policy burdens imply little effort input of enterprise managers and thus a low effectiveness of production. Increasing market competition will make the SBC problems appear more often with the policy burdens. On the other hand, when a SOE still bears the policy burdens, privatization will only aggravate the SBC problems. In this case, a private company will need more *ex post* subsidies from the state than an SOE under the same condition. The results are able to explain some stylized facts in any transition or socialism economies.

Pivovarsky (2001) reports that ownership concentrated by foreign companies and banks results in better performance than domestic owners' ownership concentration. It is found that foreign ownership is associated with greater performance improvements than entirely domestic ownership. Walsh and Whelan (2001) document that majority outside - ownership firms outperform majority inside ownership or state-owned enterprises.

Lia and Ouyang (2005) in their research "*Modeling privatization as a firm strategy in transition economies*" say almost all state-owned enterprises (SOEs) face a critical choice of methods and time to privatize. An SOE's privatization choice is often complicated by the unique characteristics of transition economies. While market economies feature clearly and relatively stable rules of market competition and property rights, these elements are evolving and uncertain in transition economies. They distinguish between macro angle (economy-level) and micro angle (firm-level) privatization, and then develop an optimal timing model for firm privatization, taking into consideration a number of important parameters, such as costs, pre- and post-privatization performance, uncertainty, risk considerations, and speed of post-privatization adjustment. The article shows that the choice of whether and when to privatize is a function of these parameters, which are in turn influenced by both external conditions and firm characteristics.

Hovey and Naughton (2006) show in their paper an analysis of the current issues in SOE reform in China, in which point out relevant empirical findings, and propose a strategic direction to face challenges arising in privatization program of listed SOEs. The literature implies that state ownership is often negatively correlated to the firm's performance. On the contrary, personal ownership positively influences that performance. Other forms of private ownership are generally positively correlated to performance, with institutional ownership structure showing significant promise. Therefore, the divesture of state ownership would be recommended and could be accomplished after three or four tranches (An issue of bonds derived from a pooling of like obligations that is differentiated from other issues). The government could divest its ownership by auction to strategically domestic and foreign investors, and for the next tranche, an auction is used for the broad populace through mutual funds. The final proposed tranche would be a distribution to nationwide pension funds to backup retirement plan.

The case of privatization in Vietnam is somehow similar to the China's case because both countries have the socialist institution and other features of background in economy, business culture and same time of establishment of privatization in the early 1990s. Briefly, equitization process of SOEs in China started with an initial concentration on small SOEs in early 1990s. The process continued with increasing larger in scale of firms and with increasing speed since 1998. In 1996, there was around 114,000 SOEs. Surprisingly, in 2003, this figure was around 34,000. The state ownership in the overall economy declined from around 41 percent in 1998 to around 34 percent in 2003. By 2005, there were around 1,400 large SOEs listed and their market capitalization amounted to about 40 percent of GDP (Quach Manh Hao, 2007).

The notable feature of ownership structure in China is that individuals are allowed to own only one-third of publicly listed form SOEs while two-thirds owned by the state or the institutions which are also state-owned. Equities of the SOEs are also classified into different groups, in which A-shares are taken and traded only by Chinese. On the other hand, B-shares listed are owned and traded only by foreigners. Oversea listings, including H shares in Hong Kong and N-shares in New York are also restricted to certain foreign investors. Therefore, it seems to be feasible to measure the performance of the equitized firms with this classification (Quach Manh Hao, 2007).

The empirical findings from Quach's study do not favor the achievements of the equitization in China. The equity market in China contributed little to financing firms' investment, whilst there was a significant positive impact of loan finance. The results induce that the issuers increasingly use newly raised funds from security markets for non-productive purposes such as repaying debt, purchasing other firms and supplementing working capital, etc. Moreover, public investors hold stocks for only short-term gains, making stock prices volatile and equity unstable source of external investment.

Another finding is that firms with state ownership in the range of 41 percent to 60 percent have tendency to produce lower profitability, probably due to asset stripping by managers or related officials. It indicates that the government indeed needs to introduce measures to cease such implementations before stimulating further privatization. This finding is crucial because it shows the effect of large state ownership in the firms. Besides, performance of B-share and H-share firms was inferior to that of the A-share firms as the result of reported accounting manipulation practices frequently performed in the A-share market and also inability of foreign investors to run their firms in the absence of minority shareholders' rights.

2.3. Methodology

For the research methodology, the study uses secondary data consisting preliminary analysis, and secondary surveys for comparisons, where rational and adequate data selected from surveys about enterprise's equitization proceed might be utilized for quantitative results. Research from several references of controversial opinions, debates, and arguments from entrepreneurs, economists, law makers etc. would be applied. Additionally, this research uses qualitative research to emphasize on changes of equitization process for SOEs and to note remaining problems of this implementation in Vietnam currently.

This paper uses qualitative research to emphasize on changes of equitization for SOEs and to note remaining problems of this implementation in Vietnam currently. The method employs exploratory research to understand the history and the effects of the equitization policies implementation; and descriptive research to provide further insights, to determine the research problem, and to make some recommendations.

Exploratory research is conducted with literature research of conceptual framework, and officially published statistics to overview the history of policy promulgation. The descriptive research is also used with the comparative analysis method of the SOEs performance after privatization process to determine the research problem.

Aiming at disclosing the process of adaptation and realization the policy during period from 1992 to 2008, this study examined law enforcement schedule and analysis of selected cases for situational assessment. Additionally, the researcher collected concepts and viewpoints from certain expertise, and SOE managing executives about the advantages and disadvantages of the implementation from webpage, newspaper, and journal articles. Conducting a variety of valid and reliable research methodologies under the framework of qualitative research, the researcher uses these methods to answer the research questions to analyze the disadvantages and challenges when this policy has been adopted into their own companies.

There are some researches which conducted the similar methodology for analyzing the statistics and qualitative information. La Porta and López-de-Silanes (1999); Dewenter and Malatesta (2001), in their study used the methodology of comparing the three-year pre-privatization to three-year post-privatization financial and operating performance; comparing the pre to the post-privatization performance measures. Their findings are sorts of profitability, operating efficiency; investment spending, dividend payments, and leverage are significantly improved following privatization. Employment opportunity also increases after privatization, yet insignificantly. Additionally, the study finds that all the measures of leverage significantly decline following privatization. Finally, the study reports that labor intensity (usage of labor or employees on sales and employees on assets) dramatically decrease after privatization.

Frydman, Gray, Hessel and Rapaczynski (1999) used the methodology, in which compared the performance of privatized firms to state-owned firms, and examined the impact of ownership structure on firm performance such as sale revenues, labor productivity, labor cost and material cost were used as performance measures of firms.

The paper is accountable and confirmed with credibility as a result of using realistic and practical analysis of policy design and implementation. This also provides the brief and intensive evaluation of the policy by using the comparison of pre and post implementation processes, and exploratory research method of performance's consequences. Additionally, the framework used for analysis has been proven to be reliable by Frydman, Gray, Hessel and Rapaczynski (1999) who also used compared the performance of privatized firms to state-owned firms, and examined the impact of ownership structure on firm performance**.**

Chapter 3. ANALYSIS AND DISCUSSION

3.1. Overview of two phases of the Vietnamese equitization program

Since 1992, the Vietnamese Government has set the equitization as one of the key policies for the nation's economic reform by accelerating the government business company restructuring. This program would consist two phases to equitize all the eligible enterprises of which business performance, profitability and potential for development had been considered and investigated nationwide. The pilot stage is diverted to the proactively-selected enterprises lasting from 1992 until the end of 1995. The second stage is the expanded phase for widened magnitude of government firms starting from 1996 until present.

The evidence shows that the number of SOEs has decreased significantly since the early 1990s. Notably, in 1992, the Government promulgated *Decision 202-CT* on June, 8th, 1992 on establishing and liquidating SOEs, and implementing experiments to convert state enterprises into shareholding companies, in which required all state owned enterprises to be re-registered or closed. Since that documentation, the total number of SOEs reduced to a half from 12,000 in 1991 to 6,200 at the end of 1992 and roughly 6,000 in 1994, especially witnessing the rapid decline at municipal SOEs across the country. Such a sharp downturn is attributable to around 2,000 mergers and 3,000 liquidations of the SOEs (CIEM, 2002). The decrease of SOEs has kept continuing recently, as can be seen from the number of SOEs was 5,618 out of the total of 39,762 enterprises (less than 15% of the total) among the whole economy in the year 2000 (GSO, 2002).

On June 8th, 1992, Vietnamese Prime Minister ignited and issued the Decision 202-CT to launch the equitization plan with a pilot scheme. For the entire program, the Government targeted at 5,250 SOEs (around 85 percent) out of 6,200 state-owned-enterprises throughout the whole country to be the eligible enterprises which were mostly the small and medium-sized firms having profit potential, yet no 'strategic enterprises' such as Government Corporations 90, 91 and some national key industries etc. were the subject to this program at the first place.

Since 1992, the Vietnamese Government has enforced the equitization policies by the issuance of a number of policy documents (Decree) for SOEs equitization program *(Government Webpage)* as shown in the following table.

Table 2: **Law regarding enforcement of equitization procedure**

List	Decision	Content
1	Decision 202-CT (June, 8th, 1992)	Implementing experiments to convert State Enterprises into shareholding Companies
2	Decree 28/CP (May, 7th, 1996)	Standardizing SOE equitization's procedures
3	Decree 44/CP (June, 29th, 1998)	Encouraging equitized firms and laborers with more promotions and benefits
4	Decree 64/2002/NĐ-CP (June, 19th, 2002)	Promulgating policies on transferring SOEs to equitized enterprises
5	Decree 187/2004/NĐ-CP (November, 16th, 2004)	Transferring state owned firms to equitized SOEs
6	Decree 109/2007/NĐ-CP (June, 6th, 2007)	Transforming of 100% state capital enterprises into equitized ones. (The updated legal document)

Source: Vietnamese Government Webpage

During the pilot phase from 1992 to 1995, only 5 state companies were equitized, including small SOEs from the transportation, shoes, machine and food-processing industries. This limited number of enterprises in the pilot stage implied that the State was expecting to examine the effectiveness of this program when it was initially launched in the Vietnam's economic circumstance within small size of state capital in order to minimize any potential failures or loss. Additionally, the Government and the rest of prospective equitized enterprises would be able to earn lessons and experiences from the implementation of this pilot equitization for the next stage.

The aim of this plan was initially to change the firms' lasting distressed performance. Most of these eligible SOEs were so far run by old-fashioned technology or low level of research and development R&D activities, and ineffective use of the capital and assets. Besides, their financial capability was restricted in different aspects and on the request of the state subsidies; in other cases, several SOEs had been managed in the circumstance of capital and asset loss before the equitization and therefore, operated with low effectiveness and outcomes not as desired and scheduled.

In most of those enterprises, the laborers held quite substantial portion of the total equities; however the state still owned almost 30 percent of the shares. Their capital and ownership structure in the pilot stage *(1992 -1995)* is described in *Table 1*.

Table 3: **Capital and ownership structure of the first five equitized firms**

Firm Name	Capital *(billion VND*)*	Ownership structure (%)		
		State	Employees	Outsiders
Transportation Service Co.	6,200	18.0	77.0	5.0
Refrigeration & Electrical Engineering Co.	16,000	30,0	50,0	20,0
Hiep An Shoes Co.	4,793	30,0	35.2	34.8
Animal Food Processing Co.	7,912	30.0	50,0	20,0
Long An Export Product Processing Co.	3,540	30.2	48.6	21.2

Source: GSO (2002)

(: VND (Vietnam's currency): at this period, 1 USD = 15,000 VND)*

From Table 3, in four among five companies, the state owned 30 percent of the overall equities. Workers of the equitized companies (board of director and laborers) held the majority of shares; hence, the outside investors took less chance to possess ownership of the company, apart from Hiep An Shoes Co. with nearly 35 percent. In general, the state obtained the dominant stake of the company's capital.

The implication behind this was the state's purpose of keeping the controlling position and superior rights in making decisions for the first newly-equitized firms' operations. In addition, considering these companies' large capital above, these firms were estimated to be potentially productive in the post-equitization, which could much restrict the government and market failures and set an empirical example for other publicly-owned-firms to make the next step.

Concerning the necessity of a more comprehensive and intensive approach, the Government issued Decree 28-CP in May, 1996 to finish the pilot stage and set a new stage of the equitization process. This Decree kept some general principles of the pilot equitization program, additionally extended the scope of equitization to all non-strategic small and medium-sized SOEs, and required SOEs' administrative agencies (Ministries, People's Committees and State Corporations) to select any firms for equitization. According to this Decree, the transformation of a number of SOEs into joint-stock companies aimed at mobilizing capital from the employees and officials in firms; individuals and economic organizations domestically and abroad; creating conditions for the capital contributors and the employees in enterprises to own equities along with raising their role and giving a new impetus to enhance the enterprises' business efficiency. The Decree also demonstrated that the ownership rights and all legitimate interests of the individuals and organizations that buy shares from the equitized enterprises would be protected by the State in accordance with current laws.

However, since the enforcement of this Decree in May, 1996, the equitization process did not accelerate as fast as expected. Practically, only 10 additional firms went through the equitization in the 2 years 1996 and 1997 due to the slowly blocked procedure from the policy enforcement and indecisive and firm manager's behaviors in avoiding tasks and responsibilities.

The following table displays the annual number of equitized firms and the accumulated number since 1993 to 2008 (Ministry of Finance, 2008).

Table 4: **Number of equitized enterprise (1993-2008)**

YEAR	EQUITIZED SOEs	ACCUMULATED
1993	2	2
1994	1	3
1995	2	5
1996	6	11
1997	4	15
1998	101	116
1999	254	370
2000	212	582
2001	206	788
2002	164	952
2003	537	1489
2004	753	2242
2005	1032	3274
2006	294	3568
2007	116	3684
2008	74	**3758**

Source: Nguyen (2005), Ministry of Finance (2008)

The equitization process has been accelerating since the promulgation of Government Decree 44/1998/ND-CP in the mid-1998. This Decree developed from the fundamental regulations of the Decree 28-CP with the content expansion. Ownership rights and all legitimate interests of organizations and individuals purchasing shares in equitized enterprises would be protected by the State in accordance with law. The sale of shares shall be publicly notified and carried out at equitized enterprises or through commercial banks, financial companies and stock exchange departments and centers. Especially, the Decree emphasized on the employment issue of the firm equitization program in which, an equitized enterprise should be responsible for arranging for the employment of all the employees currently working for the enterprise. Employees who voluntarily terminate their labor contracts shall be dealt with in accordance with applicable regulations. The Decree provided a fairly complete and comprehensive framework for transforming SOEs into equitized ones. As a consequence, more than 100 SOEs have been equitized yearly following the issue of this Decree. Since 1998 until 2001, the number of equitized firms increased dramatically from 15 in 1997 to 788 firms in 2001 as can be seen in Table 4.

Although the Decree 44 has played a substantial role in stimulating the equitization, it still has some shortcomings, especially regarding to the valuation methods for firms' assets. As a result, the Government issued Decree 64 on June, 19th, 2002 to replace the Decree 44 on transformation of SOEs to joint-stock companies. This Decree was expanded for strengthening the real ownership of employees and share-holders; also investor's monitoring of the enterprise, as well as balancing the interests of the state, the enterprise, and the employees. There have been about 10 major changes compared with the Decree 44 such as firm valuation methods, initial public offering (IPO) requirements, founders' obligations, which has a strong effect on cranking-up the pace of the equitization process. Additionally, the conditions of purchasing shares were regulated in more concrete detail within this Decree, particularly the foreign investors.

Regarding to the Decree 64/2002, foreign social and economic organizations and individuals (including non-resident Vietnamese and foreign residents in Vietnam) who were interested in buying shares of the equitized Vietnamese enterprises would be required to open accounts at payment service providing institutions that are operating in the Vietnam's territory, and observing Vietnamese laws. All transactions in buying and selling shares, receiving dividends and profit repatriation from Vietnam should be conducted through these accounts. Since this Decree, the SOEs had successfully been reformed in a rapid path, especially since the years 2003 and 2004. The rights and responsibilities of the equitized enterprises were soundly documented in this Decree, of which, the enterprises had the responsibility to arrange and to make full use of their labor force at the time of the equitization and to provide allowances for workers. In parallel, the joint stock companies inherited all obligations with employees transferred over from the former state-owned enterprises in using the existing labor force. On the other hand, they were fully allowed with the right to use all the equitized assets and capital for their business purposes, and therefore inherit all benefits and obligations of the former state-owned enterprises as well as other rights and obligations as stipulated by the Law. The subsidiary enterprises of the equitized state General Corporation holding dominant state shares (over 50% of chartered capital) remained members of the General Corporation (Government of Vietnam webpage).

Additionally, the speed of equitization has been more rapid since the establishment of the Ho Chi Minh City Vietnam Stock Exchange in 2000. As listed of February, 2008, there were about 3,000 equitized firms being listed since 2000. Nevertheless, most of them were small and medium size while some of the large-size SOEs were scheduled for the program in 2007, but the process was seen slower for some reasons, including the slow speed of some corporations and the Government resulting from concerns and cautious awareness of the oversupply and sharp fluctuations in the security market (Quach Manh Hao, 2007).

The updated legal frame for the equitization program is the Decree

109/2007/NĐ-CP issued on June 26th, 2007. According to this Decree, the transformation of 100% state capital enterprises into equitized ones is mainly focused. And an enterprise with 100% state capital must satisfy the two following conditions: Being not an enterprise where the State holds 100% charter capital; and, having state capital after handling of financial matters and re-determining its value.

This is the update guiding instruction, which substitutes the Decree 187/2004/NĐ-CP on November, 16th, 2004 for transformation of 100% state-owned companies to equitized ones, which are required for these certain principles: Being not an enterprise where the State holds 100% charter capital; having state capital after handling of financial matters and re-determining its value *(Appendix).*

Domestic and foreign investors may buy shares of these enterprises upon their equitization. A strategic investor may purchase shares at a price not lower than the average winning bidding price but may not transfer shares they are allowed to purchase within three years from the date the joint-stock company is granted the business registration certificate. Enterprises for which equitization plans have been approved by competent authorities before the effective date of this Decree shall continue executing those plans and comply with the provisions of this Decree. Enterprises which have registered business as joint-stock companies before the effective date of this Decree may continue enjoying preferences under relevant laws.-

In recent years, the efforts of promoting equitization process have been obviously shown by the establishment of the State Capital Investment Corporation (SCIC) which was incorporated under Decisions 151/2005/QD-TTg of the Prime Minister on June, 20th, 2005. SCIC is seen as a bold measure of the Government to boost the economic development and SOE reforms that are aimed at enhancing the efficiency of state capital utilization. SCIC's primary objectives are to represent the state capital interests in enterprises and invest in key sectors and essential industries with a view to strengthening the dominant role of the state sector while respecting market rules (SCIC webpage). Commenced operations since August 2006, SCIC is currently managing a large portfolio of over 800 enterprises that are operating in various sectors, such as financial service, energy, manufacturing, telecommunications, transportation, consumer products, health care, and information technology. This governmental business corporation functions to be representative of the State in holding stakes in equitized companies and settling equitization plans for other eligible large firms which have not been equitized yet in this progress until 2010, comprising the state commercial banks and other specialized strategic sector, the key industries or the state economic groups.

The total number of equitized SOEs up to December, 31st, 2008 is 3,758, which is regarded as modest magnitude increase for the entire equitization program aiming at the plan of 5,250 eligible SOEs as the equitization in the period from 1992 to 2010. As can be seen from the Table 4, the year 2005 witnessed the peak record of the equitized SOEs number of 1032, which was partially the positive consequence of the high economic growth rate GDP and the boom of FDI fund mobilization into domestic economy. However, the equitized firms sharply went down from 1032 in year 2005 to 294 in year 2006. This phenomenon resulted from some causes of limited scope and effectiveness of the enterprise reform policies and the distress of the economy recently from external and internal fluctuations. During the period from 2006 to 2008, Vietnam had challenged the high inflation rate caused by the ineffective investments by a lots of large SOEs as well as the ineffective monetary policies and lag time effect of the policies; this dampened the economic growth by the inflation rate of 8.4% in 2005; and 6.6% in 2006, much higher than that of the previous years.

The inflation rates even became seriously higher throughout years 2007 and 2008 at the rates of 12.63% and 19.89% respectively. This is considered one of the major causes for the downturn trend of equitized number of SOEs (only 116 in 2007 and 74 in 2008). As a result, a lot of investors have pumped too much money into the circulation while collecting little in return. For the past few years, many equitized government-owned corporations and business groups have developed investment projects outside their core business sectors. For instance, the Vietnam Power Energy Group is actively operating in the fields of real estate, telecommunication, and security exchange; the Vietnam Shipbuilding Industry Group is investing in many projects in steel manufacturing, capital finance and assets investment and so on. Some other corporations also wanted to jump into electricity, banking and financial sectors, from which they are not specialized to operate and monitor as they have been authorized in the first place.

At the early 2008, the Prime Minister chaired a meeting in which he ordered SOEs and relevant provincial authorities to strictly delay or cancel the non-urgent and non-effective investment projects, instead, to use this investment capital and funds for current developing key and effective projects. Projects about to be finished or those on commodity productions should be facilitated and put into operation as soon as possible. For this reason, SOEs were required to focus on their core business operations, of which investments in non-core operations must be under 30 per cent of the total investment since April, 2008.

In 2007, the Government had just conducted the equitization for 116 SOEs, out of 271 reformed SOEs. At the same pace, the number of equitized firms was 74 out of 246 eligible SOEs listed in the year plan (only ¼ of the plan). This can be estimated as the low speed of implementation due to the dampened effects of high inflation, securities market bubble and downturn, and the global financial crisis at the second half of 2008. From data released by the Ministry of Finance, the total reformed enterprises up to the end of 2008 are 5,414, of which the equitized ones are 3,758, accounting for 69.4 percent which is observed to be low in the process. The percentage of the equitized enterprise in the total SOEs is 60.6 percent (3,758 equitized SOEs divided by 6,200 SOEs in total).

Although these equitized enterprises have increased productivity and profits compared with pre-equitization process, these reformed SOEs are generally small or less possibility of making much profit than other large SOEs. Due to the slow progress of the equitization program, in the period of 2008 – 2010, the Government approved the new schedule to reform 1,535 SOEs, of which 950 SOEs are planned to be equitized in order to complete the entire program, rather than the expected number of more than 2,400 SOEs which was in the initial scheme released in 1996. What it means is that the Government adjustably puts the aim at keeping the remaining 1,500 SOEs after the year 2010. Equitizing 950 SOEs within only 2 years seems to be a critically challenging, even an impossible mission as in the context of gradualism in overall program.

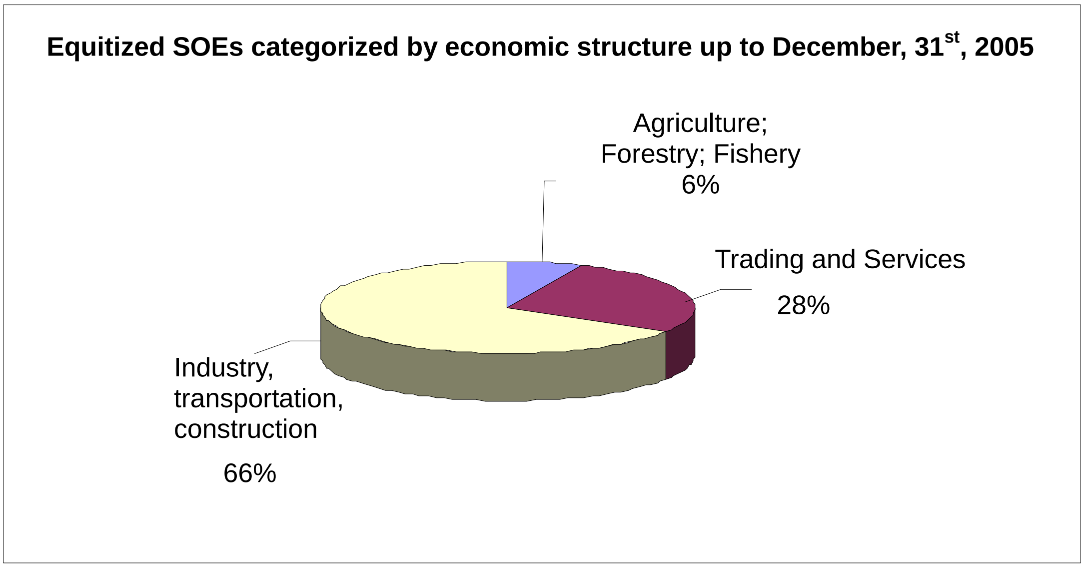
The Ministry of Finance claimed in its reports submitting to the Government that the key reason for restraining equitization progress in 2008 was the depressing economic situation due to the high inflation and global financial crisis, and fluctuating security exchange market, thus, SOEs reform and equitization program has been affected recently. They admitted that this process, especially the equitization for large size enterprises and corporations had not been completed in accordance with the settled plan due to the unexpectedly derivative issues without officially concrete guidance. For example, there are hardship in valuating firm's brand name, land ownership valuation, geographic position, and business value, and selection of strategic investors. The process of carrying out those problems is perplexing and taking time in request of relevant agencies' approval before making decisions.

The works for the equitization in some units were not well-prepared enough. This caused the fact that in some corporations, the mother company completed its equitization while its subsidiaries have not done yet. Moreover, the indecisive management along with formalism and low consensus in managing board and labors also bring such disputes, claims or complaints in several companies.

Another shortcoming is the inactive handling of financial remaining problems, like bad debts, non-performing loans; abundant labor force, and thus bringing lasting and complicated issues for implementing the equitization process. Besides, the program consultancy service agencies in Vietnam is less experienced and incompetent in the issuance of large scale of stocks, designing and choosing strategic investors, or financial and capital management while the number of foreign consultancy institutions in Vietnam is limited. Even some SOEs managers still considered equitization program questionable and infeasible, with the fears of creating state asset leakage or legal sues from labor or local relevant authorities during this process.

These following figures and tables describe the equitized SEOs structure characterized by economic sector and administrative perspective in Vietnam. These might help to understand distinct features of the Vietnam's program depending on the differential economic structure mainly focusing on industry and construction.

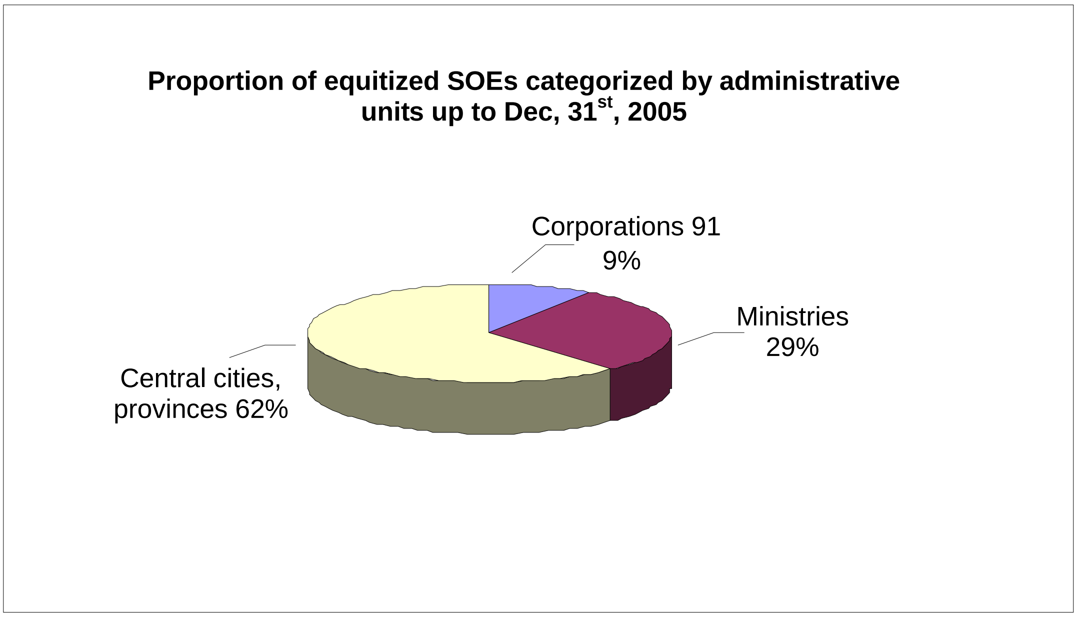
Figure 1: **Equitized SOEs by economic structure up to December, 31st, 2005**



Source: National Steering Committee for Enterprise Reform and Development (NSCERD)

Figure 1 points out the portion of SOEs classified by economic structure comprising agriculture, industry, and services were settled in the equitization process. Figure 1 shows the percentage of every different component of the equitized SOEs. In general, the majority firms come from the industry, transportation and construction, accounting for 66 percent. The next goes to the trading and services sector with 28 percent, only 6 percent of firms in the sector of agriculture, forestry and fishery were equitized. This implies the stronger flow of equitization in the industry and construction sector which means the main components in the country's industrialization and modernization process under the State and Communist Party's guidance and policies. This seems to be rational in the context of Vietnamese economy with high GDP rates during this phase in reality.

Figure 2: **Proportion of equitized SOEs by administrative units up to 2005**



Source: Report by the National Steering Committee for Enterprise Reform and Development (NSCERD)

Table 5: **Number of equitized SOEs by administrative agency up to 2005**

	Equitized SOEs	Percentage (%)
Total	**3274**	**100**
Ministries, economic sectors	950	29
Corporations 91	295	9
Municipal and local provinces	2029	62

Table 6: **Number of reformed and equitized SOEs calculated up to Dec., 31st, 2008**

	Reformed SOEs	Equitized SOEs	Percentage (%)
Total	**5,414**	**3,758**	**100**
Ministries, economic sectors	1,354	1,145	30.47
Corporations 91	554	425	11.31
Municipal and local provinces	5,506	2,188	58.22

Source: Ministry of Planning and Investment, 2009

The Table 5 and Table 6 show the proportion of administrative agencies by which the equitized SOEs (accumulative number) were managed in 2005 and 2008 (Equitized SOEs included in reformed ones). This is classified in three sectors of administrative agencies: ministries and economic sectors; Corporation 91; Municipal and local provinces. Corporation 91 is the government-owned-companies in several different aspects of the economy, of which comprise Mother Company and several subsidiaries called daughter companies. Vietnam has 17 Corporations 91 distributed in diversified sectors (construction, natural mineral resources, industry, agriculture and services). Six of them had been transferred to economic groups which classify Mother Company and its subsidiaries to be independent entities, where the mother company is limitedly responsible for chartered capital invested into its subsidiaries to distribute business risks.

The two tables underline that the central cities, municipal agencies and local provinces are the majority in managing the equitized SOEs business. In the year 2005, the central cities, municipal agencies managed the SOEs business after the equitization accounting for 62% of total equitized while in 2008, this number decreased by 4% to 58.22% out of the total equitized firms. On the other hand, the equitized SOEs managed by the ministries and economic sectors increased from 29% to 30.47% in 2005 and 2008 respectively. Noticeably, the percentage of equitized firms operated in the Corporations 91 increased from 9% in 2005 to 11.31% in 2008 recently, implying that the Government has expanded and transferred its guidelines of equitization in more strategic companies, to be more precise written, large size companies and national economic groups.

3.2. Performance of SOEs in the post - equitization period

Even though the policy for equitization program was initially launched in 1992, the implementation was practically and strongly adapted with increasing number of equitized enterprises six years later, in 1998. After 16 years of implementation from 1992 to 2008, the equitization in Vietnam had improved the firm's performance. Since the adaption of equitization policy for state-owned-enterprises, Vietnam's growth of firms has significantly increased with better operations and positive outcomes. From the annual reports of Ministry of Planning and Investment, the profitability, efficiency, and revenues of equitized companies have significantly increased after equitization. One major reason for this improvement is that these transformed SOEs are mostly small or loss-making ones with the aim at accelerating the SOEs reform.

Undoubtedly, equitization program has improved the efficiency and productivity of firms' performance. The equitization has helped the state enterprises gain flexibility in its operation and management decision for the firms' development. The equitized SOEs made the turning point for the publicly trading transactions of stocks upon security market principles.

Despite certain existing shortcomings, most of the state equitized enterprises have worked effectively, increasing their corporate tax payment to the state budget. After being equitized, the firms have maintained the stable annual growth and continued to develop its business performance consecutively. Particularly, from the evaluation of the National Steering Committee for Enterprise Reform and Development (NSCERD) made in 2005, the SOEs in post-equitization have improved their productivity and efficiency at different levels. According to relevant reports from many ministries and local authorities conducted within around 850 equitized firms which have been on process over 1 year, the average charter capital increased by 44%, average sales increased by 23.6%, average performed profits increased by 139.76%. In particular, more than 90% of the equitized enterprises have made profits and contributed to the state budget with 24.9% increase. Additionally, the average labor income increased by 12%, labor force increased 6.6% and average dividend yield is 17.11%.

The followings are some effectiveness and also consequences of firms' performance after equitization. The first key impact of this process is the resolution with the poor performance of several enterprises remained in the pre-equitization. The second positive result is the reduction of state capital ownership in the equitized SOEs. Thirdly, the adverse consequence goes next to be the better but unsteady mobilization of capital from domestic and foreign investors. Finally, the corporate governance of equitized companies have been intensively and expansively enhanced, yet, in need of improvement to a certain extent in some fields such as human resources, financial management, and other internal transactions.

First of all, in order to evaluate the impact of equitization on the business performance, the overall picture of SOEs production and business operation before applying the program needs to be presented. From some recent surveys on the SOEs, it is noted that the performance of SOEs (both large and small size ones) was getting poor. While the sales and growth indicators pointed out a steady increase, the profitability of most SOEs tended to a substantial downturn with a half of SOEs in red. 12 out of the 17 largest conglomerates that accounted for 50% of total SOEs' capital and asset were in profit loss or breaking even. A survey conducted by the Vietnam's Ministry of Finance and IMF in 1997 showed that among 5,800 SOEs (calculated in 1997), only 40 percent were reported to be productive and making profit, 44 percent were temporary loss-makers, and 16 percent were in the status of permanently profit loss (Mekong Economics, 2002).

Two major reasons for the weak performance of Vietnamese SOEs were given explaining for this period. The first reason is that Vietnam's comparative advantages of import-substituting SOEs in some industries were not well-functioning for business and financial operations. The other one is that Vietnamese SOEs did challenge some soft budget constraints. In fact, several loss-making SOEs had been subsidized through the non-performing loans and cash injections from the state-owned banks, the National Investment Assistance Fund, Social Security Funds, and other sources (Mekong Economics, 2002).

The situation has turned differently in the post-equitization, which can be expressed in the reports of relevant ministries and surveys on the enterprise's performance in the process of transformation. A recent nationwide survey on 261 equitized enterprises in 2007 carried out by the Central Institute of Economic Management (CIEM) showed that equitization has positively affected the firms' general performance, and restructuring process. The majority of owners pointed out that their financial performance had improved after the equitization process, of which 87.53% assumed that their financial performance was better or much better. Only 8.62% of enterprises considered their financial situation having no change. The proportion of enterprises that performed less efficiently after the equitization was very small, with 3.17% considering that their financial situation was worse and the only 0.68% enduring a worse financial situation than in the pre-equitization period. This clearly shows a strongly positive result for equitization.

Many diverse business lines of firms' performance and privatization restructuring of surveyed companies are shown in *Tables 7 and Table 8*.

Table 7: **Evaluation on of the firms' performance criteria**

Performance index	Significantly more	More	Unchanged	Less	Significantly less
Salary/bonus of Managers	2.59	78.24	17.10	2.07	0.00
Salary/bonus of employees	2.62	80.10	15.71	1.57	0.00
Other benefits of employees	1.27	62.42	26.11	7.64	2.55
Worker skills and technology	6.63	62.76	30.61	0.00	0.00
Incentives of employees	12.11	76.84	10.00	0.53	0.53
Profit sensitivity of managers	17.80	79.58	2.09	0.52	0.00
Capacity utilization	13.33	77.95	7.18	1.54	0.00

Source: Central Institute of Economic Management (CIEM)

From the above criteria, the firm's business indexes are evaluated get more improvements. Especially, the wages paid to managing board and laborers are much higher than that in the prior pace. What it means is that equitization has played an important role in the dramatic raise in labor's income after the process. In addition, equitization encourages employees and managers with physical and legal facilities or any conditions to improve their ownership and management.

The significant improvements in profitability and efficiency may be explained by incentive effect of the income rises that stimulates the employees to work more efficiently. Noticeably, the capacity utilization of resources, competency of leader and workers is getting better, showing the more advanced managing activities and better and more strategic leadership of the enterprises.

Table 8: **Subjective evaluation on firm restructuring**

Restructuring criteria	Complete change	Major change	Considerable change	Any change	No change
Market/product structure	0.00	4.15	20.73	62.18	12.95
Technology/production	0.00	6.35	25.93	55.03	12.70
Product quality	0.52	7.33	41.36	43.98	6.81

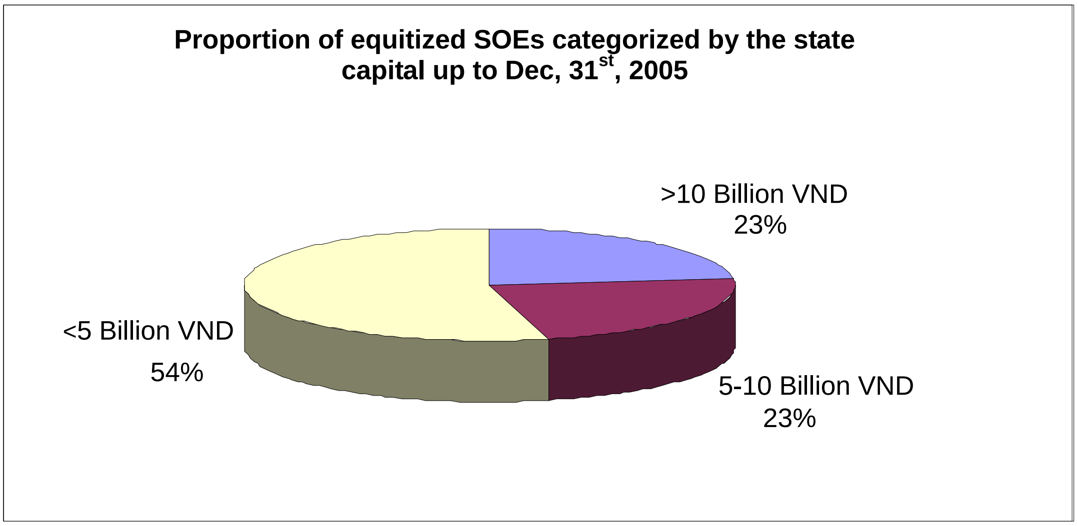
Source: Central Institute of Economic Management (CIEM)

Product quality is considerably improved with high rate of evaluation from the firms themselves. The market, product structure and technology have been changed positively at major percentage, showing a turning point for the technology and production advancement after the adopted equitization.

Another impact of equitization is the reduction of the state capital ownership in most of equitized SOEs. The state has still owned big stake in firm's capital, hence, the proportion has been much reduced since the pilot phase of equitization transformation.

From the report of NSCERD in 2005, the portion and separation of state capital value are shown in each firm accounting for the total number of equitized SOEs.

Figure 3: **Proportion of equitized SOEs divided by state capital up to 2005/12/31**



Source: Report by the National Steering Committee for Enterprise Reform and Development (NSCERD)

Figure 3 shows the proportion of the state capital invested in the equitized firms at late 2005. Every single firm's total asset and capital held by the government which is less than 5 VND billion (equal to more than USD 300,000) occupy for 54 percent (more than a half). State capital of more than VND 10 billion and in the span of VND 5 to 10 billion account for the same percentages of 23 percent respectively.

In the structure of chartered capital of the corporate in the year 2008, the state owns the dominant percentage of capital in equitized SOEs. There are 33 percent of equitized SOEs with the state prominent capital of more than 50 percent; 37 percent of firms hold less than 50 percent of state capital and 30 percent for no state capital at all. The total equitized state capital nationwide accounted for 12 percent, in which the Government possessed the enormous proportion of 40 percent.

This data implies that the state capital represented in the equitized firms has reduced in terms of magnitude (less than VND 5 billion equivalent to around USD 300,000 at current price) and in terms of voting rights or equity ownership. In other words, the Government tends to decline its ownership and to give the labors and managing board more discretionary power and autonomy in leading their own companies as well as more obligations for the firms' production.

The third effect from the equitization program is the better but unsteady mobilization of capital from domestic and foreign investors. During 13 years of equitization from 1992 to 2005, the total investment mobilized from non-state sources was around VND 12,411 billion (equivalent to US$ 0.8 billion at current exchange rate). Researches of CIEM studied that approximate VND 190,000 billion (US$ 12 billion) flowed into registered private firms between 1992 and 2003, of which USD

9.5 billion was mobilized into this type of enterprise in the period from 2000 to 2003 in accordance with the implementation of the Business Law which was taken into effect from January, 1^{st}, 2000.

The equitization program was expected to get achievements and to a certain extent reached some satisfactory results as parts of the schedule. Creating a new type of enterprise comprising varying ownerships of different types of owners or stakeholders, this policy has thoroughly noted as the most critical solution for restructuring SOEs and for mobilizing more capital and assets from the public through stock exchange and partnership investors into business expansion.

Before the year 2007, the equitization implementation was almost ignored in the procedure of attachment with the listing in the stock market. That discouraged not only the inflows direct capital but also portfolio capital from investors into the prospective equitized SOEs and equitized SOEs. The function of representing for the state capital ownership upon corporations and economic groups was still not focused, even distracted, which had the negative impacts on the state shareholder's rights at these units.

Also, the equitization has not been successful in mobilizing new sources of funds due to the reason that certain SOEs eligible to be on the process were limited in scale, expansion probability, and also profitability. Hence, potential investors and security market partners will be less willing to put more capital flows into these enterprises.

Finally, the corporate governance of equitized companies like the economic groups; large and medium enterprises (LME) has been soundly enhanced. Yet, it is necessary for much improvement in human resources, financial management, and other internal transactions. The process of this policy adoption provides firms with more dynamic and open-minded leadership and progressive corporate governance to obtain better efficiency and adaptability of free market economy. Moreover, that also creates more opportunities for adequate and overall supervision as well as consciousness of the laborers as being the enterprise's owners towards equitized firms, particularly the listing companies in the security market. In this case, the equitized firms should be financially transparent and publicized to every stakeholder and potential investors.

Economic groups (Corporations) and large companies has classified Mother Company and its subsidiaries to be independent entities, where the mother company is limitedly responsible for chartered capital invested into its subsidiaries to distribute business risks. The mother company does not dominate its subsidiaries and take any responsibilities on behalf of governing body as it used to be. Subsidiaries get the rights of being autonomous and promoting their best capability of production, labor force and financial resources in business, and also take obligations of their performances.

The mother companies of state economic groups have their board of directors. The law regulates the amount of this board consisted of 5-9 people. In practice, this number ranges from 7-9 people. Members of this board are appointed directly by the Prime Minister upon the request from the ministry in charge which has been inspected in terms of procedures, documents, standards, and conditions for appointment by the Ministry of Home Affairs.

Nevertheless, due to the new economic group models and the long period performance of the frank gap between "superior and subordinate" levels in business, both parent and subsidiary companies are not able to adapt rapidly as the economic group model was transformed. The mother company's managing board has still kept old-fashioned methods of managing its subsidiaries as "superior and subordinate" awareness without any intensive consideration and adequate obedience of subsidiaries' regulations for investigation and observation. As a result, some senior officers' activities seem likely to be orders, lack of instruction or support for the subsidiaries as share holders or direct managers for the business performance without announcing or reporting to the representatives of parent firm at that subsidiary.

In particular, regarding to the equitized economic groups and corporations' performance, there have generally been inadequate regulations which are not particularly applied for economic groups but generally for all types of enterprises. There are some reasons explaining for the unclear concretization of some problems such as: incorporated and discrepant internal relationships including internal transactions; Inconsistent information for all the system, mutual benefit division, responsibility mechanism, promotion activity cooperation among member enterprises of the EGs; unsystematic supervision activities of the State toward EGs about monopoly, economic-sector concentration.

3.3. Remaining problems in the post-equitization process

The Vietnam's equitization program has been progressing for the last 16 years. This process has contributed to the economic growth and been the core factor in making the economic transition in Vietnam. The program has been challenging and overcome a range of difficulties since its application in 1992 despite the Asian financial crisis and the current global economic crisis. However, the equitization program has remained some critical problems and weaknesses that should be dealt with. The first is the improper orientation of program's objectives and guidance in diversifying firms' ownership (with extensive participation of laborers). The next one is the undervaluation of asset, accounting clarity and budget constraints. Thirdly, incompetence in corporate governance in equitized firms. The fourth is the unsteady pace of process expressed by slow implementation of equitization. Finally, the Government still acquires high stake of equity in firm's ownership structure.

At the first place, the core and implicit philosophy of ownership structure diversification is the approval for laborers to 'play the role of the true capital owners' and to 'facilitate social overlook of a firm's performance' in order to ensure efficient utilization of state assets and to mobilize new capital and investment from the private and public society. This philosophy is much in accordance with socialism orientation, and an effective means by which to justify the equitization indeed.

Nevertheless, the aim of ownership diversification has so far been misleading. A more appropriate rationale for equitization should be the allocation of public resources to those who value them most and, therefore, will utilize them in the most efficient manner. In transition economies, insider-owners (managers and workers) are among the least effective types of ownership classes in terms of post-privatization restructuring. These findings are particularly obvious in Vietnam's case because of the inconsistent and weak legal system, leading to the fact that the rights of minority shareholders are not reasonably guaranteed. The Vietnam's index of Protection of minority shareholders meaning the protection of interests for minority shareholders of equitized companies on average ranks 75 with the score of 4.4, lower than the world's mean score 4.6 (Global Competiveness Index report 2009).

Restricted prudential and discreet supervision and management for economic groups and corporations, or any detailed regulations, especially for monitoring the State's benefits, limit of monopoly or market dominance abuse, there is no base to control performance objectives, investment structure and main sectors of the State's EGs and corporations to become national economic key enterprises; besides, to ensure the strategic fields, the national economic security such as gas and oil, energy, nonregenerated mineral resources etc.

Secondly, the valuation of firms which are subjective to be in equitization is a problem in every economy activating with rapid changes at different periods, especially the case of Vietnamese economy. The matter of undervaluation seemed to be more pronounced in the earlier stage of equitization while the economy changed fast as well as while assets and liabilities accounting standards and methods for firm evaluation were missed or inconsistent. The valuation has been now conducted by external consultants since 2005 after the abolishment of an incompetent governmental committee. The price recommended by those consultants is likely to be the reference, and might be changed by purchasers.

In general, the time duration needed from the Decision for equitizing company to date for the equitization is fully implemented is on average at 15 months. Restructuring of the firm comprises the change of management, reconstruction of bad debts, on-performed debts, and layoff of redundant labor. Basically, the government is responsible for taking over bad debt if it considered as the victims of exogenous and endogenous incidents; however, the authority is not completely encouraged by the superior agencies or willing to do that activity if the debts are considered to be consequences of the firm's own performance. In practice, the methods of how to handle problems and the outcomes seem to originate from a bunch of other factors, such as firms' size, controlling holder's position within the state sector, and by demands from potential buyers.

Moreover, there is a substantial problem of asymmetric information between internal partners of managers, board of directors and external partners, regarding to the real value and post revenue prospects of the equitized firms. Consequently, equitized SOEs have been undervalued or imprecisely evaluated for the process of equitization.

Additionally, the official reports from Ministry of Planning and Investment point out an increase in the enterprise's leverage ratio in the post-equitization period despite its statistically insignificant. Leverage shows the degree of utilizing borrowed money by an investor or business. This is measured by the 'debt-to-equity' ratio as the firm's total liabilities divided by shareholders' equity *(Wikipedia's definition)*. This means the ineffective utilization of the invested capital and assets in some enterprises, which can reduce owners and investors' confidence and discourage potential partnership from consideration of investment opportunities.

Thirdly, the state has still acquired large equity proportion among the firms. This sounds no substantial difference from the status in the pre-equitization, which lacks definite and official distinctions of the state management and ownership as the Government plays the roles of both the firm's dominant shareholder and the regulator. And yet, the ownership of majority supplies the state with the veto power in most crucial organizational decisions.

Another remaining shortcoming is the institutional capacity of authority's agency in charge of controlling state capital with tight budget and being the government representative in terms of capital ownership of lots amount of equitized firms. Consequently, despite being a large capital and asset holder for several privatized firms, the Government has less probability to facilitate any adequate and precise management outlook and perspectives. While workers usually have weaker voice in running the company, controlling board might receive discretionary power, which seems to be easily taken advantage to gain individual unethical benefit.

The discipline of managers can be improved by the collaboration of emphasized ownership, a well-functioning securities market, and a rational legal system, thereby to enhance firms' performance. Sufficiently to say that Vietnamese legal system is evaluated to be inconsistent and vulnerably affected with restricted opportunities for firm managers for the purpose of governance.

In the large corporations or economic groups, some subsidiaries' managing boards have lack of competence or experience in monitoring investment, financing activities or internal administration etc when acting as independent accounting units because they were operated as the subsidized administration model for a long period, then they are quite puzzled at the beginning of mechanism transformation, in some cases, they were afraid to make decisions for even investment projects on which they had been authorized to make decision. On the contrary, the reporting and requests of mother company's capital representatives' advices or opinions about projects, senior personnel and organizational activities in some subordinate companies are incompletely followed, this reduces the effectiveness of supervision and investigation of parent companies toward subsidiaries through their representatives.

The fourth is the low and unsteady pace of process expressed by speed implementation of the equitization program. In the year 2007, only 116 SOEs were equitized, reaching 21 percent of the plan approved by the Prime Minister. The number of equitized firms in 2008 reached only 74, accounting for 25 percent of the plan (total 262 SOEs). In comparison with that of 2007 and earlier years, this number in 2008 is the lowest so far, which means the equitization process still faces a lots of challenges to obtain its aims. This situation is caused by risky debts or non-performing loans of the SOEs. The dealing with overdue loans has been taken slowly and suspended for several times. Big corporations, especially the Governmental corporations 91 get the state backup to delay or postpone the payment of expired loans or bad debts to the commercial banks.

From Table 4, the accumulated number of equitized SOEs from 1992 to 2008 is

3758, showing that the speed of this program is steadily low. This total number is regarded as modest magnitude increase for the entire equitization program aiming at the plan of 5,250 eligible SOEs as the equitization in the period from 1992 to 2010. What this means is that the number of firms has been completed accounting for only about 72 percent in 16 year period, while there still remains approximately 28 percent of the total number for just only 2 years left of the whole plan (2009-2010).

The facts also show that the reluctance and indecisiveness of several SOEs, especially strategic and key – sector enterprises have strongly affected the implementation speed of equitization. This caused other subsidiaries and same – sector firms tend to delay for a long period for listing IPO in security exchange market.

Finally, the Government has still obtained high portion of equity in the firm's ownership structure. Shareholders are divided into three groups comprising state, internal partners (employees), and external partners (domestic and foreign investors). In Vietnam, the portion of state ownership is still very high in compared with other countries.

This following table shows the ownership structure of equitized SOEs in Vietnam in 2004 in comparison with other countries which have implemented privatization process.

Table 9: **Ownership structure of equitized SOEs in Vietnam (2004) and some transition nations (1997) (%)**

Country	State	Insiders	Outsiders
Vietnam (2004)	38.1	46.5	15.4
Georgia (1997)	23.3	64.4	12.4
Kazakhstan (1997)	16.1	37.6	46.3
Kyrgyz Republic (1997)	5.6	70.8	23.6
Moldova (1997)	23.8	38.0	38.2
Russia (1997)	14.7	59.6	25.7
Ukraine (1997)	15.4	61.5	23.1

Source: Nguyen (2005) and computed from Djankov (1999)

The table 9 shows that the Vietnamese state acquired 38.1 percent, more than 1/3 of SOEs' gross value after the equitization. This number expresses that Vietnam government ranks the first in ownership of corporate among 7 countries in comparison as mentioned in the above table. In addition, in Vietnam case the outsiders, meaning the domestic and foreign investors own fewer equities in one firm than the opportunities and feasibility they possibly get in other countries.

In conclusion, the state keeps a remarkable stake in equitized firms, particularly in big-size and profitability firms. The high ratio of this sort of ownership is not surprising in the case of Vietnam, because regarding to the Decision 58/2002/QD-TTg approved by the Prime Minister on April 26th, 2002, the state is required to have over 50 percent of the total finance in such corporate with aggregate chartered capital of 10 billion dong and earning returns during three consecutive years. In these firms, common external investors might be challenged to purchase a crucial number of shares, or limited amount of equity for regulation of restrictive trading toward outsider. What it implies is that employees of these firms, public official involved with firms and their family, friends are the main shareholders of the firms instead.

Chapter 4. CONCLUSION

The Vietnam's SOEs equitization has been one of the most important policies since the early 1990s. This policy has been employed since 1992 in line with the reform process of the centrally planned economy into the market economy in Vietnam. So far, Vietnam has witnessed the significant growth of business community nationwide in different aspects with better operation and positive achievements after sixteen years of the policy adoption.

The policy has achieved many spectacular accomplishments of enterprise's effectiveness and performance. The SOEs equitization has dramatically changed the former structure and business operation of the enterprises in Vietnam since its application. A lot of enterprises have been increasing their performance of business and profits compared with the pre-equitization process. The equitization's achievements have benefited enterprise community and the Vietnam's economy. In the post-equitization, the remarkable growth in profitability, productivity, as well as competitiveness, and management capacity are notably observable in the Vietnamese equitized enterprises.

Nonetheless, despite the interests in equitization program, the progress has been modest than what it was supposed to achieve at the first place. In terms of the magnitude, the quantity of equitized firms so far is lower than it was set in the program schedule due to the steady speed of the process, while in terms of the performance, the firms' business has not been effectively operated at desirably expected level to earn preferable and desirable results.

The policies relative to the equitization have still contained some limitations to be modified and covered to gain better-functioning performance of enterprise's productivity and finance; and to improve the efficiency for the economic growth in different periods of time.

The first considerable shortcoming is interpreted that the Government has strived to speed up the program, yet in a gradually slow pace, which brings the unsteady process expressed by slow implementation of equitization with few satisfactory achievements.

Secondly, the newly–formed enterprises have not been such successful in mobilizing much potential and hidden capital resources from the domestic savings and foreign investment due to the high rate of inflation and regulated constraints of ownership restriction for the external-organization partnership.

The third is the undervaluation of asset, capital and real estate, the less transparent firm's finance, which caused the inadequate transparency and budget constraints for the companies as well as the ineffectiveness of utilizing the enterprises' capital. This is also correlated to the slow speed and hesitance of the program adoption and implementation.

Another limitation is the in incompetence of the corporate management in the equitized firms along with the discrepant compromise and inconsistent administration capacity of executive board of the enterprise. Board of managers is occasionally seen as administrative constraints to the improvement of the firms' business. The study shows that in many enterprises, the executive board is deeply dependent on the board of directors that occasionally delivers vague and cumbersome decisions for production and financial management. Transparency in the executive board in most firms is not really considered and the companies have been controlled by a minority of large capital-shareholders.

Finally, in comparison with other countries which have the same process of privatization, the Vietnamese government still holds larger stake in the firm's ownership. The number of firms that have been equitized is rather impressive, yet these firms are about to be small in terms of scale. Consequently, the stake obtained by the state in the economy has not reduced so much in the sense of ownership and controlling power.

Research on SOEs equitization policies has been currently necessary to recommend solutions for strengthening these policies in the process of investment mobilization from varying sources. Mobilizing investment from domestic and foreign sectors has become a competitive challenge in the international trade and globalization, particularly for the transition economy in Vietnam with open market.

Therefore, enhancing this equitization policy would improve the efficiency and implementation speed of the program and should be taken as rapid as possible. Additionally, studying the findings and lessons from other countries' experiences might possibly be a useful solution for such shortcomings. Thereby, the study introduced some specific recommendations for the improvement of the policies in facilitating SOEs productivity and business performance as well as to the policy makers in enhancing equitization program in Vietnam.

First of all, one implication is that transparency of management should be improved with the involvement of many independent owners in the executive board to monitor the company's business performance. Accordingly, executive board should work independently and conduct their authorized and legal rights as well as responsibilities in running the enterprises. Transparency can be explained in less room for corruption, publicity of financial statement and stock listing on the security exchange to avoid the information asymmetries; besides, the responsive and active coordination among the managing boards will work in enhancing the transparent management, this can be improved by employing the tight supervision and periodical inspection on the organizational behavior.

Secondly, in general, the improvement of political will, efforts and guidance for a strategic equitization is definitely important to sustain equitization progress and to keep it on the right path in line with its supreme purposes and its role in the economy. In other words, the pragmatic and timely policies granted by the Government are able to overcome obstacles in the programs, despite the process remains apparent the same. The political aspiration in parallel with the intensive economic analysis would better back the concepts that the state limits and decreases its reach in aspects which business or markets are possible to get them done.

Thirdly, it is necessary to improve corporate governance and help develop corporate governance skills towards the world's standards, in which to clarify the current Vietnamese legal system related to the governance and supervision of state economic groups, large-scale state enterprises, and monopoly state enterprises. In addition, a fundamental principle of corporate governance is the protection for minorit y shareholders. Once minority shareholders get adequate rights, they will facilitate and devote their contribution to the effective operation of their companies. Besides, regulat ions and rights protection reduce perceived risks to less-powered or outside investors, especially when they have less opportunity to access necessary information and no con trol over management. In addition, in Vietnam's case, the ownership structure plays an important role in performance improvements of firms after employing the equitization program, thus, enhancing the ownership structure diverting to the external partners can be one helpful solution for the corporate governance.

Fourthly, the Government needs to promulgate policies to reduce the disparity of common and preferred shares for laborers among equitized enterprises and to remove constraints preventing potential investors and laborers from approaching to purchase equitized firms' shares. Laborers might hold preferred shares in a pre-determined period of time. In addition, the amendment and supplementation of the priority mechanism of selling shares to laborers would deeply attract them to enterprises; and to sell an appropriate proportion of shares to outside buyers. Besides, expansion of the sale of shares of processing enterprises in agriculture, forestry, and aquaculture to material providers and producers would encourage equitized enterprises to be labor-intensive, and allowing transforming debts into joint-stock capital.

Fifthly, the improvement of economic efficiency through competitiveness promotion and business environment for equitized enterprises is the essential key factor in transforming the centrally planned into the market-oriented economy. Thus, the trade, regulatory reforms and competition policy in line with the free international trade and WTO regulations should be stimulated to create positively additional pressures and competition among these enterprises to speed up the program and to create a competitive environment for facilitating equitized SOEs to become more transparent in corporate governance and accountable in finance. Additionally, the probability of bank loan access should be unblocked and widened to create more opportunities of production expansion for the firms.

Last but not least, the recommendation for a large scale survey about post-equitized enterprise nationwide should be conducted. From this survey, such information including merge and acquisition, bankruptcy, financial capacity, stock issuing and labor distribution can be adequately supplied to improve the public awareness of the process and benefit from the equitization program. Another purpose is to avoid the remaining overlapping of statistics about equitized companies within the nation.

The above mentioned recommendations desirably aim at improving diverse factors which affect the implementation and performance of the equitization program in Vietnam. The improvements can be attributable to the Government sector and the equitized enterprise sector. The government is the main key in coordinating and supporting these enterprises to overcome challenges and remaining policy constraints. In parallel, the equitized firms themselves should play an active role and make more efforts to increase their competitiveness and performance by enhancing the corporate governance and production performance. From the analysis and implications, the equitization policy points to the necessity for further advancement and improvements of the policy adoption and implementation for the positive correlation between the equitization program and the Vietnam's economic growth in the forthcoming stage.

Appendix: Government's policies on Equitization program

1996

- Issuing Decree 28-CP in May, 1996 to finish the pilot stage and set a new stage of the equitization process.
- Decree gives general principles of the pilot equitization program, and for extending scope of equitization to all non-strategic small and medium-sized SOEs
- Creating conditions for the capital contributors and the employees in enterprises to own equities along with raising their role and giving a new impetus to enhance the enterprises' business efficiency.

1998

- Issuing Decree 44 to simplify the process of equitization and allow limited foreign shareholding in equitized SOEs;
- Issuing Directive 20 to adopt a wider menu of reform options for SOEs, e.g. outright sale, transfer to employees competitive bidding, for purchasing SOEs on SOE shares, leases, management contract etc.;
- Announcing annual targets for equitization for 1998 – 2000;

1999

- Completing classification of SOEs into three groups: profitable, temporary loss-makers and permanent loss-makers;
- Issuing decree and regulations for outright sale, transfer to employees, and lease of small SOEs, without requiring conversion of SOEs into joint-stock companies as required for equitization;
- Selecting 100 large troubled SOEs for independent diagnostic audits (i.e. operational reviews);

2000

- Selecting three general corporations (Seaprodex, Vinatex, and Vinacafe) for developing specific action restructuring plans and completing preliminary consultancy work;

_ Expanding authority of provinces to decide on divestiture of SOEs with capital up to five billion VND instead of 1 billion permitted before;

- Establishing an Assistance Fund for Restructuring and Equitizing SOEs to finance severance payments, early pension payments and retraining for redundant workers --

minimizing the negative social impact of SOE reforms on workers;

- Adopting a comprehensive five-year SOE-reform plan with annual target for the first three years.

2001

- Establishing a quarterly monitoring system for 200 large highly-indebted SOEs, and revising a decision to clarify reporting requirements and introducing sanctions against late reporting;
- Issuing government's instruction for a moratorium on establishing new SOEs by local People Committees and line ministries until further notice (Official Dispatch 574/CP of June 25, 2001);
- Establishing the Financial Investment Company under the Enterprise Law, to represent the interests of the State as owner and co-owner of SOEs and issuing decree 63 on transforming SOEs into one member limited liability companies are steps towards disentangling the complex ties between Government and SOEs (October 2001);

2002

- Issuing Decree 41/2002/ND-CP, April 2002 on the policies towards employees made redundant because of SOE reform. Allowing managers of equitizing enterprises to purchase shares in excess of the number of shares subscribed by employees, requiring 30 days public notice prior to announcement of equitization, and clarifying potential conflicts between the SOE Law and the Enterprise Law;
- Issuing Decree 64 on June, 19th, 2002 to replace the Decree 44 for strengthening the real ownership of employees and share-holders; also investor's monitoring of the enterprise, as well as balancing the interests of the state, the enterprise, and the employees.

2004

Decree 187/2004/NĐ-CP on November, 16th, 2004 for transferring state owned firms to equitized SOEs.

2007

- Issuing the Decree 109/2007/NĐ-CP on transformation of 100% state capital enterprises into equitized ones on June, 6th, 2007, being the updated guiding instruction of legal document for equitization.
- According to this Decree, an enterprise with 100% state capital must satisfy the two following conditions:

+ Being not an enterprise where the State holds 100% charter capital; and,

+ Having state capital after handling financial matters and re-determining its value.

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