THE WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

The Model and the Reality: Assessment of Vietnamese SOE Reform - Implementation at the Firm Level

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Working Paper Number 154
July 1998

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Working Paper for
the William Davidson Institute
at the University of Michigan Business School
Ann Arbor, Michigan, USA

Acknowledgements

We are grateful to the William Davidson Institute for sponsoring and funding this project during 1997-1998 in Hanoi, Vietnam. Kent Foster, Jim Walsh and Ruth Ann Church were extremely helpful and supportive during the course of the project. The NEU Business School at the National Economics University, Hanoi, Vietnam, supported each of us during the project, with computer and library access, as well as time for conducting the research. Finally, we acknowledge the important contribution of University of Michigan Business School's Professor Robert Quinn's survey of organizational change, which we adapted for the Vietnamese context.

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Abstract

For scholars and business people operating in Vietnam, one of the most intriguing aspects of *doi moi* is the time lag between legislative action and implementation at the firm-level in the Vietnamese State Owned Enterprise (SOE) sector. This paper uses a micro-level analysis to gauge the impact of legislative actions to understand why well-intentioned and thorough legislative policy is rarely followed in its entirety.

Using research on the SOE sector in other transition economies, we construct a model framework, which includes six key branches of reform policy and their likely impacts at the firm level. Next, we compare the Vietnamese legislation in each facet of reform to the framework to assess the extent to which Vietnamese reformers have pursued each branch of policy reform. Then, we use surveys and interviews of managers in the Vietnamese garment and textile SOE sector to test whether our hypotheses of firm level behavior exist in the Vietnamese context. Finally, we crystallize our findings in a case study of one of the most successful SOEs in Vietnam. Our findings suggest that Vietnamese SOEs have radically changed during *doi moi*, especially in regard to their profit and customer-focused decision making. In many ways, however, subsequent government policy has hindered the intent of reform legislation. Finally, we discuss possible negative impacts on the Vietnamese economy and propose ideas for possible remedies.

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Introduction

Optimism regarding the Asian Miracle clearly tapered in the last half of 1997 and in early 1998, as many emerging economies faced the realities of slowdowns. In Vietnam, the policy debates have taken on a different tone than those of its neighbors. Vietnamese policy makers must simultaneously address two apparently conflicting trends --economic downturn (Vietnam Economic Times, March 1998: 13) and continued discussions and movement toward a market oriented economy (Vietnam Economic Times, March 1998: 5). In fact, far from being contradictory, the issues are related; the recent economic crisis among Vietnam's neighbors has been sparked in part by underlying structural weaknesses in their market systems, giving Vietnam the opportunity to address its own deficiencies, while its market institutions are still in their formative stages.

Particularly vital for Vietnam is the immediate enactment of reforms of its state-owned sector, for at present the total debt of State Owned Enterprises (SOEs) is worth $29 billion. That figure is 20% greater than the state-owned sector's entire turnover and equal to Vietnam's 1997 GDP. As Ari Kokko, an Economist at the University of Stockholm, put it, "It would not be much of an exaggeration to characterize the present financial situation of the state-owned sector as a time bomb, (Dinh, 1998)." Such dire warnings are not new. In fact, it is because of such predictions that Vietnamese government officials have been working extremely hard to implement them (Pistor, 1998; Porter, 1998; Verbiest, 1998). These laws, however, rarely were translated fully into action at the firm level. From the equitisation program to improved corporate governance, enterprise autonomy, better accounting standards, introduction of competition, and change in internal management practices - the same story held. Despite well designed reform laws, implementation has been lax.

To avoid economic crisis and build stability and strength, business and government leaders need to be aware of how policies and actions affect SOE behavior. Unfortunately, however, little discussion focuses on the impact or implementation of change at a firm level. Thus, in this paper, we explore possible connections between reforms and implementation activities at the firm level, especially related to development of markets and trade for Vietnamese firms.

Because Vietnam's legislative, financial, regulatory, and even industry structural environments fluctuate continuously, it is difficult to draw a clear line from a specific reform to a firm level change. Such inconsistencies have emerged in other transition economies.[1] Furthermore, firm level changes in Vietnamese SOEs are rarely straightforward reactions to specific economic reforms; often, they permeate starting from the Ministry of Planning and Investment (MPI). For example, the recent phenomenon of

[1] Tung and Havlovic (1996), for example, found that the differences in human resource management activities (HRM) in Poland and the Czech Republic are more a result of macroeconomic factors than firm level variables, such as organisation type or level of unionization.

forming large conglomerates of SOEs (called State Corporations) under *Decision 90 and Decision 91* (March, 7 1994) creates an awkward dilemma for parsing out firm level impacts of reform. It is difficult to assess whether a firm initiative results from a new market oriented policy or because a State Corporation required it. Thus, before asking how reforms impact SOEs, a first question is the extent to which the reform process has been implemented at a firm level.

Analysis is also skewed by a question of timing. Perhaps a member firm of a State Corporation may have just introduced an aggressive customer-focused marketing plan in anticipation of a more competitive domestic market. How long will that program last given that it is actually competing against other member companies of the same corporation? Until the intentions of the Vietnamese government are clear, it is impossible to conjecture on which new initiatives have staying power and which ones will fall in the wake of more thorough conglomeration. Vietnamese intentions with their equitisation program further confuse the process. If the equitisation program proceeds in earnest, it will, in many cases, work at cross-purposes with re-registration into State Corporations. How should a researcher analyze a member company that is slated for equitisation, when its Mother Company is not? The difficulty of this is confirmed by Dr. Tran Ngoc Trang, the Vice Director of the State Owned Enterprise Reform Steering Committee, who hints that the initial autonomy granted to member companies is temporary and will soon be subordinated to the mother company. In his words, "We made the mistake of creating the children before the parent" (Trang, 1998b).

An appropriate question for Vietnam at this stage, therefore, is not just how reforms impact the SOEs, but rather how thoroughly has the reform process been implemented using a firm level analysis as the crucial measurement? This project thus examined specific types of reforms in Vietnam, the perceptions of the extent to which they have been implemented in SOEs, and their likely effects on changes in selected firm level activities.

The paper is divided into five sections. We begin by describing our research and data collection methods. Due to the environment in which the research was conducted, we encountered several barriers which were overcome or side-stepped (as the case may be) by adapting our methods to the Vietnamese context. The approaches we opted for shed light on some of the findings of the paper, highlight the limitations, and provide an interesting examples of transition country research.

Secondly, we lay forth the conceptual framework used to analyze the firm-level reforms. This framework was derived from work done by theorists, practitioners, and businesses working in other transition economies. As the majority of Vietnam's state sector reform goals (apart from privatization) were similar to efforts in Central and Eastern Europe, we thought we could use their experiences to gauge the level of reform at the firm-level in Vietnam. First we identified six characteristics of successful state owned enterprise reform. Then, to address possible criticism for applying a general model of transition to a unique context, we double checked the legislative initiatives and economic policy doctrines to make sure that these six components were not only endorsed by the Vietnamese government but captured in law. Satisfied that they were, we used the previous transition economy research to develop a series of

propositions for each component. In essence, we anticipated several reactions for individual firms if implementation of the reforms was successful. For instance, employees of a firm subjected to a hard budget constraint should respond (in surveys and interviews) that cost control and financial performance are increasingly important focal points. They should identify high operating costs and unrealistic planning assumptions as problem areas to be abated. And finally, employees should be wary of self-serving behavior that bestows large gains on a few employees at the cost of the organization.

The third section of the paper examined the proposed characteristics in light of our sample firms' experiences. First, we explain the legislative history of each model component in Vietnam. Then we compare the responses from our research to the expectations set out in the framework.

In the fourth section, we move on to our case study where we explore the effects of SOE reform implementation within the context of one of the most successful SOEs in Vietnam. The case study details the firm's history and its innovative responses to the new economic environment.

Finally, we finish with a few conclusions and policy prescriptions that we believe will better facilitate the implementation of thoroughgoing reform.

Method

Given the difficulties of doing "research" in a rapidly changing environment like Vietnam (Adair, 1995), we sought to adapt conventional research methods to fit the conditions of the environment. Data collection methods included (1) a written survey of selected SOE managers and employees; (2) interviews with managers (top, middle, supervisor levels) in the mother company, one in the first tier below the mother company, and six in the next tier down; and (3) interviews with managers and employees within one garment/textile firm. The garment industry was of interest because of its significant role in Vietnam's economy and because of increasing foreign competition as well as from numerous joint ventures anticipated or currently operating there.

Collecting reliable data was a challenge, as researchers in other transition economies can attest. SOE managers are not always forthcoming with information, especially financial data. This was particularly true in Vietnam. We were unable to obtain financial statistics in interviews or preliminary research. To alleviate the discomfort of respondents, the written questionnaire asked for primarily subjective opinions of the reform. Thus, we were limited in the ability to assess, at least from a financial perspective, the impact of reform at the firm level.

In addition, as researchers working in the international arena, particularly in Asia, understand, the ability to create truly random samples is extremely difficult. Respondents to surveys and interviewees came primarily through a network of contacts and relationships of Vietnamese researchers. As a result, the samples may not be truly "representative" (particularly the interviews) yet they offer a starting point.

Survey

An eight-page questionnaire (in Vietnamese) was distributed to 200 managers and employees of SOEs, primarily in the northern part of Vietnam (English version in Appendix A; description of respondents in B). The survey was developed primarily from work by Professor R. Quinn's questionnaire on change in organizations and adapted for the Vietnamese context. The survey respondents included managers and employees enrolled in management development courses offered through a major Vietnamese university, SOE managers in the university's Vietnamese and English language MBA programs, and managers in firms where the Vietnamese research partners had contacts. The respondents' firms included those with jurisdictions or markets primarily in local or national areas. Managers at six hierarchical levels responded to 5-point Likert style questions on perceptions about firm level reforms, impetus for and contributions of those reforms, firm values, enterprise strategy, and problems associated with the new environment. Of the 200 surveys, 134 usable surveys were returned (67%). A small questionnaire fulfillment fee (commonly expected in Vietnam) may have contributed to the relatively high response rate.

Industry interviews

Semi structured interviews (1-2 hours long) were held with nine managers and employees at different levels of eight firms in the garment industry. Two interviews were with managers from the State Corporation's "Mother Company" of the Vietnamese garment and textile industry. Seven interviews were with managers of the member companies. All interviews, conducted in Vietnamese and tape-recorded, were transcribed and translated into English for analysis.

Case Study Company interviews

We interviewed nine managers and employees within one of the garment industry's most profitable member companies. The interviews included managers from the senior level to employees working in the factories to assess perceptions within one firm versus across several firms. We gained entry through a manager who was in an MBA program at the university. Again, interviews were conducted in Vietnamese, tape recorded, transcribed and then translated into English.

The Conceptual Framework

For our model of successful State Owned Enterprise reform, we turned to work originally done on the subject by the International Monetary Fund (IMF), European Bank of Reconstruction and Development (EBRD) (Stern, 1996, 1997) , the Asian Development Bank, (Verbiest, 1998), as well as scholars working

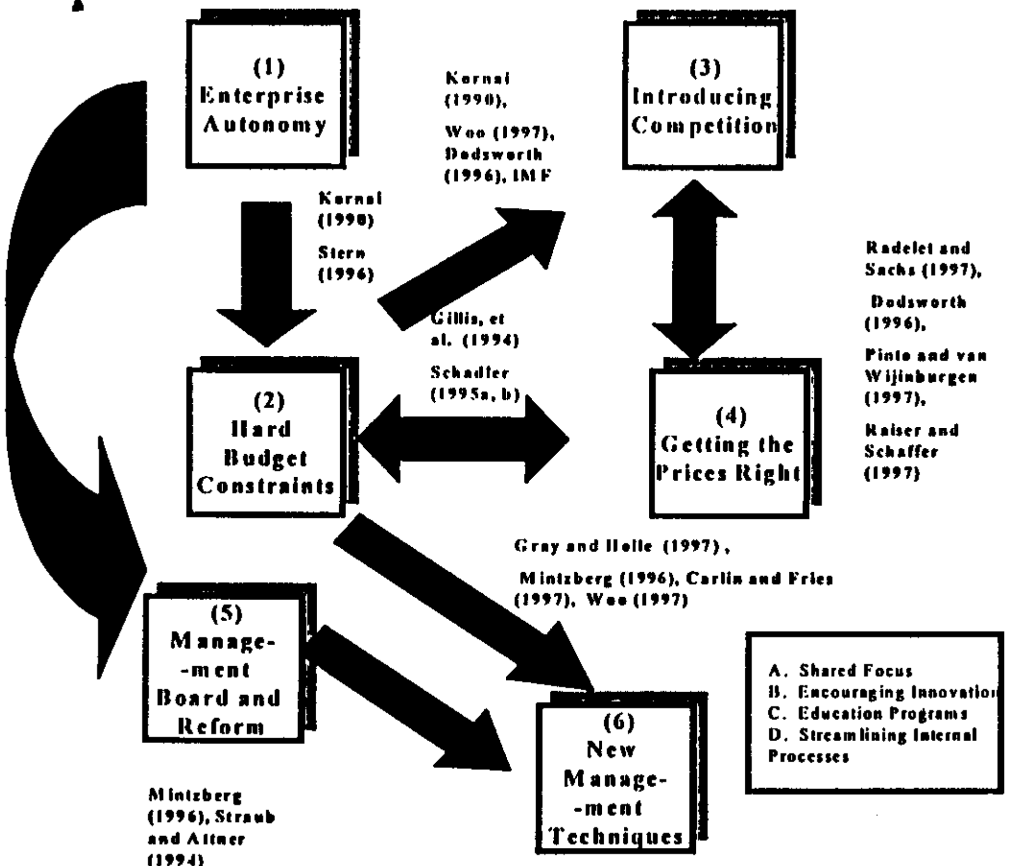
in transition economics and on issues facing Vietnam (e.g., Kornai, 1990; Porter, 1998; Sachs, 1991; Woo, 1997). The SOE reform work in regions as diverse as Eastern and Central Europe, Latin America, and East Asia helped us identify six key elements (Exhibit 1), which are essential for policy reform and which are applicable to the Vietnamese context. Furthermore, their experiences led us to expect several types of firm level change (e.g., Bartholdy, 1997; Gray and Holle, 1997; Sachs, 1991; Stern, 1996; Woo, 1997). The result was a collection of six components deemed important in other transition economies. We examined each component in light of legislation in Vietnam and expected impacts (Exhibit 2). The legislative terminology and definitions (Exhibit 3) help clarify the importance of the laws. The six components include the following:

- Granting SOEs autonomy and eliminating bureaucratic centralism.
- Imposing Hard Budget Constraints on each SOE.
- Introducing both Foreign and Domestic Competition.
- Allowing prices to reflect market scarcity, "Getting the Prices Right."
- Creating management boards and restructuring the management hierarchy.
- Utilizing new management techniques

[Please insert Exhibits 1, 2 and 3 about here]

Research on SOE reform legislation in Vietnam since the early 1980's (e.g., Dodsworth, 1996; Hung, 1995; Huy, 1994) confirmed that these components have been treated by various levels of the Vietnamese authorities. Each study warned that implementation was poor on most initiatives. In this light, our research offers a firm-level perspective that allows us to spot key areas where implementation is lax.

Graphic Model of State Owned Enterprise Reform



Verbiest (1998)

Model Flow Chart

Components of our theoretical framework	Definitions based on theory and research	Legal basis in Vietnam	Propositions for the firm level based upon past research	Our Findings
1. Enterprise Autonomy	SOEs have individual authority to set prices and select the mix of inputs and outputs that they deem to be most appropriate without Ministry or other government intervention (Gillis, 1992; Kornai, 1990; Stern, 1996).	• Communist Party of Vietnam, 1986, "Sixth National Congress Documents," Vietnamese leaders publicly condemn "bureaucratic centralism." • *Decision 217-HDBT* (14/11/87) "Renovating, Planning, Economic Accounting, and Socialist Business of State Enterprises." • *Statute 50-HDBT* (3/88) "Regulations for State-owned industrial Enterprises." • *State Council Ordinances* on : Principals of Accounting and Statistics (29/9/88); Economic Contracts (29/9/89); and Economic Arbitration (12/1/90). • 1989 Government decreed "Stabilization Program." • Communist Party of Vietnam, 1991, "Seventh National Congress Documents." • 1995 Law on State Enterprises • *Decision 90-TTg (7/3/94),* "Work to Re-arrange State Enterprises." • *Decision 91-TTg (7/3/94),* "Pilot Work to Establish Business Groups" • *Decree 39-CP (27/6/95),* "Model Charter on the Structure and Operations of State Corporations." • The 1995 Labor Code offers employers the freedom to negotiate contracts of one to three years. *Article 132*	• Top managers make all the firm's strategic decisions. • Firm level reforms are initiated due to changes in market or customer demand. • Individual firms have complete control over staffing decisions. • Employees are concerned about dismissal or demotion. • Social benefits, such as contributing to regional development, will play a less significant role in decision making. Profits will play a larger role.	• Movement to conglomerate SOEs in State Corporations is top-down decision making from the government, which directly contradicts and works against implementation of autonomy. • Top Managers are more likely to be responsible for change than the ministries, though the ministries play a significant role. • Ministry interference is evident in strategic decisions and through management boards. • Firms do not have complete autonomy in staffing decisions, illustrated by the strong number of respondents who were not worried about dismissal or demotion. • Profits far exceed any other value in firm decision making. Provision of social benefits was the least important.

		allows SOEs to directly recruit laborers and petition the labor office at the provincial level for the replacement of laborers. • *Decree 198/CP* (31/12/94) offers contract protection specifically for state enterprise workers.		
2. Hard Budget Constraints	SOEs must stand on their own feet and bear all the costs of failure. Subsidies, cheap credit, tax benefits, and inter-enterprise loans to SOEs must be eradicated (Dodsworth, 1996; Kornai, 1990, Woo, 1997).	• *Decree 161-HDBT* (18/10/88) "On Foreign Exchange Management" • *Decree 217-HDBT* in 1987. • *Decree 50-HDBT* (22/3/88), which delineated the method for implementation of *217*. • *Decision 98-HDBT* listed the rights and limits of worker unions in SOE management. • *Decision 93-HDBT* (2/12/89) defined the powers of management in making management decisions. • *Decision 332-HDBT* spelled out the obligations of SOEs for managing state assets in the former of an Enterprise Contract . • *Decree 93-HDBT* "On Depreciation Fund Management. • *Decree 388-HDBT* (20/11/91) "Establishing and Liquidating State Enterprises." Reinforced by *Directive 393-CT* (25/11/91),*Circular 34-CT (28/1/92),Decree 156-HDBT (7/5/92), and Decision 196-CT (5/6/92).* • *Document No. 417/CV-NH 14*, which removed the existing limits on loans to SOEs. These regulations restricted	• Firms unable to survive without government support will go bankrupt or be liquidated. • Cost control should be recognized as an increasingly important problem • Firms should reign in costs and closely monitor financial performance. • Firms will curtail unrealistic plans for organizational expansion.	• Liquidation or bankruptcy of 5,000 out of 12,000 firms signals that firms have been allowed to fail. • Cost control and financial performance are the most important priorities of operations management. • Unwise planning is still considered a problem. • Respondents felt that others are acting in ways which benefit themselves at the cost of the firm.

		lending to loans that were less than the value of the SOE's legal capital.		
3. Introducing Competition	Monopoly control and prices must be eradicated by an influx of foreign and domestic competition. Competition can be fostered by dismantling import or investment licenses, quotas over output, control over prices, and other forms of intervention, which gives some firms advantages over others (Krugman 1994; Radelet and Sachs, 1998; Dodsworth, 1996).	• Socialist Republic of Vietnam, 1992. "Constitution 1992." • 1995 Law on State Enterprises • *Article 64(2(b))* of *Decree 12-CP (18/2/97)* "Stipulating in Detail the Implementation of the law on Foreign Investment in Vietnam." • *Decree 15-CP* (21/2/97) "Policies to promote the Development of Co-operatives." • *Decree 54-CP (27/5/95),* "Promulgating the Regulations on Organization and Operation of Financial Leasing Companies in Vietnam." • Decree 52-CP (9/9/96) "Adjustment of Trade License on Tax Rates." • Article 13 of *Decree 85-CP (17/12/96),* "Guiding Implementation of the Ordinance on the Rights of Domestic Organizations with Land Assigned or Leased by the State." • *Decree 77-CP (18/6/97),* "Regulation on Domestic Investment in the Form of Build Operate Transfer Contracts." • *Decree 36-CP* (24/4/97), "Regulations on Industrial Zones, Export Processing	• Firms will have competitive pressure from a variety of sources, including other SOEs, private firms, joint ventures, wholly foreign owned companies, and foreign based competition. • Competition will motivate firm-level reforms among SOEs to meet or surpass the quality and productivity of their competitors. • Firms will become more customer-oriented, concerning themselves with brand name recognition and market competition. • Hefty competition will be evident in the labor market, as firms compete for the best qualified employees.	• Firms responses illustrate that they are feeling competition from both foreign and domestic suppliers. • Competition has induced change at the firm level, especially in regard to customer focused decision making. • A competitive labor market has developed has developed for skilled staff and managers. • Conglomeration movement will counteract competitive force, by giving monopoly power to certain state corporations. • In some state corporations, however, member companies may be competing against each other or their mother company.

		Zones, and High Tech Zones." • *Circular No. 111GSQL-TT (28/5/97)* "Guiding Implementation of Decree12-CP on Implementing the Law on Foreign Investment."		
4. "Getting the Price Right" or Prices that reflect market scarcity	State Owned Enterprises need to be convinced to set prices that reflect market scarcity and the true cost of production. Firms attempting to maximize profits and consumers maximizing utility should achieve static efficiency, the point where resources are being used to their fullest potential on behalf of the whole economy (Gray and Holle, 1997; Mintzberg 1996, Woo 1997).	• *Decision 25-CP (1981)* "Breaking the Fence Strategy." • **Vietnamese Shock Therapy** *Decision 220-CP (5/81). Decision 148-HDBT (12/81). Decision 238, 239, 240, 243, 244, 245-HDBT.* • *Decision 392-CP (12/86)* • Unification and Devaluation of the Exchange Rate in 1985. • Foreign Exchange Trading Floors on the floors of the State Bank's branches of HCM and Hanoi (1991).	• Firms should make market based decisions for intermediate goods and capital based investment decisions. • Firms will make their own output and pricing decisions based on market scarcity and demand. • Firms should pay employees a competitive wage. • Staff and managers will receive adequate rewards in terms of wage increases or promotion, with assessment based on transparent written criteria.	• Firms are paying market prices for inputs. Prefabrication may be partially responsible for this trend. • Firms recognize a need for competitive pricing of outputs, though they are often not happy with the results. • Wage compensation is mixed. Many firms have established complex written measurements for workers based on productivity. Others have been unable to eliminate seniority-based pay scales, which do not account for productivity. • Some SOEs have had difficulty receiving ministry approval for their promotions of employees.
5. Management Board and Management Reform	A new and independent management board will replace the people's committee or ministry. This will be accompanied by a reduction of internal administrative divisions and the introduction of a coordinated hierarchy with more responsibility and accountability given to lower level managers (Mintzberg, 1996; Nestor, 1998; Straub and Attner, 1994; Verbiest, 1998).	• 1995 Law on State Enterprises • *Decision 90-TTg (7/3/94),* "Work to Re-arrange State Enterprises." • *Decision 91-TTg (7/3/94),* "Pilot Work to Establish Business Groups" • *Directive* 657-TTg (13/9/96) "Enhancing the Management of the Non-State Establishments Engaged in Production, Commerce, Industry, and services."	• The General Director will be held accountable by a contract which measures his performance against mutually determined indicators. • The management hierarchy will be restructured to reduce bureaucracy and stream-line decision making. • The organization will follow clear reporting mechanisms that eliminate ambiguous directions and conflicting messages from top	• Management boards have been left untouched or only slightly changed, rather than subject to comprehensive renovation. Most members are still ministry appointees. • Lower level management reform has been slow and incremental but deliberate. • In many firms, departments have been reduced, management layers eliminated, and reporting policies streamlined.

Terminology (In order of importance)	Body	Vietnamese Translation	Definition
Law	National Assembly	*Quoc Hoi* (QH)	Vietnam's highest form of legal direction.
Ordinance	Standing Committee of the Nat. Assembly	**Uy Ban Thuong Truc Quoc Hoi**	Passed when assembly is not in session.
Decrees	Minister's Committee Government Committee	*Hoi Dong Bo Truong* (HDBT) *Chinh Phu* (CP)	Implement Laws and Ordinances
Regulation	Minister's Committee Government Committee	*Hoi Dong Bo Truong* (HDBT) *Chinh Phu* (CP)	More detailed law that supplements ordinances
Decision	Prime Minister	*Thu Tuong* (TTg)	Prime Minister issues to refine understanding of Laws and Ordinances
Circular	Individual Ministries	*Chi Thi* (CT)	Provide guidance on how ministry will implement the law, decree, or ordinance.
Official Letters	Individual Ministry	*Chi Thi* (CT)	Provide guidance on how ministry will implement the law, decree, or ordinance
Guidelines	Prime Minister	*Thu Tuong* (TTg)	Policy outlines indicating that government committees should be set up to deal with issues.

			management.	• Firms are placing an emphasis on hiring younger, more capable, dynamic managers.
6. New Management Techniques:	If the other components of the framework are achieved, then management can begin to act independently and focus on improving productivity through well-known modern management techniques. We chose to focus on: a. Promoting a Shared Vision b. Encouraging Innovation c. Internal and External employee education programs d. Stream-lining internal processes (Mintzberg, 1996; Straub and Attner, 1994).	There has been level government induced reform efforts for this facet of the theoretical framework. This is a positive illustration of enterprise autonomy, demonstrating that firms have been left to their own devices in regard to these issues.	a. Firms should create a cohesive understanding of goals, targets, and procedures, at every level of the organization. b. Innovation should be encouraged for its own sake and innovative personnel should be rewarded. c. Education programs should be implemented to increase knowledge and motivation, to improve chances for advancement, to boost morale, and to increase quality and productivity. d. Processes should be streamlined to trim the fat out of the production mechanism and reporting system to waste as little time, energy, and resources, as possible.	a. Varied success among firms. Having employees follow company guidelines was very important, but teaching established routines much less so. b. While some firms attempt to encourage innovation by rewarding creative problem solving, it was not considered vital for most managers. Top managers were more concerned about stimulating creative energies than other levels. c. Managers claim to want to keep employees on the cutting edge of knowledge, yet they are more likely to use internal than external programs for their staff. External education was reserved for higher level managers. There was fear that recipients of expensive training would leave the SOE for more lucrative jobs. d. Many firms have reengineered their workshops and equipment for faster cycle times. Higher productivity and world class speed are important targets for reforming SOEs.

For each of the six components, we discuss what legislative initiatives have occurred and their expected impact at the firm level.

Enterprise Autonomy (Ridding the Economy of Bureaucratic Centralism)

When the state decided what and how much to produce and set specific quotas for SOE outputs, no one entity was accountable, neither state management or SOEs (Trang, 1998). The result was generally a proliferation of state organs with overlapping jurisdictions and contradictory functions (Kornai, 1990).[2] Similar to other socialist economies, there are striking parallels in the actions of SOEs in Vietnam. They devoted enormous resources to rent-seeking activities such as lobbying various ministries, as regulations created higher than necessary profits for those who could gain favorable treatment from bureaucrats. What was left was often wasted in pursuing the non-economic objectives imposed on them by the government (Woo, 1997).

To correct for this, some scholars argue that central planning powers governing State Owned Enterprises need to be scaled back significantly and replaced with SOE autonomy (Stern, 1996, 1997). Firms should have the authority to set prices and select the mixes of inputs and outputs that they deem to be appropriate. Managers should have the right to dismiss excess and inefficient workers and to decide upon capital and technology investments. In short, firms are responsible for keeping the real value of their capital intact and repayment borrowed money (Stern, 1996).

Based on the observations of experts in other transition economies, we expected to find the following in Vietnam, if reforms were adequately implemented.

- Top Managers would make nearly all of the firm's strategic decisions with only minimal ministry or board oversight.
- Firm-level reforms will occur as a result of market or change or consumer demand change; rather than ministry initiation..
- Individual firms will control staffing decisions (e.g., recruitment, hiring, promotion, and dismissal.)
- Employees at all levels will have more concern about dismissal or demotion.
- Social benefits will play a less significant role in SOE decision-making.

Hard Budget Constraints

In devolving operational autonomy to State Owned Enterprises, the umbilical cord must be fully severed. SOEs must bear the cost of failure if they are to garner the fruits of success. Otherwise, the economy in transition

[2] In Vietnam, this situation actually reached the point of absurdity. The three levels of state control, the state management agencies (i.e. State Planning Committee) line ministries (i.e. The Ministry of Heavy Industry) and scientific and professional institutions (i.e. The Social Science Commission) seemed to grow as fast as SOEs themselves. By 1987, fifty separate organs were under the control of the Council of Ministers (Hung, 1995).

will fall victim to "the soft budget constraints," which Kornai (1980) identified in his groundbreaking work, *The Economics of Shortage.* Kornai felt that state treasury or central bank would eventually have to finance the losses of enterprises because it cannot avoid guaranteeing the financial activities undertaken under the name of the state. He argued that if SOEs felt confident that an eventual bailout was forthcoming they would generally engage in both over consumption (where profits are converted into business expenses) and over investment (where SOEs undertake investment beyond prudential levels to increase output and consequently future consumption). Carlin and Fries (1997) agree in the most recent edition of the EBRD Transition Report arguing, "It is crucial to detach enterprises from their dependence on government support and to base their survival on performance in the market place." Luckily, they go on to say that this is one of the least controversial reforms (Carlin and Fries, 1997) In pre-1990 Poland and Hungary, the over-consumption and over-investment phenomena directly reduced the revenue of state budgets and increased inflation to the extent that the state monetized the budget deficit. This fiscal crisis prohibited infrastructure investments required to remove bottlenecks in production. As a result, growth was severely hampered and the economy was placed at risk of hyperinflation (Stern, 1996).

Governments must impose hard budget constraints on their SOEs, by first abolishing subsidies. This includes liberalizing prices to rid the economy of food and production subsidies. Cheap imported inputs cannot be readily available to SOEs, as they so often are. These inputs tend to give SOEs an unfair advantage over private domestic and foreign competitors while draining state revenues (Dodsworth, 1996). Carlin and Fries warn that conversion of direct subsidies to off budget subsidies must also be studiously avoided. One prime example, is a recent trend in the CIS of enterprises failing to pay energy bills for extended periods, but for political reasons supply is not cut-off (Carlin and Fries, 1997).

Second, SOEs should not have access to easy and cheap bank credit. It is important that SOEs are required to compete for bank loans with private companies and other SOEs to ensure that the most profitable and efficient firm receives the loan at a market rate. Credit at artificially suppressed interest rates keeps inefficient firms alive and depletes state revenues.

Third, a strict tax code should be applied to SOEs to remove the tendency for ex post negotiation of tax liabilities and tax exemptions exclusively for SOEs. Fourth, monitoring of SOEs should be simplified and strengthened and performance should only be measured by the size of profits and tax contributions (Gillis, Perkins, Roemer, and Snodgrass, 1992). As part of this monitoring, SOEs should submit budgets and account records, which are coherent, transparent, and independently audited (Huy, 1994).

The fifth and final element of this process deserves to be highlighted because it is becoming an increasingly serious issue in Vietnam. Woo (1997) has identified another type of soft budget subsidy in the form of large arrears between SOEs in transition economies. Woo found that if SOEs have faith in an eventual government bailout, but are operating within a tight credit regime, that the government has introduced to ward off inflation, inter-enterprise arrears allow them to continue their operations as usual without a need for bank credit. Someone eventually must assume these debts, but if state bank credit is expanded to clear them, the government will lose credibility in its future attempts to restructure SOEs and maintain price stability (Woo, 1997). These debts must be frozen and the practice prohibited. Eventually, a banking solution or perhaps even a secondary market remedy will have to be

found to clear these debts. Later, we will discuss this issue specifically as it applies to the two trillion VND, which Vietnamese SOEs owe to state-owned banks.

As with enterprise autonomy, our research led us to believe that we would find the following to be true in Vietnam, given widespread implementation.

- A large number of firms will have filed for bankruptcy after being unable to survive without government support.
- Firms should respond by both reigning in excess costs and closely monitoring financial performance. Cost control should thus be recognized as an increasingly important problem.
- Firms will curtail unrealistic plans for entering new markets and organizational expansion.
- Employees will be wary of corruption and problems associated with individuals putting personal gain ahead of organizational good.

Introducing Competition

State Owned Enterprises have a tendency toward inefficiency in part because they are often assured of monopoly control of their markets. As a result, a firm can set prices high enough to cover costs and may sell inferior quality goods. Consequently, managers will spend the majority of their time lobbying to maintain that protection, rather than learning how to meet and surpass competition. Under *doi moi,* competition is the force that pressures players to improve. [3] Domestic competition can be fostered simply by dismantling import or investment licensing, quotas over output, controls over prices, and other interventions that advantage some firms over others. Singapore, Taiwan, and Hong Kong all rose to economic prominence through the desire to produce goods that could compete in international markets (Radelet and Sachs, 1997). Allowing private sector enterprises equal access to credit, creating a supportive legal framework, and subjecting all enterprises to uniform rules of taxation will level the playing field for domestic competition. But if the domestic market is small and one or two firms dominate the industry, viable competition must come from abroad. To encourage foreign firms to enter the market and garner this competitive stimulus, the state should deregulate import controls and reduce tariffs (Dodsworth, 1996). Martin Raiser and Mark Schaffer noted in their EBRD research (1997) noted that, "state-owned enterprises in eastern Europe, the Baltic states and the CIS responded to the abolition of central planning and the liberalization of prices and trade by undertaking very basic "defensive" restructuring measures." These defensive measures are short term solution to immediate cost-cutting needs. They include shedding excess labor, containing wage costs, and changing product mixes to meet customer needs (Raiser and Schaffer, EBRD, 1997). Other studies have shown conclusively that a more competitive market is the one often cited by enterprise managers as one of the main reasons for change (Pinto and van Wijinburgen, 1995; Heinrich 1995). Thus we hypothesize that if reforms are adequately implemented, we should expect:

- Firm managers to feel continual competitive pressure from a variety of sources - other SOEs, private firms, joint ventures, and wholly foreign owned companies, and foreign based competition.

- Competition will motivate firm-level reforms among SOEs.
- Firms will become more concerned with customers, brand-name recognition, and market position.
- Firms will compete in the labor market for the best-qualified employees.

Getting the Prices Right

State Owned Enterprises need to be convinced to set prices that reflect scarcity and the true cost of production. Although competition creates the stimulus for firms to maximize profits and improve productivity, relative prices are the signals that tell firms how to manage their resources to earn the highest rewards. If the relative prices reflect the true scarcity in the economy, firms attempting to maximize profits and consumers maximizing utility should achieve static efficiency. This is the point where resources are being used to their fullest potential on behalf of the whole economy. Capital or energy, because they are scarce resources, should have relatively high prices to conserve their use. Abundant resources should receive low prices so they will be used more intensively in production. Firms must maximize profits by increasing their sales and cutting costs. Following market signals necessitates that firms should have the autonomy to make their own decisions concerning input and output decisions (Gillis et al, 1992). In this regard, liberalization of prices and foreign exchange payments has two key results for reform efforts. It will lead to enhanced domestic market competition and limit the ability of the government to interfere in enterprise management (Carlin and Fries, 1997). Other steps that must be taken to free prices are the elimination of quantitative restrictions and state trading monopolies, state ordering systems, and two tier exchange rates. Given successful implementation of these reforms, we propose that:

- Firms should not only be able to make market-based decisions on intermediate goods, but they should also have full responsibility for capital based investment decisions as well. This will allow firms to avoid the present catastrophe of incompatible technology employed for primarily political motives.
- Firm managers will make their own output and pricing decisions based on market scarcity and demand.
- Wages: In recruiting, firms should compete for new employees with other firms and pay a competitive wage, for provided it fulfills national legal norms.
- Staff and managers should receive adequate reward in terms of wage increases or promotion with assessment based on transparent, written criteria.

Management Boards and Management Reform

Once the first four steps of the model are completed, SOEs have no choice but to restructure for survival in the new environment. Transitional reforms often reveal the inadequacies of firms related to poor or under-performing managers and assets. To correct for this, a government policy must find a way to improve managerial performance in and set up mechanisms for the transfer of assets. This in turn should

result in self-imposed restructuring by the firm which will entail a re-arrangement of the management mechanism and introduction of corporate governance.

Internal administrative divisions should be reduced and a coordinated hierarchy established so decisions can be quickly and efficiently implemented. Responsibility and accountability should be given to middle and lower managers to allow top managers time for more important decisions. Most importantly, the firm should have full responsibility for hiring staff and managers of the highest professional capacity and moral quality.

One of the best methods for achieving these goals is the introduction of a new and independent management board. The management board would replace the role of the people's committee or Ministry. It will have full responsibility to act as the owner's representative including the autonomy to make its own financial decisions. The board should include representatives elected by employees to insure their input in to the process. Their decisions and financial records should follow international accounting norms and be completely transparent. As part of this process, the General Director or nominal Chief Executive should become the true Chief Executives along the lines of more advanced economies. They should have autonomy on most decisions without micro-oversight by the board and have greater autonomy in hiring and dismissing workers (Verbiest, 1998). Given thorough implementation, we should see these changes at the firm-level:

- The Board of Management should consist of only part-time employees, who are excluded from the day to day logistics of the company.
- The Board and the General director should work out performance contracts, which detail indicators that the General director will be charged with meeting.
- Firms should restructure their management hierarchy to reduce bureaucracy and streamline decision-making. Redundant departments should be slashed and smaller departments merged.
- The organization as a whole should follow clear reporting mechanisms to eliminate ambiguous directions or conflicting messages from top management.

New Management Techniques

The final component of our survey – management techniques and human resource management changes -- have no specific legislative initiatives. Instead, this suggests the legislation relating to "Enterprise Autonomy" should ensure that attempts to increase productivity through utilization of modern management techniques, and that they should be the responsibility of the SOE alone. Interestingly, while there is great attention (in the educational system, in the general press) Through our surveys and interviews, however, we sought to understand how much progress individual firms had made in incorporating modern management ideas. We believe that full-implementation of the previously listed reforms should endow firms with the autonomy to test and perhaps implement modern management techniques. These obviously are numerous and change frequently, so it is

impossible to identify an exhaustive list. Sufficient presence, however, of a few of these innovations signifies a commitment to market based and profit-oriented decision-making. In our study we examined the following four:

Shared Vision. This management technique seeks to create a cohesive understanding of goals, targets, and procedures at every level of the organization. Management will be easier if values and vision are common across a firm. If workers and managers follow the same general set of guidelines toward company goals that are shared, companies will be less at risk of falling prey to vagaries and uncertainties of the harsh new competitive climate. Consistency of application across business units creates a sense of participation in the decision making process that will improve the motivation of workers, as they believe they have a stake in the final outcome.

Encouraging Innovation. Organizations often have a way of choking at innovation and creativity through rules, policies and bureaucratic red tape. Employees can feel that the corporation has stifled their creative energy. If SOEs are looking toward increasing their ability to compete, they need mechanisms to promote change within that organization. Innovation should be encouraged for its own sake and innovative personnel should be rewarded. Failure in creative ventures should not be punished, but rather tolerated and used as a learning experience for further endeavors (Straub and Attner, 1994).

Internal and External Employee-Education Programs. The onslaught of new technology and processes has illustrated the need for continuous worker education to facilitate their adoption. This training should extend beyond mere skill building to inculcate shared vision and values, broaden management perspectives, develop contacts, and shape management relationships. Vietnamese SOEs, like firms in other transition economies as well as those elsewhere, are realizing the value of employee development. In Vietnam, training holds critical importance for employees, who value the knowledge and the "certificate," and often view such development as a pathway to better future employment. To avoid costly job hopping, in theory employees much remain with their firms for a specified period of time, following significant training.

Streamlining Internal Processes. This facet of management reform is the most broad sweeping and inclusive and in the end will most likely prove to be the most important and difficult to implement. The idea is to trim the fat out of the production mechanism and reporting processes in order to achieve a process that wastes as little time, energy, resources, and manpower as possible. Such change requires a radical transformation of the way resources, such as plant, equipment and the workforce are allocated and used. The best method for accomplishing these goals depends on each individual firm, but all must find ways to adapt new technology, locate machinery, and integrate quality checks to achieve the best results at the lowest cost. We were interested in learned the extent to which such processes were being implementing within SOEs.

The Vietnamese Reality

Our expectations discussed above served as our measuring stick for assessing implementation of SOE reform law in Vietnam. We begin with an overview of the state sector and the general direction of reform efforts. Next, we move to a discussion of the legislative initiatives from the Vietnamese government, which correspond to our framework. Finally, we use the results of our surveys and interviews to determine the status of implementation in individual firms.

General Overview of the State Sector in Vietnam

The state owned sector's role in the economy

The most interesting aspect of SOEs in Vietnam is their relatively minor role in the economy compared to other countries and regions. The state owned sector in Vietnam actually accounts for a very small portion of GDP compared to Eastern Europe, the Newly Independent States or China. In 1996, the state sector produced only 29% of GDP. In agriculture, the state sector accounts for only 2.8% of agricultural output; in retail trade, it has dropped from 40% in 1986 to 24% in 1997. Excluding public administration and health, the state accounted for about 22% of value added services in 1996. Manufacturing dwarfs other industrial sectors in its contribution to state output, which is 80% of total output. SOEs are responsible for 53% of the manufacturing product. For a variety of reasons, some sectors, such as tobacco and cigarettes are dominated by the state sector (99.5%), while other industries are notable for the inroads that the private sector has made, such as the rubber and plastics industry (45.3%), garments (49.8%), wood and wood products (69.1%), metal products (71.8%), and medical and precision instruments (61.4%) (Mallon, 1998).

Most surprising is the state enterprise's sector minor contribution to employment. In 1988, the state employed 9.3% of the total labor force. By 1998, it employed 5%. The private sector has absorbed most of those laid-off from the state sector and the new entrants into the workforce. The contribution of state enterprises to government revenues has similarly fallen from around 60% in 1990 to 37% in 1996.

It is important to note the serious statistical concern associated with calculating foreign investment that is in the form of joint-ventures of business co-operation contracts with SOEs. A substantial number of such investments currently operate in Vietnam and a large portion of their output has been recorded as state output. This has led to a complicated statistical problem, as it appears that the state owned enterprise sector has actually increased its share of GDP from 23% in 1991 to 29% in 1998 (CIE, 1998). Thus, it is very difficult to determine what percentage of that growth can be attributed to increased budget allotments for the SOEs.

An important distinguishing characteristic of the Vietnamese state owned sector is the overwhelming number of local, provincial, and district level state enterprises. Their share grew from about 2 1/2 times the number of centrally run firms in 1976 to nearly four times in 1990 (1,695 centrally managed to 10,389 locally managed).

They are the legacy of a war-time regionalization policy that sought to minimize major damage by locating enterprises outside of major population centers.

Re-registration and reorganization

The recent reorganization process which emphasized dissolution and consolidation has brought that ratio down somewhat. Government Decree 388/HDBT, on November 20, 1991, heralded a new era in the development of the state sector. With this document, the Vietnamese government laid forth objective criteria for the re-registration provisions for State Corporations, State Enterprises, and "loss-making strategic enterprises." An organization had to register as one of these or cease operations. Each enterprise seeking registration needed to prove their commercial viability at that time, if they served a primarily administrative role, they were too be disbanded. In 1995, there were 1,847 centrally managed SOEs and 4,463 locally managed (Hung, 1995). Locally managed enterprises are generally owned by the local people's committees, while centrally managed enterprises report to the line ministry overseeing their activities but are officially owned by the Ministry of Finance. Michael Porter, who worked on the Vietnam Southern Master Plan Project, however, disagreed with this simple assessment,

> "A central issue in terms of Enterprise Reform is that in Vietnam, while the SOEs may appear to be "owned" by the respective People's Committees, the legal owner with the power to veto or initiate sale or transfer of all Vietnamese SOEs is the Ministry of Finance (Porter, 1998)."

At the time of the decree 388/HDBT, there were 12,297 SOEs in Vietnam with a total capital of three billion US dollars (39 trillion VND). By 1994, there were only 6,264 SOEs, but total capital had actually increased to four billion US dollars (53 trillion VND). Only 2,000 SOEs were actually liquidated, while 3,000 were merged into larger state corporations. Capital increases were the result of on-going re-valuation of state assets and mergers combined with a heavy dose of investment in the state sector through foreign joint ventures (Mallon, 1998). The liquidated enterprises were rather small, employing less than 100 people and $45,000 in total capital.

Conglomeration into State Corporations

The next phase of this process has been a policy of SOE consolidation, instituted by the Vietnamese Government in 1994 . It may have negative repercussions throughout the economy and specifically impacts our research on the garment industry. The Government's opinion was simply stated by the Deputy Minister of Planning and Investment (MPI) Nguyen Van Quang, "There are too many enterprises and they are too small." Indeed, over 35% of SOEs employ less than 1 billion VND ($76,923) in capital. The MPI also seeks to assist the 20% of SOEs which are loss-making and unable to repay their debt. Economists James Riedel and Bruce Comer have disapproved of such a system, arguing that while economies of scale are obviously very important, the market should be allowed to dictate its outcome (Riedel and Comer, 1997).

The trend toward industry consolidation was announced in the Political Report of the 7th Party Congress in 1991 and called for the grouping of enterprises into large State Corporations. The government extended this concept in *Decision 90* of March of 1994 "Work to Re-arrange State Enterprises," when it provided for the registration of two categories of state corporations. As mentioned above, the Vietnamese government now had re-registration provisions for State Corporations, State Enterprises, and "loss-making strategic enterprises." *Decision 90* explains that State Corporations must have at least 5-member entities and total legal capital of 500 billion VND. Ministers and Chairperson's of the People's Committee at the provincial or municipal level can decide on the establishment of *Decision 90* Corporations. *Decision 91* State Corporations emanate from the same March 1994 decree, but need to be comprised of 7 entities, have at least 1 trillion VND in capital, and be approved by the Prime Minister himself (Mallon, 1997). Vice Minister Trang (1998b) also explained, in a personal interview, that the 18 *Decision 91* firms actually serve as a laboratory for market reform. These SOEs have more autonomy that their counter-parts, as they are able to make singularly make 50% of the decisions that *Decision 90* SOEs must report to the Line Ministry. They are also able to distribute capital among their member companies without Ministry of Finance approval.

The April 1995 *Law on State Enterprises* clarified and strengthened the status of State Corporations by defining them as separate legal entities with the same rights and obligations as State Enterprises. According to the law, enterprises generally have the right to decide whether to join as members of State Corporations, but the law is carefully worded to allow for compulsory inclusion if the merger is deemed of special importance. The truth is most were established upon directions from the government and did not involve voluntary enrolment at all.

> "A State Corporation is established and operates on the basis of the association of many member units having close relations of interest in economy, technology, supply, consumption, information, training, research, marketing, operating in one or a number of main specialized technical-economic sectors, with the aim of strengthening the business capacity of the member units, and discharging the tasks of the socio-economic development strategy in each period, " *(Decision 90)*.

The State objectives for the consolidation of the industry in this manner were well intentioned but perhaps misled. According to the Deputy Director of the MPI, Nguyen Van Quang, officials wanted to eliminate the control of SOEs by the line Ministry and local authorities while freeing administrative resources to concentrate on the management of fewer businesses. Economies of scale and the threat of international competition also played key roles in decisions. At this date, 82 corporations have been established, of which 18 corporations were erected by the Prime Minister under the *Decision 91/TTg*, and 64 corporations were decided by Ministers or Chairmen of the People's Committees with authorization of the Prime Minister under the *Decision 90/TTg* (Quyen, 1998).

Raymond Mallon of the Central Institute of Economic Management, however, pointed out that the new structure was falling well short of these goals for several reasons. He felt that state corporations were established in a top-down manner that often merged diverse entities with no clear benefits of membership. Many enterprises complain that they were pressured to join without consideration for economic benefits.

Moreover, others feel that the structure just added another layer of bureaucracy with no real value added from members' contributions to corporation's overhead (Mallon, 1997).

This appears to be the case in our study as well. In October of 1995, Confectimex, the former union of textile import and export was merged with Textimex, the Vietnam Textile Company. This was done to create a State Corporation called Vinatex at the bequest of the Minister's committee of the Vietnamese government. Vinatex then joined the Ministry of Industry because it was too small to stand on its own as a chief company.

Another issue is that the individual rights of corporations within enterprises are debatable. The official description of enterprise autonomy within the mother company is stated as follows,

> "Self-accounting member units in corporations are also deemed to be state-owned enterprises but, compared to the independent SOEs, their legal status is more limited, because of their links to the corporation in terms of some rights and duties (Cuong, 1998a).

Member companies must follow the organization's common business plan and are constrained in their ability to enter independent contracts or pursue individual investment strategies. They are obliged to follow the corporation's overall strategy for establishing, re-organizing, or merging sub-units and are subject to the corporation's arrangements for capital use under its management.

The most injurious point in terms of business policy is the fifth obligation of, "being obliged to release all financial contribution's to the corporation (Cuong, 1998a). Mallon remarked that profitable members often complain that they are called on to cross-subsidize inefficient enterprises (Mallon, 1997). As a State Corporation, Vinatex primarily participates in management of its 40 member companies, which include sewing companies, management schools, mechanical engineering plants, and a research institute. These are member companies (not to be confused with subsidiaries), because each member is deemed to be its own company with its own capital. Managers at Confectimex insist that companies which win contracts on their own are not obliged to pay anything to their mother company. If Vinatex or Confectimex assists the client procurement process, they will get "vesting fees" according to a pre-determined percentage. One Confectimex manager felt that most companies opted for Mother Company assistance, as only "some powerful companies in Hanoi are able to win contracts directly, such as Garco 10, Victory, and Thang Long. Small remote companies like Dap Cau must lean on the Mother Company." This assistance was thought to be advantageous, as it "gives opportunities to other companies." Though this is a noble goal, it hints that overhead fees paid by profitable companies to the State Corporation are being shifted to less profitable ones.

It is also important to note that the effect of conglomeration on competition in the Vietnamese economy is still very unclear. According to Vice Minister Quang, one problem with the move to corporations may have been the creation of monopoly power at the expense of competition leading to higher prices for industrial products. In his words, "However, the size of the corporations is rather large, especially in the industrial sector, resulting in the increase in monopoly of these corporations and limiting

the competitive ability of other enterprises. (e.g. Monopoly contributed to the doubling price of cement of the Vietnam Cement Corporation in mid 1995)," (Quyen, 1998). Other industries where radical price increases have been noticed as a result of newly acquired monopoly power are steel and paper (Tiem, May 6, 1995).

On the other hand, our research and other projects indicate that member companies within corporation may actually be facing strong competition from each other (CIE, 1997). This in fact was the impetus for Dr. Tran Ngoc Trang's (Trang, 1998b) comment regarding the quarreling children.

Equitisation

Privatization or the Vietnamese version of it , termed equitisation, has simply has not progressed far enough in Vietnam to assess its effects[4]. In January, 1995, a conference on "Ways and Means to Improve Efficiency of Public Enterprises" was held in Hanoi, sponsored by the State Planning Committee, the Ministry of Finance, the World Bank, and the United Nations Development Program (UNDP). At the conference, the progress of enterprise reform was reviewed and delegates learned that after two and half years of experimentation, only three out of nineteen companies targeted for "equitisation" had completed the process, and two were still under investigation (Hung, 1995). The situation hasn't improved in the interim. The Asian Development Bank (ADB) recently reported that by September 1997 only 14 small and medium size firms were fully equitized (Verbiest, 1998).

Our survey squares with ADB's report. Of the 134 usable surveys returned to us, only three firms, all of moderate size (100-400 employees) claimed they had fully completed equitisation; one medium sized firm (400-1000) was fairly divested, and five others (below 1000 employees) were partially equitised. Seventy-six percent of the firms had not even begun the process. The World Bank claims that the Vietnamese Government has compiled a list of 150 companies (out of about 6,000) to be equitized, but the Bank has yet to receive the list (Keenan, December 18, 1997). Administrative difficulties such as inexperience in agencies overseeing the program, a lack of transparent guidelines, obtuse valuation procedures due to poor accounting (CIE, 1998)

Enterprise Autonomy

Legislation Granting Autonomy

Following the Sixth Party Congress in 1986, Vietnamese leaders publicly condemned "bureaucratic centralism." Though the enterprises were given financial autonomy, they were forced to adopt socialist business accounting methods. The operational independence of firms was sealed in the *Decision 217-HDBT* "Renovating,

[4] Through equitisation shares are offered to employees and outside investors. Significant problems remain with the definition of ownership and transferability rights. It is not yet clear whether shares can be distributed with anybody but the immediate family (CIE, 1998).

Planning, Economic Accounting, and Socialist Business of State Enterprises (November 14, 1987). Now, firms have sole responsibility to set most prices and purchase inputs.

Finally, in theory managers also received the right to remove excess workers from the production process or business operations, while following guidelines for compensatory payments. In 1989, a new stabilization program transferred ownership rights over the 2000 largest from the line ministries which historically had ownership rights, to a bureau within the Ministry of Finance. Riedel and Comer (1997) felt that this signals an attempt to mitigate the bias against non-state enterprises. Such a bias derives from the fact that many line ministries function as both enterprise owners and industry regulators (Riedel and Comer, 1997). Further evidence was the National Assembly's 'State Enterprise Law' in April 1995 to establish SOEs as separate legal entities with liability limited only to the total capital managed by the State Enterprises. The law stipulated that SOEs were to operate on the same basis as private companies, with similar corporate governance structures, and profit-maximizing orientation." At a January 21, 1998 Organization of Economic Co-operation and Development Conference, Dr. Tran Xuan Gia, the Vietnamese Minister of Planning and Investment announced that the MPI hoped to eliminate administrative functions and focus purely on regulatory work.

In terms of Labor Policy, the 1995 Labor Code offers employers a great deal of control over employment conditions, as they have the freedom to negotiate contracts of one to three years. *Article 1*32 allows SOEs to directly recruit laborers and petition the labor office at the provincial level for the replacement of laborers "who do not meet their requirements." Though giving firms much more freedom, the Labor Code required an implicit bargain. Firms must participate in the collection and management of a social insurance fund, establish a trade union branch, and to keep, labor, wage, and social security records. For SOEs in particular, a modification of the Labor Code passed through the national assembly. *Decree 198/CP* (31/12/94) offers contract protection specifically for state enterprise workers, by saying that full-time SOE employees may sign contracts of indefinite terms (CIE, 1998). In addition, the trade union clause in *Article 153* gives unions a great deal of power , as they have a number of different legal mechanisms at their disposal to block or prohibit worker dismissal (CIE, 1998)

Given the extensive legal mechanisms that exist to create enterprise autonomy, we examine the extent of their implementation and effectiveness at the micro-level.

Surveys and Interviews

To explore this issue, we used three groups of questions. First, we sought information on which actors initiated firm-level changes. We asked, through surveys and interviews, who was driving their reform decisions – top managers, the ministries, strategic partners or others. Second, we looked at whether firms' major actions tended to be more focused on achieving business or government goals (i.e., was management focus more profit-driven or based on non-economic objectives). Third, we explored the extent to which firms had autonomy in human resource decisions; in particular, were they free to hire and dismiss workers as they felt best suited their strategic plans?

Who proposes the changes?

The survey and interview findings suggest that the government's role in initiating change has been substantially reduced but not completely eradicated. Survey results suggest that employees at all levels view top managers, rather than ministry officials, as the most likely initiators of change in SOEs (Charts 1 and 2).

[Insert Charts 1 and 2 about here please]

Respondents reported that government/ministries and strategic partners were the second most important initiators of change, following initiatives from top managers. A majority of respondents (68.4%) strongly agreed that changes in the market compelled actions on the firm level. (Charts 3 and 4). Also, the survey and interviews suggested that autonomy is greater as perceived by upper middle managers who are in the best position to see whether top managers or the ministry is directing decisions (Tables 1 and 2).

[Insert Charts 3 and 4 about here please]

Table 1: Mean scores by management level: Who proposes the changes?
(1 = Strongly Disagree; 5 = Strongly Agree).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top Man.	Non-Man
A-V-1: Staff	2.64	2.92	2.59	2.65	3	3.38
A-V-2: Technicians	3.36	3.54	3.26	3.19	3.86	3.17
A-V-3: Top Managers	4.4	4.37	3.84	4.26	4.37	4
A-V-4: The Ministry	3.47	3.86	3.64	3.68	3.86	3.57
A-V-5: Customers	3	3.33	3.45	2.95	3.28	3.14

Table 2: Mean scores by size and jurisdiction of firm for Question Group A-V: Who proposes the changes?
(1 = No Change Yet; 5 = Change Complete).

Variable	Very Small	Small	Medium	Large	Very Large	Local	National
A-V-1: Staff	2.6	2.79	2.27	2.75	3	2.93	2.71
A-V-2: Technicians	3.23	3.48	3.07	3.5	2.87	3.66	3.31
A-V-3: Top Managers	4.37	4.28	4.47	3.59	3.4	4.67	4.04
A-V-4: The Ministry	3.5	3.33	4.17	4.06	3.56	4.03	3.43
A-V-5: Customers	2.85	3.61	3.3	3.5	3.1	3.67	3.2

Nevertheless, despite the gains for top management, the ministry is far from insignificant. Indeed, survey respondents and interviewees acknowledged that the ministries continue to play a role, as illustrated by the Head of Internal Affairs at the "Case Study Company:"

> "State owned firms follow specific regulations, like the labor code, how to recruit employees, dismiss people, ... and insure people. [The Ministry of Trade" must approve exports....The Ministry of Light Industry requires [firms] to follow rules on how to cooperate between companies in the industry, provide contracts to produce products in the industry..."

Supporting this view, the head of R&D at a member company felt the Ministry of Light Industry interfered at several company levels, assigning specialists to every company department. The planning department reports to a specialist about plans and productivity levels; the technology department consults ministry specialists on technical decisions. She admitted, "...all of the company members have complained about this deep interference." Despite the complaints, the same manager excused ministry interference in a recent construction project that forced a slowdown in investment procedures because "the ministry has to manage a lot of work and [since] everything is important, [we must wait] to get the right evaluation."

An example of continuing involvement is the recent government initiative to form State Corporations by combining the SOEs in each industry under a mother company. That dependence means smaller firms must respond to the Mother Company directives more than larger, powerful ones.

The head of the Technical/Design Department of another member company offers a different view: "This company belongs to the State Corporation and [since] the ministry provides capital for the State Corporation, whatever my company does, it must discuss decisions with the Mother Company." A manager at the Mother Company concurs: "We receive the government's capital, give it to member companies and try to balance the books." This is especially true of international trade where the Mother Company makes quota allotment decisions for all member companies, after negotiating with the Ministries of Commerce and Industry. Animosity toward the distribution of quotas is common, particularly since bureaucrats are less efficient at allocating resources than market forces. Miscalculations in export allocation, for example, have left productive companies with excess capacity and unproductive ones receiving more work than they could handle (Parry, 1997).

Thus, government influence emerges in two key areas. First, strategic decisions must receive a ministry specialist's approval (e.g., on technology, partners or location, even though, regulations may be applied differently based upon which specialist is involved. The General Director of the Case Study Company illustrates:

> "In many cases, regulations are not very clear. The application of these regulations depends a lot on people or offices who issue and use them for controlling business companies....Last year we submitted a proposal to the local authority to establish a joint venture company (with a Japanese partner) and locate it in the area near the headquarters city. The local government did not agree and asked the company to place the joint venture unit in another place, very far from the city. The government explained that this was the Industrialization Policy of the main city. If we had followed the plan, the company would meet many difficulties in management and control."

In addition, ministries appoint boards of management. If the enterprise is small or a joint venture, the ministry will appoint a chief accountant or auditor, giving it immense influence over important decisions. Finally, while elections of top officials occur within firms, they generally are 'cosmetic' at best, since ministries have final authority for personnel decisions.

To firms that complain about rigorous ministry objections and oversight, Deputy Head of the Ministry of Finance Nguyen Van Bang had this reply, "The State is the owner of State businesses, and the management board, general directors, and directors are appointed by the State, are paid by the State to operate capital and assets of the State, so it is necessary to have the State's inspection and examination" (VIR, September 30, 1996).

Profit versus social benefits

We also examined the idea of enterprise autonomy from a more indirect perspective. As we indicated, we expected newly autonomous SOEs to restructure their values in order to place financial indicators ahead of government initiated social welfare values. For the most part, this held true in the Vietnamese case. Profit and meeting customer needs ranked ahead of traditional Vietnamese SOE priorities, such as social benefits (Charts 5 and 6). While economic change may appear to suggest that profits be placed before such activities, we argue that the

opposite is more likely. Allowing SOEs to pursue profitability should result in more government tax-revenue, which can be dispersed for social-welfare activities. Forcing SOEs to engage in activities outside of their core competencies may cause price distortions leading to shortages, surpluses, or huge losses that will increase government budget deficits. This has two negative effects. It can reduce the government's ability to finance welfare activities of its own, as its resources are taxed. It also tends to raise interest rates, thus making welfare producing infrastructure investment unprofitable.

Charts 5 and 6 indicate that Vietnamese managers say they are adapting to market-based decision making. When they ranked several business goals, the overall mean of social benefits was last, behind making a profit, meeting customer needs, and benefiting stakeholders. In fact, 55.4% ranked profit as most important, 35.1% chose customer needs, and only 11.4% selected social benefits (Charts 5 and 6). One member company demonstrated the present value choices when talking about the decline in social benefits this year,

> "The reason for not getting benefits was the company borrowed too much capital... Now we have to repay debts, so the welfare fund is limited."

This may imply that provision of social benefits (e.g., lifetime employment) is a government priority that firms will shed once free of the state's requirements.

[Insert Charts 5 and 6 about here please]

Labor policy

Government influence also continues to be pervasive in employee staffing and other personnel decisions. We expected that the 1995 Labor Code giving firms more autonomy in staffing would increase employee concern of dismissal or demotion. In our framework, we expect that autonomous SOEs should have control over staffing decisions. Likewise, under a hard budget constraint, firms would cut costs and consequently trim their employment. Thus, one would expect employees and managers to worry about being laid-off, because "competing" employees educated in modern business practices such as western accounting, finance, and marketing might replace them.

Yet, there is still widespread debate about whether firms are free from intervention by the ministry in staffing decisions. The head of R and D at one company claimed that the ministry interference was most pervasive in the personnel and staffing area: for instance, her firm must consult the ministry on wage level increases beyond the level officially dictated to the company. In addition, the guidelines enterprises must follow remain burdensome, continuing to result in slow action. As she put it, "In the past, it took 5 years to have your salary raised. Now, it takes [only] three."

Despite these difficulties, official statistics claim that one million public sector employees were shed between the peak year of 1987 and 1994, dropping from 4.1 million to 2.9 million (Hung, 1995; Dodsworth, 1996). The IMF stated that 85% of the decline was due to reductions in employment in the state enterprise sector (Dodsworth, 1996). Locally owned enterprises cut their employment roles by half, from 1.5 million in 1988 to 0.75

million in 1994 (Hung, 1995). Indeed, the head of the technical department at a member firm feels that firms do have more autonomy in handling inefficient employees, "...for those who don't work effectively, we can cancel their labor contract. In the past canceling contracts was impossible.... Dismissal is not as difficult in the past. If someone can't work well, she will be dismissed."

Nevertheless, the respondents to the survey suggested a different trend. 59.1% of respondents "strongly disagreed" with the statement that they were afraid of losing their jobs, while 71.4% "strongly disagreed" that they worried about demotion (Charts 7, 8, and 9 and Tables 3 and 4). While other reasons may account for this response (e.g., informal tenure practices, lack of qualified replacements, policies to shift redundant workers to subsidiaries), it also supports the idea that government involvement continus in staffing decisions.

[Insert Charts 7, 8, 9 about here please]

Table 3: Means by management level for Question Group A-X: What have been the most difficult things to deal with during change? (1 = Strongly Disagree; 5 = Strongly Agree).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top Man	Non-Man
A-X-1: Worry about losing your job	2.4	2	1.67	2	1.86	2.12
A-X-2: Worry about being demoted	1.4	1.41	1.39	1.42	1.75	1.71
A-X-3: Worry about getting moved	2.2	2	2.45	2.3	2.14	2.57

Table 4: Means by size and jurisdiction for Question Group A-X: What have been the most difficult things to deal with during change? (1 = Strongly Disagree; 5 = Strongly Agree).

Variable	Very Small	Small.	Medium	Large	V. Large	Local	National
A-X-1: Worry about losing your job	1.52	2.42	1.28	1.88	1.9	2.1	1.92
A-X-2: Worry about being demoted	1.49	1.32	1.61	1.22	1.59	1.58	1.43
A-X-3: Worry about getting moved	2.36	2.61	1.56	2.12	2.5	2.25	2.26

Two questions sought to examine the ambivalence of SOEs to solving staffing problems through layoffs. Removing ineffective people from the organization is stressed infrequently with workers and is viewed as a minor problem when compared with other issues, such as high costs or poor financial performance, which received a mean score 4.6. A manager at the mother company confirmed this when he acknowledged that he did not know of any employee ever being dismissed despite the management's knowledge that the firm employed "twice or three times as many employees as needed." Yet, 50% of those surveyed identified "people who are not contributing" as a very important problem. There appears to be a

major discrepancy. If "deadwood" in the workforce is such a significant problem and if so many studies stress large labor cuts, why aren't employees afraid of being fired (Table 5)?

Four different explanations may account for this trend, which contradicts the labor-reduction numbers. First as we mentioned earlier, for SOEs the 1995 Labor Code was modified by *Decree 198/CP* (31/12/94), which offers contract protection specifically for state enterprise workers. As the only aspect of the Labor Code that provides discrimination by enterprise type, it acts as a barrier to flexibility for SOE managers. In the short run, it will inhibit restructuring in the enterprise. In the long run, however, it will lead to a cost of labor that will lead to efficiency in the SOE sector (CIE, 1998)

Second, the fall in employment may simply reflect the loss of jobs associated with the 2,000 SOEs that were liquidated or went bankrupt as a result of *Decision 217-HDBT*. Employees also left voluntarily when effective pay declined. If this is true, these numbers should not be used as evidence of more autonomy for SOE managers.

The third reason is cited in a footnote to the IMF data. In it, they qualify their employment data by saying, "Employment data are subject to large margins of uncertainty. While informal accounts also refer to substantial labor shedding, other evidence including industrial SOE surveys, do not show such a large decline in employment. Also, older statistical yearbooks contain several definitions of employment." The IMF goes on to say that the discrepancy between the industrial surveys and their numbers may have to with this definitional disparity. They believe that a significant portion of the downsizing may merely be the transfer of disabled and other retirees from the employment ranks to the lists of welfare recipients (Dodsworth, 1996). A manager of the mother company confirmed this when he said, "In the 80s and 90s, all those at the age of retirement, were encouraged to retire."

The final reason is supported by both our surveys and interviews, but is beyond the scope of the present project. Vietnamese SOEs seem to be moving toward a model established by the Japanese Kieretsu. Rather than laying-off or demoting an employee, which contradicts the social market system that is in place and can be socially stigmatizing, they have opted instead to move them to new positions. In fact, one member company manager bluntly stated, "Actually, in the Vietnamese mechanism, nobody lost his job. They just changed firms, are awaiting new positions, or have been shifted to other positions." The manager of the mother company said of surplus employees, "They don't have to retire. They can just move to another place in the ministry. It is impossible to arrange for the dismissal of hundreds of people. They need time to find other jobs."

Similar to the Japanese Kieretsu model, the Vietnamese ministries are creating mega-entities through conglomeration. As one would expect, employees are more afraid of being moved than they are of being fired. Even more interesting (and again matching some of the Japanese approaches) employees of large firms were the most likely to fear position changes (Tables 3 and 4). This also resembles the Japanese model, because large firms are better able to "promote" employees to subsidiaries.

Table 5. Descriptives and percentage frequency distributions for questions dealing with labor dismissal.

Staying Focused: In trying to keep the organization focused, how often is emphasis placed on taking ineffective people out of the organization. (1 = Never; 5 = Always).							
Variable	**Mean**	**Std. Dev.**	**% 1**	**% 2**	**% 3**	**% 4**	**% 5**
Taking out ineffective employees	3.29	1.38	13.2	12.4	30.6	15.7	27.3
Performance Problems: Please indicate how important the following problems are for your organisation. (1 = Not Important; 5 = Very Important).							
Problems	**Mean**	**Std. Dev.**	**% 1**	**% 2**	**% 3**	**% 4**	**% 5**
Difficulty getting ineffective people out	3.43	1.33	14	4.7	34.9	17.1	29.5
Too many people who are not contributing	3.94	1.31	5.6	5.6	21.8	15.3	50

Hard Budget Constraints

Legislation Establishing Hard Budget Constraints

beginning in 1988, Vietnam found itself in the midst of a macroeconomic crisis. Inflation was increasing at an annual rate of 40% and the current account deficit bordered on 10% of GDP. This deficit had traditionally been financed by aid from the Soviet Union, but the events of 1989, however, left Vietnamese officials quite convinced that such aid would no longer be available (Riedel and Comer, 1997, 195-197). To avert the imminent financial disaster, the Government immediately implemented strict structural reforms and macroeconomic stabilization measures.

The legal basis for these initiatives was in *Decree 217-HDBT* in 1987 and further refined in *Decree 50-HDBT* (22/3/88), which delineated the method for implementation. Not until the crisis, however, did actual implementation of these provisions begin with a series of decisions. *Decision 98-HDBT* listed the rights and limits of worker unions in SOE management. *Decision 93-HDBT* (2/12/89) defined the powers of management in making management decisions. *Decision 332-HDBT* spelled out the obligations of SOEs for managing state assets in the former of an Enterprise Contract. When combined with the price reform, which we deal with shortly, the bloated system of state procurement was abrogated (Hung, 1995).

The package of measures that Vietnam implemented in 1989 followed the IMF orthodoxy scrupulously, earning the term Vietnamese "shock therapy." First, Vietnam slashed subsidies to all enterprises. Over-generous allocation of capital was eradicated except for a small group of SOEs unable to quickly recover from the loss of the CMEA market in 1990. Price liberalization and exchange rate unification rid the economy of both direct and indirect food and export subsidies. Several 1990 tax laws removed loopholes that were affording favored firms indirect subsidies.

Second, in 1990 the Vietnamese officials attacked implicit interest rate subsidies by raising interest rates to positive real values. Third, the exchange rate was devalued four-fold in 1992 and more importantly was unified to

prevent SOEs from receiving cheaper imported inputs than their competitors. Cheap imported inputs also fell considerably with the collapse of the CMEA trading arrangements (Dodsworth, 1996).

The Vietnamese authorities diligence in truly enforcing the fourth provision is a matter of some debate. As part of the shock therapy legislation, of bank credit was limited to only profit-making enterprises and strict limitations were placed on bonus and welfare payments to companies in arrears. Banking sector reform was supposed to force SOEs to compete with private firms and other SOEs for access to bank loans. This positive news is a very recent and perhaps ephemeral phenomenon. Originally, authorities saw the banks as a safety valve to cushion the reform process and they seem to be moving back in that direction. As the state cut back investment in capital and technology for budgetary reasons beginning in 1986, the banks were asked to make up the difference. Between 1986 and 1988, the State Bank paid an average rate of 8% per month (96% per year) for three-month deposits. Then, the banks turned around and charged the SOEs in industry and transport only 1.6% a month (19.2% a year) for their main source of funds (Dodsworth, 1996). The monstrous spread of 80% between the banks' borrowing and lending rate was an implicit subsidy that drained a fortune from the State Banks' coffers. As late as 1993, state-owned banks were still required to provide credit to the state enterprises. In 1994, competition for bank credit was opened up and this percentage fell to 63%. Growth in bank credit to SOEs fell from 9.6% in 1987 to 2.45 in 1994 (Dodsworth, 1996, 14). On May 31, 1998, a major setback took place in bank policy. Cao Si Kiem, the Governor of Vietnam's State Bank, issued *Document No. 417/CV-NH 14*, which removed the existing limits on loans to SOEs. These regulations restricted lending to loans that were less than the value of the SOE's legal capital. This meant that indebted enterprises and loss-making firms could not receive additional funding. Absurd situations, such as March 8th Textile having capital of VND 17 billion, but 200 billion in debts were theoretically prohibited. Now, indebted SOEs can receive even further loans, provided that they demonstrate efficiency in operations and a credit worth business plan. They do not need to offer collateral (Ha, 1998). The document was created in order to alleviate the pressure on State Banks, who admit to being under fire from State agencies to assist loss-making enterprises. Controversy remains over whether this is a temporary stop-gap or a long-term measure, but like the Nam Dinh textile bail-out it violates the spirit of hard budget constraints.

Fifth, the government attempted to simplify monitoring of SOEs and measure reform solely on profit and budget contribution. This has not been as successful as other reforms, however, because accounting standards are not quite up to par. Vietnamese authorities were also worried about existing capital that had been left in the firm after autonomy had been granted. For instance, ten percent of Victory's capital-in-use has been left over in this manner. They wanted to insure that this remaining capital would also be effectively employed. As a result, they demanded that all managers of SOEs sign a "capital contract" to guarantee efficient use of this capital (Decision 322-HDBT). Use of capital contracts necessitated a better understanding of the SOEs actual assets, so Decree 93-HDBT on depreciation and Decree 195 HDBT on asset revaluation were legislated. The OECD has advocated this approach as an intermediate reform step before privatization according to the head of the OECD committee on privatization, Stilpon Nestor (Speech at OECD Conference on January 20, 1998). This measure enables the government to monitor the financial records of SOEs. Monitoring in Vietnam takes place through a two-tier approach. The Finance Ministry monitors national SOEs, but local firms report to the financial department in their province. It is unclear how much power the Ministry has to dictate terms to enterprises, which do not live up to the

contract and "effectively" is not clearly defined. These ambiguities leave a great deal of room for government to overreach its authority and should be watched carefully (Dodsworth, 1996). To this end, the Vietnamese government radically reformed the institutional infrastructure through the 1995 State Owned Enterprise Reform law. They created an interagency SOE reform committee and a department in the Ministry of Finance to manage SOEs' assets. SOEs must submit annual reports on their activities and finances.

According to a 1990 survey, nearly 5,000 enterprises were in the red in 1989. Eric Offerdahl, the IMF Vietnam representative recently commented that at the end of 1997, nearly 50% of all SOEs were running budget deficits. The same 1990 survey also found that 4,083 (89%) were locally managed. A further survey of Ho Chi Minh City, Hai Phong, and Hanoi found that 39% of 1,577 enterprises had large operating losses with 62% of these locally managed (Hung, 1995).

Despite all these positive innovations, it is still quite common to see a state decision that flies directly in the face of the reforms. The recent SOE bailout by Prime Minister Kai reported in *Cong Nghiep* on December 11, 1997, illustrates this contradiction. Nam Dinh Textile and March 8 enterprises received permission to re-schedule medium and long term debts without paying interest for five years. The decree announced that 30% of the working capital would be financed by the state budget, while 70% would come from commercial banks. Furthermore, SOEs still get a disproportionate share of their capital from state owned banks. One of the firm's we interviewed estimates that 70% of its capital is borrowed from state owned banks. The legacy of this "compensatory financing" is a large accumulation of non-performing loans that must be cleared.

Woo's predictions about inter-enterprise arrears also proved very well founded. Once the other remnants of the soft budget constraint were done away with, SOEs begin to turn to each other. They have been assisted in this endeavor by a law, which stipulates that they only must pay a small tax on the loan, but do not need to return the principle. As these loans ballooned, they began to negatively affect the behavior of both private and public firms (Hung, 195). The reason was that all actors could see that the government would eventually have to cover the quasi-fiscal deficits.

For Vietnam, the burden of this dilemma landed squarely on the shoulders of the state owned banks. When on April 1, 1992 these arrears were frozen they amounted to nearly 8.2 trillion VND 7% of 1992 GDP. As creditors have absorbed some of the interest costs and some of the assets have been retrieved, this number has fallen to below 7 Trillion VND or 3% of the 1995 GDP. Though recent bankruptcies may magnify the problem, however, because Vietnamese law stipulates that land reverts back to the state after bankruptcy. Thus, banks are left with nothing in the way of saleable assets. Furthermore, most of the arrears are from locally owned enterprises. State owned commercial banks are owed close to two trillion VND by local firms. In other transition economies, when inter-enterprise arrears are allowed to get out of hand, two negative effects result. One the income velocity of money is increased which limits monetary policy. Second and more importantly the payment mechanism of financial institutions is cut back, causing cash to become the preferred mode of transactions. If SOEs are unable to obtain cash, yet another constraint is placed on their ability to carryout transactions. Hung feels this may be the reason that one often hears SOEs complaining about a general "shortage of currency" (Hung, 1995).

The findings suggest that, to some extent, autonomy has been accompanied by increasingly harder budget constraints. First, the liquidation and mergers of over 5,000 firms implies that firms unable to survive in the new

market oriented economic environment, have been allowed to fail. Gia, Minister of Planning and Investment reiterated this point on May This comes, however, after attempts to bailout and restructure firms, as urged by the Vice-Chairman of the National Steering Committee on Enterprise Reform, Tran Ngoc Trang (1998b).

Surveys and Interviews

The implication of hard budget constraints is that once they are imposed firms can no longer rely on the government to bail them out of financial difficulties. Thus, we expected that inefficient or persistently loss-making firms would be allowed to go bankrupt. Profligate spending and management embezzlement of resources will be curtailed, because firms will have to pay close attention to cost control. During the reorganization, several firms were indeed allowed to go bankrupt, but many more were merged into State Corporations. Moreover, the firms that were dissolved were very small in terms of employment and net capital.

To explore whether these ideas have come to fruition in Vietnam, we designed a two-step approach First, we studied whether firms were behaving in a manner that indicated that a hard budget constraint has been imposed. Second, we examined whether they focused on cost control.

Recognition of higher costs

Recognition of higher costs may demonstrate, for instance, that managers are making decisions without expecting or anticipating a government cushion for spending. Respondents put cost control and other financial indicators among their most important priorities with top managers stressing cost control most often. Costs also finished second, after "time" as the biggest impediment to change in the firm (Charts 10-15). Top managers, once again, nearly unanimously recognized costs as a major factor in their decision making regarding change. This is especially important, because intuitively one would think that top managers, assured of a government bailout, would be the least likely to be afraid of high costs. In our interview with one member company, they consistently reiterated the problems caused by their present capital shortage. Their expansion and social benefits have been curtailed due to a need to use present resources to repay old debts (Table 6).

[Insert Charts 10,11,12,13, 14 and 15 about here please]

Table 6. Descriptives and percentage frequency distributions for questions dealing with cost.

Staying Focused: In trying to keep the organization focused, how often is emphasis placed on the following. (1 = Never; 5 = Always).

Variable	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Cost Control	3.85	1.35	10.5	3.2	26.6	9.7	50
Financial performance	4.13	1.28	7.8	0.8	18.6	12.4	59.7

Performance Problems: Please indicate how important the following problems are for your organisation. (1 = Not Important; 5 = Very Important).

Problems	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Inadequate cost control	4.27	1.2	4.9	3.3	13.9	11.5	65.6
High operating costs	4.01	1.29	4.2	3.3	22.5	15	52.5

Responses to higher cost burdens

Several indicators suggest that some managers still believe the government will bail their firms out of difficulty. Many firms still engage in unwise planning activities that risk large losses for uncertain gain. The survey findings suggest that many firms still considered lack of planned expansion to be a problem: many respondents felt that both unfocused strategies for expansion and unrealistic planning assumptions of for new markets were serious problems. 79.8% of those polled in our survey found that unrealistic planning assumptions were somewhat important or greater as problems for the future of the firm. More astoundingly, 86.2% thought unfocused strategies for organizational expansion were a problem of some importance or greater. Interestingly, the first line managers saw these as more serious problems than top managers – perhaps senior managers overestimate capabilities of employees and firms, whereas lower level managers are more realistic.

Finally, apparently some employees act in ways to benefit themselves but risk the firm's financial status (Table 7). Aside from expectations about government bailouts, such behavior may also may indicate a level of corruption beyond what is considered "normal" in a hard budget environment. Since this was not a particular focus of the study, however, it is difficult to confirm such speculation.

Table 7: Means by management level for Question Group A-IV: What have been the biggest challenges to managing the change? (1 = Strongly Disagree; 5 = Strongly Agree).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top Man	Non-Man
A-IV-1: Potential conflicts with top managers	3.27	2.47	3.21	3.08	2.75	2.87
A-IV-2: Lack of resources to make change	2.67	3	2.76	3.09	3	3.14
A-IV-3: Time needed to change	4.38	4.38	3.9	4.65	3.88	4.38
A-IV-4: Cost	3.86	3.4	3.09	4	3.86	4
A-IV-5: Unfavorable environment	2.47	2.2	2.46	2.72	3	3

Table 8. Descriptives and percentage frequency distributions for problems associated with hard budget constraints.
(1 = strong disagreement; 5 = strong agreement)c

Problem	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Unfocused strategies for organisational expansion.	3.62	1.34	9.5	2.6	32.8	18.1	35.3
Unrealistic planning assumptions in entering new markets.	3.55	1.44	9.6	7.9	27.2	14.9	37.7
A political climate that undermines trust.	4.14	1.22	2.4	6.5	17.1	14.6	57.5
Self-serving behaviour that hurts the organisation.	3.68	1.41	9.3	4.2	25.4	18.6	39.8
People put personal power ahead of organisational good.	3.91	1.34	7.6	4.2	19.3	19.3	47.9

Introducing Competition

Legislation to Introduce Competition

For our framework, we looked at the IMF's recommendations for stimulating a competitive environment. Legally, Vietnam has met and even surpassed these recommendations and supplemented them with by a package of price reform and budget constraint measures (implemented in 1989). As we mentioned above, Vietnam slashed subsidies to all enterprises. Next, over-generous allocation of capital was eradicated except for a small group of SOEs unable to recover from the loss of the CMEA market in 1990. Price liberalization and exchange rate unification rid the economy of both direct and indirect food and exports subsidies. Further legislative steps now have been taken to allow private sector enterprises equal access to credit and provide a supportive legal framework and uniform rules of taxation.

To develop the private economy further, Vietnam has added a legal framework that includes laws on civil and economic contracts, private property rights, domestic sole proprietorships and shareholding companies, foreign investment, land use rights, and bankruptcy. Riedel and Comer (1997), however, noted ironically that, "In fulfilling the fundamental duty of government to establish the rules of a market economy, the authorities in Vietnam may have done too much of a good thing. Indeed, the World Bank concurred that the proliferation of rules has hampered the ability to ensure that discrimination does not occur and that equal treatment under the law is fulfilled (Vietnam Enterprise Reform, 1997). The Sales Manager of one garment firm angrily complained that now, "Private companies don't have to pay as much tax or face as many duties as state owned firms."

Moreover, both real and indirect barriers exist for fulfilling the dictates of the constitution. Legal exclusion for certain goods and services considered vital to national security (e.g. pharmaceuticals, North –South transportation, and foreign trade shipments are still on the books. Indirect barriers emerge difficult license requirements, access to utilities, and material inputs (e.g., minerals, fertilizer, and pesticides), land use rights, and subtle tax regulations (Mallon, 1998). On the other hand, all enterprises may establish direct trade links or choose

trade companies rather than follow specific trade channels. Before 1989, a few specialized trade organizations had a monopoly over trade of specific commodities. All restrictions on foreign trade organizations were lifted in 1988, allowing provincial authorities and state owned enterprises to create new ones. Private entities received the same rights as SOEs to engage in trade after 1991.

With the state's monopoly over foreign trade terminated, many exporters and importers established direct links with trading monopolies. Consequently, the number of firms and authorized foreign trade organizations has skyrocketed – from 80 to over 600 (Dodsworth, 1996). To encourage foreign firms to enter the market and thus stimulate competitiveness, the state has begun to deregulate import controls and reduce tariffs (Gillis et al., 1994). For example, in May 1989, export and import quotas were reduced, and SOEs were freed from their obligation to export first to Central and Eastern Europe.

Export and import duties have been sharply reduced and rationalized as well. Tariffs originally were applied on 124 goods at rates between 5 and 50 percent. In 1990, the number of goods subject to tariffs dropped to 80 and the tariff structure was rationalized, with the exception of 120% tariff on certain luxury goods. Finally in 1991, the export duty on rice was slashed from 10 percent to 1 percent, and inputs used for producing exports were exempted from import duties (Fforde, 1995). Mallon (1998), however, finds that bureaucratic arrangements to obtain licenses for regulated imports and exports provide a major indirect barrier for the private sector, as the Ministry of Trade exercises powerful oversight and control. To participate in international trade, a firm must first have a general business license and an export-import business license, which delineate the specific product open to the company for export or import. These requirements appear to be a more difficult to private domestic companies than for SOEs and foreign firms. SOEs make up 87 percent of all Vietnamese enterprises with import licenses, while all registered joint ventures and wholly-owned foreign affiliates are automatically granted import rights. In addition to the general export-import licenses must also have a separate import allocation for each consignment. This requirement applies to exports and imports controlled by quotas, exports and imports by enterprises with foreign ownership shares, goods of "strategic importance to the economy", and some other import transactions (Toan, 1998).

Surveys and Interviews

We asked survey and interview respondents whether firm managers felt pressure from competition and secondly whether this pressure has motivated change at the enterprise level. We explored whether firms were now more customer-oriented and if they felt that the labor market was growing increasingly competitive. Our survey results suggest that competition is very much a factor in SOE decisions.

Pressure from competitors

Our interview results suggested that managers in Vietnamese garment firms definitely have felt the impact of competition, especially from the Chinese market, where labor costs are cheaper. They also worry that their firms

are incapable of producing high quality goods for export. The sales manager of the a first tier member company responded quite matter-of-factly when asked about competitive threats,

> "The Chinese are a very large competitor. Their prices are very cheap and their work ethic is superior to ours. Their professional skills are better, according to the documents that I have read. We cannot compete with them. We can't compete with Thais either."

Furthermore, respondents exhibited concern about competition causing performance problems. Oddly, however, managers were relatively unconcerned about having no competitive advantage (Table 9). At least two reasons for this lack of concern may exist: (1) Perhaps, some companies are finding that they can compete fairly well in the new environment, or (2) perhaps that competition has yet to become a reality in those industries.

Table 9. Descriptives and percentage frequency distributions for questions dealing with competition (1 = Not Important; 5 = Very Important).

Variable	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Intense Competition in the Industry	3.69	1.36	9.3	3.4	29.7	16.1	39.8
Lack of Distinct Competitive Advantage.	3.43	1.43	10.4	8.3	28.1	18.8	31.3

Competitive pressure should be a mechanism that fosters an environment where companies seek efficiency gains, quality improvements, and lower costs to win over new customers. As a result, the question is not whether competition exists, in small or large quantities, but rather whether competition has motivated firms to reform in ways that improve total welfare.

Competition as a stimulant of change

As discussed earlier, Charts 3 and 4 suggest that respondents felt that the main justification for renovation is "changes in the market", implying that SOEs engage in reform to win new customers to their product line. Interestingly, responses to the actions of competitors did not rank nearly as high as a reason for reform. Two factors may account for this. First, Vietnamese firms newly unfettered from state control may not yet be sensitive to the actions of competitors simply because so many reforms are necessary before they can begin to think strategically. Second, proactive actions of competitors may not be unnecessary to trigger reform: the threat of their presence could trigger reform, as they represent potential competition. SOE managers viewed the issue as follows. The change in the market represents an additional set of competitors who have yet to take any actions of their own. Thus, firms respond not to the competitors themselves but to the concept of potential competition.

Customer focus

This interpretation is further validated by the emphasis placed on firm prestige in responses to the question: How do these changes affect your company (Chart 16)? In this case, firms' managers perceive changes in the market as a change in the positions of a given set of competitors. If they didn't, they would have answered this question much differently, because the implication is that they are receiving a better position in the market relative to others. Improving the company's prestige also has strong market oriented connotations, implying that the company is trying to build its image in the eye of the consumer. In fact, focus on the customer is the reform that SOEs are pursuing the most zealously. The head of Technical/Design department at one firm put it most succinctly,

> "We haven't had any foreign customers. We only have domestic ones, as in order to have foreign customers, we have to implement their specific order, which means we have to do all that they want. But if we produce for domestic customers, we have a variety of products that they can choose from. Of course, customers nowadays are hard to please. Styles and models must be good, suiting the taste of the customers. In the past, whatever you sold, they would buy. Now, the point of selling and buying must be changed."

[Insert Chart 16 about here please]

Throughout our survey, SOEs consistently cited renewed customer focus as the reform most heartily implemented and one of the most important goals of the transformation process. When asked, "What are the major changes in your firm, 89.3% of all firms have made some changes to be more customers focused (Charts 17, 18, and 19). Managers at all levels of the company hierarchy perceived and reported with top and upper middle managers slightly more cognizant of the change (Table 10).[5]

[Insert Charts 17, 18, and 19 about here please]

Table 10: Means by management level for Question Group A-I: What are the major changes in your firm? (1 = No Change Yet; 5 = Change Complete).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top Man.	Non-Man
A-I-1: Equitisation	1.5	1.69	1.36	1.41	1.17	1.42
A-I-2: New Board of Directors	3	2.78	2.48	3	3.57	3.12

[5] Evidence shows that here is a lag between firms initiating customer focus oriented reforms and them actually having an effect are starkly illustrated the mean 4.1 for answers to questions regarding the problem of "Not Meeting Customer Expectations" was among the most significant problems. As a spin on the old saying, "The more you learn, the less you know," those identifying the problem were the ones who in earlier questions had already implemented the changes. This was confirmed by a correlation coefficient of .881. Medium size (4.44) and very small size (4.40) strongly signaled that they were failing to meet customer needs, but very large (3.5) and large (3.64) were not as troubled.

A-I-3: Production Extension	2.93	3.13	3.14	3.04	3.62	3.4
A-I-4: Recruiting more staff	2.71	2.82	2.7	2.45	2.87	3
A-I-5: Restructuring	2.73	3.11	3.18	3.22	3.38	3
A-I-6: More focus on customers	3.81	3.5	3.92	3.96	3.88	2.88

A human resource manager in the "Case Study Company" reflected the new "strategic focus on customers" for her enterprise when discussing forces affecting the firm's activities – mainly customer demands, competition and threat of substitutes.

"...To satisfy the requirement of customers, employees at [our firm] have to work overtime. It is not easy for the company to organize overtime work for employees, but the customer is the king so we have to satisfy their needs....

"The threat of substitute products forces everyone at [the firm] to have efforts to improve product quality and selling services. Especially in the domestic market, there are many different kinds of clothes, made by other companies. Therefore, the company is trying to forecast customer needs and style of clothes, based on that, the company develops plans to expand production capacity and diversity products. It is a challenge..."

Competition for Employees

In a competitive environment, firms are compelled to recruit the most talented employees and pay them a wage commensurate with their ability and marginal productivity in order to retain them. As a result, the labor market should begin to reflect market scarcity in the wages it pays to employees. Several of our interviews suggest that this is definitely the situation they are facing. A Chief Accountant said,

" In the past, there was appointment to enterprises. A person, who did not have satisfactory skills, could receive a good position. Now the recruitment requirements are harder, requiring good skills to be recruited.... This has led to one problem. Now, there is fierce competition on salary to attract the best workers. In addition, you need to treat them well, so once they are hired they will stay with the company."

Most interviews confirmed that while a competitive labor market exists in the garment industry many firms have yet to take advantage of it. A Deputy Head of Investment of a member firm, for example, has no competitive recruitment strategy and little leverage for recruitment.

The Head of the Technical/Design was more explicit. In the past few years, his firm lost 500 people (nearly 18 percent of the labor force) to domestic and foreign competitors. A large proportion have been skilled employees seeking the higher salaries offered by foreign firms, which pay up to three million

VND per month (about $US 280), far more than the 500,000 VND per month (about $US 45) of the SOE. One manager disagreed, however, "Loyalty depends on the managing method of the firm. If you pay [employees] more and give them a better life, they will stay." Despite their recent loss of ground, SOEs also have a historical recruitment advantage that has carried over to this day. Ninety percent of SOE managers have a college education, compared to 52.8% of limited companies, 70 percent of shareholder companies, and 13% of private companies (Vietnam Investment Review, 1996).

As the best method for examining the extent of the competitive labor market is to measure whether wage rates are commensurate with marginal productivity, we opted to save this analysis for our next section on price reform because of our belief that wages like other inputs should reflect market scarcity.

Price Reform

Legislation Establishing Price Reform

The Vietnamese government first recognized that there were serious deficiencies in the pricing system in 1979 after centrally controlled pricing resulted in chronic food shortages and production declines of nearly 4% per year. The Central Committee in the sixth meeting of the Fourth Party Congress attempted to correct for this by allowing state owned enterprises to locate and buy inputs for themselves through companies and other sources outside the plan. This policy was famously referred to as the "Breaking the Fence Strategy." When enterprises began to recover as a result of this strategy, the government thought it appropriate to further liberalize prices with *Decision 25-CP* in 1981. Firms were now allowed to buy and sell their products outside of the central plan. Outside the confines of the fence, however, firms were forced to navigate through a complex web of multiple prices on their own. Three categories of prices existed: state prices, free market prices, and black market prices. Each of these categories was then subdivided into wholesale, retail, and procurement prices. The financial accounts of the SOEs became a jumbled mess, which forced the hand Vietnamese authorities to enact price reform (Dodsworth, 1996).

The strategy for reform was comprised of three dependent steps. First, the retail prices of several consumer goods had to be adjusted to reflect existing market conditions, as many seemed to be bordering on the chimerical. This was done with *Decision 220-CP* (May 1981) that ratcheted retail prices up 10 to 15 times the existing price which has been in place since the 1960s. Nine products considered "essential" for national security were left untouched.

Second, the prices of material inputs and state procurement goods needed to be increased so as not to create an indirect subsidy. *Decision 148-HDBT* (December 1981) corrected the distortion in input pricing by regulating a 1:3 kilogram-ration between urea fertilizer to rice as the first step toward a more realistic exchange ration between industrial and farm products. Later, in an attempt to introduce a system that reflected world prices, the state boosted procurement prices five-fold. Terms of trade for the first time in decades shifted to farmers and ended the dreaded price scissors, where farmers were caught between low output prices and high prices for mechanized inputs (Hung, 1994).

Third, wholesale prices for goods at the end of the production and market chain needed to be brought into line with market scarcity conditions. *Decision 25-HDBT* (January 1982) adjusted wholesale prices, by lifting them on seven different occasions. By the time the final step was taken, however, real retail prices had already moved beyond the new government set price. Further change was required to correct for the new distortion.

As the government sought continual corrections, it became obvious that the choppy process of ratcheting up government set prices was having a negative effect on enterprises, by causing a disjunction in the prices they planned on and the final prices. A new comprehensive price reform approach was needed to replace the piecemeal price setting. In the fall of 1985, the government set about creating a flexible pricing reform strategy that would adapt continuously to changes in market prices without a need for government intervention. This was done through *Decisions 238, 239, 240, 243, 244,* and *245 HDBT.* Finally, Vietnamese prices for resources, inputs, and final goods correctly reflected market prices. The spree of decrees formed a piece of the Vietnamese Shock Therapy and though it eventually left Vietnam quite well situated for more extensive reform, its initial effects were painful. Inflation rocketed up nearly 10% a month in 1985 and 18% in 1986 and SOEs began to struggle in the new environment. *Decision 392-CT* in December of that same year responded to the cries for help of SOEs by calling on the state banks to provide credit to SOEs as a cushion for economic reform (Hung, 1995). This new source of easy domestic credit led to a rapid increase in the quantity of money in circulation and exacerbated the inflation problems.

These reforms, though initially very unpopular, succeeded in several important ways. After failing miserably at massaging prices, policy planners learned that their intervention was not only fruitless but also deleterious. SOEs became accustomed to prices that reflected market scarcity and the true cost of production. Finally, agricultural peasants, who found themselves for the first time in years, on the beneficial end of a terms of trade shift, now had motivation to produce and distribute their products. Rice production offers the most poignant example of such a psychological transformation contributing to economic gain. In one year, Vietnam moved from a net rice importer to the world's second largest rice exporter (Riedel and Comer, 1997).

Legislation Establishing Exchange Rate Reform

Introduction of a flexible, market oriented exchange rate policy has often been cited as one of the pillars of Vietnam's export oriented growth strategy. Realizing that multiple exchange rates were creating severe distortions in the economy, the Vietnamese government unified the various rates of the centrally planned system in September of 1988. The original complex exchange rate scheme was composed of several rates for trade transactions in the plan, invisible transactions, and trade transactions outside the plan. The rates were grossly overvalued and applied in such a fashion that firms had incentives to engage in hidden transfers. Importers found the situation to be a financial boon, as they were able to capitalize on the differential between imported goods and their domestic prices. Exporters, however, needed government subsidies to overcome the severe losses accrued as a result of the artificially low (VND) export prices. On March 13, 1989, the final adjustment was made, resulting in a single exchange rate of 4,500 VND to 1 USD, which nearly replicated the prices existing in the parallel market (Dodsworth, 1996).

Along with unification, the government attempted to attract foreign exchange into the official market and banking system and away from the parallel market through extensive liberalization in October 1988. Companies and individuals, upon being certified to surrender foreign exchange, were allowed to open foreign currency accounts and hold foreign currency notes. Foreign currency could be sold to the Bank of Foreign Trade at the prevailing exchange rate, deposited into bank accounts that accrue interest in foreign currency, or withdrawn for payment or transfer. International currency gained in the process of transactions abroad, could now be used to pay for imported goods and services, to repay foreign loans, and for other transfers abroad. Authorities even went so far as to erect foreign exchange trading floors in the State Bank's branches of Ho Chi Minh City and Hanoi in 1991. Fixed-rates were set according to previous day closings, and although intervention was allowed, developments in the trading floor were the premier determinants of final exchange rates. Vietnam later replaced these two trading floors with an inter-bank market for its foreign exchange regime that is very close to one following a market mechanism. Reference rates are adjusted daily to mirror market developments indicated by the actual closing rate of the previous day (Dodsworth, 1996).

Finally, the government introduced a drastic reform of its exchange rate policies. This was done in two phases. Beginning in March 1989 and continuing until August 1991, they "followed" the parallel market by adjusting the official unified official exchange rate at irregular intervals to specifically maintain a rate within a 10-20% band of the parallel market. Then in September 1991, the authorities introduced the market for foreign exchange directly into the exchange rate determination process through the trading floors and then the interbank market (Fforde, 1996). In the face of the recent currency crisis in South East Asia, Dao Ngoc Lam of the General Statistical Office announced that Vietnam would not be able to maintain its fixed exchange rate. Beginning with an October 1997 devaluation, the Dong would now be allowed to float. He stressed that was a precaution to ward of the shocks that permeated exchange markets throughout the region (Vietnam Economic Times, March, 1998:18). As of this writing, this reform has not taken place and the Dong remains overvalued.

Survey and Interviews

Price and exchange rate reform should increase competition – both domestically and internationally -- by eliminating indirect subsidies to SOEs and by forcing firms to pay the true cost of inputs and capital. Managers are learning, for instance, that if they charge above the market price, clients can and will simply move operations to a less expensive country. We sought to examine this aspect by first seeing if firms in our interviews were beginning to change their behavior as a result of higher input prices. Secondly, we investigated how firms set their output prices. Finally, we looked at the promotion and wage policy of the firms to determine whether firms were using a market-based wage system and by studying whether promotion and wage increases followed pre-determined, market-oriented criteria.

"Getting the prices right"

Though responses varied, in general firms seemed to show a greater understanding of market conditions and competitive pricing than we anticipated. Our interviews led us to believe that price reform has had a noticeable effect on the behavior of SOEs. They seem well aware that prices should reflect the true cost of production and marginal utility. In fact, the head of accounting at one member emphasized this by saying, "When you sell a product you should give a price that the consumer believes is affordable."

Our specific research on the garment industry taught us that state owned enterprises definitely face market prices for their material inputs. As the Vietnamese textile industry only has the capacity to produce 15 to 20% of the demanded inputs for the garment industry, Vietnamese garment firms have turned their sights abroad where they must face shop around for foreign inputs. Many firms have also opted for an alternative route, which implies that the client, usually a European or Japanese garment firm, will supply materials along with designs. This forces firms to evaluate offers based not only input prices but on the price of the final product. The Deputy Head of Research and Development in the case study firm demonstrated an understanding of the price mechanism, though he was not always happy with the result,

> "During the contract negotiations, we have to make concessions to the other party in terms of price. Take Taiwan for example. If the price is not acceptable, they will simply prefabricate in Taiwan. Sometimes, we know the price is cheap, but we want to have jobs for our workers, so we have to agree. That is common."

"Getting the wages right"

The above manager went on to say that because the prefabrication price is so low, workers sometimes move to other firms for better wages, further suggesting that the pricing mechanism also functions in the labor market. As we suggested in the previous section, worker salaries are a clear indicator that the competitive market mechanism has been brought into the decision making process. This holds true if workers are receiving salaries commensurate with their marginal productivity. Some firms have recognized this truism, as one manager points out, "I don't think that wages can be unnaturally raised. They must be adjusted to the equilibrium condition." The Head of the Design department at another member firm corroborated this:

> "Now all businesses are paying according to productivity. Quality is important too, so everyone is considering quality as well as productivity. In general, salary is based on workers' professional skill and productivity...A worker must fulfil his responsibility. In the past if one couldn't, there would be two doing the same job. The changes in the new mechanism can save a great deal of labor cost. They like being paid according to their hardship. If they don't agree, they might change to a different company."

Such interviewees lead one to believe that the labor recruitment policy has not only been completed but is extremely successful. Our survey results also were positive about the independence of firms to make wage setting decisions. In others, however, we learned that wage rates continued to be set by outside authorities regardless of ability. Granted, there seemed to be more opportunity for employees to be paid according to their ability, but not on the scale that we anticipated. Many firms must still follow a fairly rigid seniority formula. In one head of accounting's words,

> "At the moment all the officers are paid according to the company's rate. It doesn't matter what you are, but [what] your [is] position in the company. For example, we calculate the average wage of all workers in a workshop. The officer's salary is based on the average wage in the workshop, the technical officer is paid 1.2 times the average, vice-chief's are paid 1.5 times the average, and the chief is paid twice the average. For the administrative officers, we have to calculate the average wage of all workers in the factory, and they are mainly paid a little higher than the average.... In general the administrative officers are paid 1.2 times the average. Deputy directors are paid twice the average and the director is paid 2.5 times the average."

Currently, firms are attempting to experiment, to move away from this situation, but more have been burdened by extraneous issues. Realizing that time management should be flexible, one member firm stopped assessing productivity by how many hours a day a worker spends in front of the machine and instead measures the time needed for completion and quality of an assigned task. This has had negative repercussions from veteran workers who used to benefit from pay scales based on length of employment. Their wages have fallen, as younger workers with higher productivity have begun to earn a greater portion of the salary allotment. The firm would like to create a fund to help displaced veteran workers, but at present does not have the resources.

Our survey attempted to assess whether changes in firms had culminated in measurable improvements in employee opportunities. "Gives me a direct chance for promotion" is the best indicator of a competitive labor market, because it signifies a built in reward mechanism better than any other variable (Charts 20 and 21). Recognition for contributions and a better job, though a positive step, can be intangible and subjective. Promotion directly implies advancement in both income and authority. Unfortunately, this outcome scored the lowest (with a mean of 2.65); furthermore, only 14.4% of those surveyed reported "strong agreement" about the importance of using promotion for improving employee opportunities.

One interviewee shed some light on why opportunity for promotion still appears to be limited. In his firm, ability is only one of many factors assessed in determining promotion; the most important is still relationships. As he put it, "If you get promoted by your director, there are a lot of levels that you have to go through. You need good recommendations from other departments as well." The head of the Technical Department at the Mother Company confirmed this; "There are some capable people who are not given the right position, while there are incapable ones who still get the jobs."

[Insert Charts 20 and 21 about here please]

The survey results also indicated that companies have begun to assess individual performance against written objectives, which will eventually be used as criteria for a calculation of compensation. Only 9.3% of firms indicated that they had not done any individual assessment. Furthermore, another question probed whether employees felt that the company was putting enough emphasis on rewarding people appropriately. The answers were consistently positive. Top management and non-management, however, seemed far more concerned about this issue, of using rewards to motivate, than the other management levels, who illustrate that they did not share their concern. Middle management even responded below the 3 threshold (Table 11).

Table 11. Descriptives and percentage frequency distributions for questions on labor assessment.

Staying Focused: In trying to keep the organization focused, how often is emphasis placed on taking ineffective people out of the organization. (1 = Never; 5 = Always).							
Variable	**Mean**	**Std. Dev.**	**% 1**	**% 2**	**% 3**	**% 4**	**% 5**
Assessment against written objectives.	3.64	1.2	7	2.3	39.5	18.6	31.8
Ensuring people are rewarded appropriately	4.29	1.01	1.6	2.4	17.5	20.6	57.9
Performance Problems: Please indicate how important the following problems are for your organisation. (1 = Not Important; 5 = Very Important).							
Problems	**Mean**	**Std. Dev.**	**% 1**	**% 2**	**% 3**	**% 4**	**% 5**
Reward systems that do not motivate employees	4.02	1.09	1.7	4.2	26.7	20.8	45.8

Management Boards and Reform

Legislation Involving Management Boards

In April 1995, the *Law of State Enterprises* provided the guidelines for the organization and management of state enterprises. State corporations and large state enterprises must have a management board, who will,

> "Manage the activities of the enterprise, and is responsible to the government, or a state management body delegated by the government, for the development of the enterprise with the objectives assigned by the state."

The board of management must submit proposals on major investments and hiring of senior personnel to the government for approval. The board should appoint a chief executive, who will be responsible for the day-to-day

management of the enterprise and will serve on the board. Members' terms last five years, contracts are renewable, and the law allows for performance–based contracts. Smaller Enterprises have a chief executive appointed by the state management organization responsible for the establishment of the enterprise. He has day-to-day business responsibilities, but must submit all business plans and major decisions to the state management agency (Mallon, 1998).

The law also provides a consulting role for worker collectives in the management of SOEs. The collective is allowed an opportunity to voice its opinion on: the formulation of the collective labor accord, the use of enterprise funds directly related to the interests of laborers, business plans and assessment of business performance, measures to improve working conditions, training opportunities, and the general well-being of workers. Most importantly, the collective has the ability to nominate candidates to serve on the board.

The law accounts for State Corporations in *Articles 29, 36, and 37*. These articles stipulate that all Vietnamese State Corporations must create a board of management and a control commission. They will supervise the executive team and make major policy and investment decisions. An executive team led by a chief executive, who is to take responsibility for all daily tasks and functions of the firm. The law clearly states that the board of management performs the function of managing the activities of the enterprise, but is responsible to the government and must manage the SOE in accordance with objectives set by the state. The control commission is appointed by the board of management and charged with monitoring the work of the general director. They must ensure that financial operations comply with the enterprise statute. The general director serves as the legal representative of the SOE and holds the supreme managerial power in the enterprise, though he must report to the board of management.

Ambiguity regarding how the board of management should manage state corporations has contributed to a great deal of controversy. Original drafts of the law indicate that the board would act as a representative of the owner of the SOE, but the final version stipulated that the state would continue to act as a direct owner, possessing predominant authority on all essential policies, investment plans, and the appointment and dismissal of senior managers. Such actions have circumscribed the supervisory power the board has over the chief executive (Mallon, 1997).

In theory, the boards should be composed of five to seven members, who are appointed by the institution (either meaning the individual line Ministry or the Ministry of Finance) which approved the creation of the SOE. Members serve five-year renewable terms with their remuneration linked to performance. The chief executive is a member of the board of management but is barred from ever chairing the Board. Five members comprise the control commission, which must have a board member at its head. It must include an accountant, and other members recommended by the trade union, the parent ministry, and the General Department for Management of State Capital and Properties in Enterprises. The authority approving the creation of the SOE appoints the general director, who is allowed to establish a management committee that must include a chief accountant.

Mallon was highly critical of the present management structure and asserted that many more changes needed to take place to improve the efficiency of it. He was adamant that the board of management should consist of only part-time employees who are excluded from the day to day logistics of the company, while the general director should be promoted to chief executive. The board and the general director should work out a performance contract, which delineates important performance indicators that the general director will be charged with a meeting.

Consequently, the general director should have far more power to hire and fire staff and determine remuneration of his management hierarchy. Finally, the financial structure of the SOE needs to be firmly established and enterprises must consistently produce externally audited accounts (Mallon, 1998).

Interestingly, the Ministry of Finance has recently taken steps to assess SOE managers by written criteria and bring a modicum of performance based payment to the top management echelons.. The Director of Equitisation at the Ministry of Finance, Nguyen Van Dinh, explained in the *Vietnam News* that six yard sticks will be used to judge whether the operations of state run firms are effective or not. These include: expansion of the capital base, worker salaries, timely debt repayment, tax obligation fulfillment, purchase of social and health cards for employees, and profitability. Enterprises that do not maintain stable growth in sales, suffer losses for two consecutive years, or who have debts equal to three-fourths of the state's investment will be deemed ineffective and their managers will be dealt with accordingly (Dinh, 1998).

Management Board and Reform in our Study

Using our surveys and questionnaires, we examined whether a large transformation had taken place in the board of management. Secondly, we looked at lower-level management reforms to substantiate the proposition that firms had engaged in bureaucracy reduction and streamlining of decision-making. Finally, we checked whether decision making was transparent and coherent to firm employees, or if they felt they were receiving conflicting or inadequate information.

Board reform

Despite the urgent need for extensive renovation, our survey results suggest that boards of management have been left untouched or have been tinkered with rather than reformed in a comprehensive manner. The question asking how far along firms had come in installing a new board of directors, had a relatively low mean response. While 60.4% of the firms surveyed have made some or more changes in their board of directors, only 9.3% have completed the transition. Indeed, 18.6% of the firms have made no changes in their boards at all. The truth of this may be difficult to determine, however, as upper middle and top managers were more likely to identify changes in the board than lower level employees were. This is probably a result of perspective, as lower level managers cannot see the incremental changes (Charts 17 and 18).

Our interviews followed this pattern as well. Outside of the most progressive firm, the only change made in the Board of Directors was through retirement. The mother firm had no change in the replacement of the General Director's office in the last 5 years, but nearly 100% of the factory workers were replaced in the same period. The reason for the stagnation has to do with the selection process of the top directors. Top-level officials must still receive their positions because of Ministry appointment. Cosmetic elections take place at the firm level place, but the Ministry makes the final decision. The Sales Manager at one member firm put it best, "There is a so-called ballot but it doesn't make any difference."

Management restructuring

While we realized the power of the line ministries and Ministry of Finance had over the board of directors, we thought that lower level management reforms might have been more widespread. Firms facing hard budget constraints should begin to restructure and streamline their management organization in order to cut costs. As a result, we next questioned whether restructuring had taken place in Vietnamese SOEs. The mean score of 2.8 was obviously quite disappointing. On a more positive note, 74.9% of the firms have engaged in some or more restructuring and 11.6% believe they have finished the task. Nevertheless, over 24% of the surveyed firms made weak changes or none at all.

Medium size and large firms were much more likely to have undergone some sort of restructuring than the other firms in the study were. Similarly, local firms were more likely to have undergone reform than national firms were (Table 12). This is contrary to a statement made by Nguyen Van Huy of the Central Institute for Economic Management, who claimed that, "A range of SOEs, especially the centrally managed ones, have overcome challenges, survived, and gradually developed, meanwhile many others, mainly locally managed, have faced severe difficulties in doing business. They have been in danger of liquidation or bankruptcy, " (Huy, 1994). The contradiction undoubtedly stems from problems associated with the limited number of local firms in our survey sample. Nevertheless, nearly every firm that we interviewed identified major changes made in the structure of its organization. Redundant departments were cut, smaller departments were merged, and more clearly reporting systems were added.

Table 12: Means by size and jurisdiction for Question Group A-I: What are the major changes in your firm?
(1 = No Change Yet; 5 = Change Complete).

Variable	V. Small	Small	Medium	Large	V. Large	Local	National
A-I-1: Equitisation	1.35	1.63	1.18	1.88	1.1	1.41	1.41
A-I-2: New Board of Directors	2.25	2.74	2.94	2.69	3.4	3	2.79
A-I-3: Production Extension	2.68	3.08	3.17	3.17	4.1	3.26	3.08
A-I-4: Recruiting more staff	2.33	2.83	2.61	2.65	3.3	2.62	2.8
A-I-5: Restructuring	2.76	3.05	3.38	2.76	3.3	3.72	2.82
A-I-6: More focus on customers	3.92	3.921	3.88	3.53	3.2	4	3.67

Reducing bureaucracy

Questioning the reduction in bureaucracy was the way we explore the extent of lower level management reforms; our results were disappointing (Chart 22). The overall mean was 3.3 and only 33.6% strongly agreed. Once again there was wide disparity in answers depending on the management level. Front line workers agreed with this improvement at a moderate level, while upper and top managers were much more positive (Table 13).

[Insert Chart 22 about here please]

Table 13: Means by management level for Question Group A-II: What do the changes contribute to your company's development? (1 = Strongly Disagree; 5 = Strongly Agree).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top. Man	Non-Man
A-II-1: Increasing income for company's staff	3.71	3.87	3.28	3.73	3.87	3.12
A-II-2: Enhancing the welfare program	3.46	3.42	3.02	3.35	3.43	3.28
A-II-3: Better Working Conditions	3.42	3.85	3.7	3.75	4	3.5
A-II-4: Higher Productivity	3.57	3.53	3.64	3.96	4	3.87
A-II-5: Reducing Bureaucracy	3.42	3.62	3.45	3.45	4.14	3.14

Our interviews, however, provided a clearer picture. Management reform may be minuscule, but it is taking place in an incremental and deliberate fashion. For example, the most progressive of firm we interviewed suggested that it has merged the labor union and the local parties into one office, while simultaneously cutting and merging a number of the departments. According to the chief of their accounting department,

> "The management system in the past was very complicated. The departments now are logically divided. We have managed everything as a business, so we have learned a great deal about managing methods. In addition, we have reduced the number of manual workers and thus cut back on recruitment."

The firm also streamlined its top level management, moving from four directors (one each for import-export, administrative management, finance, and technology) to one head director and two vice directors. The mother company also has taken some initial steps to merge management and reduce the number of department managers. The numbers of orkshop supervisors and group leaders have been similarly slashed while remaining leaders have received expanded responsibilities. Such an organizational change was possible, because managers are younger and more capable at every level of the hierarchy. As the head of the Technical Department put it,

> "In my opinion, recruiting the younger generation is very important. Managers must adapt to the progress of the country, so managers must be very creative. Anyway, we should be more active in promoting capable young people to be leaders. There are many talented people and we have learned that they do not need to be party members."

Likewise, the head of the Sewing Unit of the Case Study Company was optimistic about management reform:

> "The company's leaders and managers have new attitudes and styles in leading and managing the company. Many of them are young people, with clear power and responsibilities. They have autonomy in work conditions. We have had some changes in the organization and structure. Some functional departments have been merged, some other new parts and units have been

established...This is good because by those changes our company developed quickly, and now many problems of production operation in my group are solved well and quickly."

Another member firm has moved from a centrally managed company, to a rationalized system, controlled by the general director. The rationalized system consisted first of giving managers a wider set of responsibilities and functions and then endowing them with the power to initiate change. Each section was considered to be a small factory. The Head of the Technology Department remarked a short time after the change, that, "Managing systems are better. When managers are supposed to do their duty, they all know what to do and how to accomplish it. " This firm has much more bureaucracy reduction work ahead of it, as they admit that 40% of the 2700 employees are officers.

Management succession and reporting relationships

Other components of our survey illustrated a need for further management reform by delineating the various problems faced within the organizations. "Management Succession Problems" was identified as a significant problem at every level except for top management (Table 14, 15).

"Unclear Direction from Top Management" was also considered a major problem throughout all levels of the hierarchy. Most impressively top managers themselves identified this as an issue. Their mean response was the highest of all levels polled. Recognition of "Conflicting Messages from Members of Top Management" was much less widespread, which signifies that effort to streamline the decision making process has had an effect. This is confirmed by the fact that only 27.2% of respondents signified that "Frustrating Multiple Reporting Relationships" was a "very important" problem, while 10.5% gave it a score of non-importance (Tables 14 and 15)

The final issue that caused concern was that of "Limited Access to Information held by Direct Supervisors." This was considered to be very important by 33.6% of those surveyed. Once again this issue was considered far more important by top managers than by lower level managers. Interestingly, also, it appears that the the provincial people's committee (who own the local SOEs) must share far less information with their appointed managers than the line ministries who manage SOEs (Table 16).

Table 14. Descriptives and percentage frequency distributions for problems associated with management. (1 = strong disagreement; 5 = strong agreement).

Problem	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Management succession problems	3.72	1.19	2.6	7.9	31.6	21.9	34.2
Unclear direction from top management	3.97	1.25	4.9	2.5	26.2	15.6	49.2
Conflicting messages from top management	3.56	1.47	13.2	6.1	23.7	16.7	38.6
Frustrating multiple reporting relationships	3.42	1.31	10.5	3.5	39.5	17.5	27.2
Limited access to info. of direct supervisors	3.59	1.33	9.2	4.2	31.9	19.3	33.6

Table 15: Means by management level for problems associated with management.
(1 = strong disagreement; 5 = strong agreement).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top. Man	Non-Man
Management succession problems	4.07	3	3.78	3.68	3.5	3.86
Unclear direction from top management	3.86	3.72	4.08	3.86	4.2	4
Conflicting messages from top management	3.46	3.62	3.37	3.68	3.8	4
Frustrating multiple reporting relationships	3.16	3.15	3.17	3.81	4.67	3.57
Limited access to info. of direct supervisors	4.38	3.58	3.8	4.05	4.67	4.43

Table 16: Means by Size and Jurisdiction for problems associated with management
(1 = strong disagreement; 5 = strong agreement).

Variable	V. Small	Small	Medium	Large	V. Large	Local	National
Management succession problems	3.52	2.84	3.94	3.44	3.11	4.22	3.5
Unclear direction from top management	4.04	3.94	4.11	3.5	3.78	4.34	3.78
Conflicting messages from top management	3.33	3.59	3.75	3.37	4	3.56	3.54
Frustrating multiple reporting relationships	3	3.3	3.61	3.5	3.89	3.96	3.14
Limited access to info. of direct supervisors	4.05	4.12	4.25	3.75	4.1	4.33	3.94

New Management Techniques

A final goal of our study was to explore the extent to which *doi moi* economic reforms would spur innovative and dynamic management in the state owned sector. Unlike the other components, there is very little legislation governing this type of behavior. Rather the use of management techniques has been inspired and implemented internally. Managers commented on four areas: whether their firms had developed a "shared vision" among employees; the extent to which firms encouraged innovation; the nature and types of employee education programs, and streamlining internal processes.

Shared Vision

Results from interviews and the survey varied somewhat on the importance of and success in conveying a shared vision. The General Director of the Case Study Company commented that the company's leaders annually hold a meeting to present objectives and action plans to all managers and

employee representatives. Then the board of management more systematically meets to present and discuss the long term strategy and goals with the middle level managers; the middle managers in turn meet with managers and employees in their units, on down the line. In addition, the firm has regular radio programs to discuss key issues.

On the other hand, one member firm of the Vinatex group admitted that such a shared vision was far from evident in his company,

> "The workers do not know anything about strategy or company targets. They only know about the quantity of production. They simply cannot know about strategy or target. Not because they do not care, but because the contract stipulates that there present jobs are enough for them to do."

He went on to say that worker and officer meetings are still a formality. Company guidelines dictate the necessity of biannual meetings, but delays occur repeatedly because of scheduling. Interestingly, our research showed that most of the companies in our survey did not follow this pattern. They were careful to set specific employee objectives in terms of individual production quotas and in communicating an overall vision.

We learned, for example, that clearly set employee objectives was one of the highest ranking focal points of SOE overall company strategy and the second highest ranking non-financial indicator. Related to communicating the vision, the survey results suggested that having employees follow company guidelines was extremely important to SOE managers, but teaching established routines to employees proved much less so. One reason for such a confusing observation may be the flux that firms face. Also, the translation of the survey may also be a culprit! One question used the term "tuan thu nhung chi dan," which has the connotation of formal rules and commitments; a second question asked about "huong dan nhung le thoi," which refers to routine day to day operations. Guidelines could then be considered "formal rulebooks" or codes of behavior. Routines could be the daily habits that facilitate the management of operations. Perhaps old management procedures are gone but new routines have not replaced them.

[Insert Chart 23 about here please]

Two further questions illustrated that the despite whatever shortcomings, the program had accumulated some success in maintaining unity and vision. Most respondents did not agree that their "goals conflict with the company's goals;" merely 1.5% of the respondents answered that this was always true (Table 17).

[Insert Chart 24 about here please]

Table 17: Means by management level for individual responses to company goals.
(1 = strong disagreement; 5 = strong agreement).

Variable	Front-Line	Low-Mid	Middle	High-Mid	Top. Man	Non-Man
A-XII-1: My goals conflict with the company goals	2.27	2.17	1.82	1.78	1.75	1.37
A-XII-2: I sacrifice my objectives for the group's	3	2.93	3.17	2.82	3.25	3

Encouraging Innovation

While some firms actively encourage innovation, it was not considered vital for most managers (Table 18). Top managers were more concerned about stimulating the creative energies of their employees, than were lower level managers. The production process itself may be to blame in the garment industry, where prefabrication prevails. Since foreign customers provide the materials, design, and quality inspectors, very little room is left for innovation. A manager at a first tier member firm said, "Workers are very inactive, just waiting for work to be given." She felt the lack of energy stemmed from the reward policy's inability to distinguish good employee performance and from the structure and working mechanisms, which stifled worker creativity. She lamented that even when employees create something, they don't know where to report it! "They don't know if they are listened to... they get no information at all, so what is the point of creating?"

Table 18. Descriptives and percentage frequency distribution for questions dealing with innovation.
(1 = Strong Disagreement to 5 = Strong Agreement).

Problems	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Insufficient emphasis on innovative ideas	3.59	1.26	5.6	3.2	39.5	17.7	31.5
Inhibiting innovative practices	4.13	1.11	4.2	6.7	30.3	20.2	36.1

The market opportunities available to SOEs are also a major contributor to this dearth of innovation. For example in the garment industry, prefabrication for firms based in other countries is the main source of income. With prefabrication, the contracting firm does all market research and input purchasing, leaving the Vietnamese SOEs to simply sew together product kits. This does not leave a great deal of room for creative decision making. Customers are usually interested solely in the Vietnamese SOE's sewing technology, as the design has already been decided upon and test marketed. As the Head of Technical Design at Victory Company stated, "The customer brings the designs, the materials, and often the quality inspectors.... We only have to think of jobs for workers." A manager of another member firm worried that prefabrication will affect its growth opportunities by not providing an appropriate export platform: "If the products are not suitable with the needs of the marketplace and are unable to sell, they cannot last.... If we cannot buy material or sell the products, and can only prefabricate, we cannot master the domestic and export market."

Internal and External Employee Education Programs

Managers of SOEs claim to want to keep employees on the cutting edge of knowledge, yet they were more likely to use internal than external programs for their staff. External education, such as university courses and seminars, were reserved for higher levels of managers (e.g., department managers, directors, and vice directors). Even so, not everyone receives the nature and type of training he or she deems appropriate. One manager of a member company complained:

> "One time I asked for permission to go to school but was refused. Sometimes I was given work beyond my ability, so I couldn't finish. I thought education could alleviate that situation. But they said that in order to go to school, I would have to working here a long time or be an outstanding worker. Despite my contention that I would complete the tasks I was given and even pay the tuition fees myself [they refused]. My wages were cut and I had to go by myself. I just don't understand how if they don't train people or even given them a chance to study more, the company will have a successful workforce in the future."

Managers at most member firms considered education for workers important, but only within the factory, since external training is expensive. Even so, some managers worry that employees will leave, following training, for more lucrative jobs. One dissenter remarked, however, "Loyalty depends on the managing method of the firm. If you pay [employees] more and give them a better life, they will stay."

Streamlining Internal Processes

One member firm manager summed up the process of internal process change: " We are engineering a new model for the whole company. It is the model for a new production, design, and management system." The idea is to trim the fat out of the production mechanism and reporting processes in order to achieve process that wastes as little time, energy, resources, and man-power it is possible. The best method for accomplishing these goals depends on each individual firm, but all must find ways to adapt new technology, locate machinery, and integrate quality checks to achieve the best results at the lowest cost.

Streamlining internal processes was stressed at least to some extent in nearly every firm. Only 1.6% of the SOEs answered that they rarely voiced concerns about this issue in comparison to the 43.7% of respondents who felt that it was stressed very often. (Chart 25 and 26).

[Insert Charts 25 and 26 about here please]

Streamlining operations can be best observed by measuring a firm's cycle time, the sum of all the operations' times and the handling time. Firms can improve cycle times and subsequently cut costs by using different facilities layouts and cell groupings. The Investment and R and D head at one firm explained that his

company had reengineered at the workshop level with a suitable product assembly line for each workshop. In knitwear for instance, cutting, sewing, and wrapping sections are integrated and operating simultaneously. For others, the three actions are divided into separate workstations. Using this method, work is completed at one station and then the article is passed in its entirety to the next station. There was wide spread acknowledgement that SOEs are "striving for world class speed," Of the respondents, 43.9% felt the need was voiced very often, while only 1.6% claimed it was rarely brought up. But firms were only moderately likely to stress the traditional method of achieving this speed, "Reengineering for World Class Cycle Times." The firms who have tried this reform in the garment industry have achieved mixed results, so it is worth exploring their experiences.

One manager at the mother company found that while companies like Garco 10 and Viet Tien company were doing very well because of process changes, most other firms still suffer from low productivity. Her assertion, however, is not borne out in Table 19. Firms selected higher productivity as one of the more successful contributions of the reform process.

Table 19. Descriptives and percentage frequency distribution for Question Group A-II: What do the changes contribute to your company's development? (1 = Strong Disagreement to 5 = Strong Agreement).

Change	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
A-II-1: Increase income for company's staff	3.55	1.34	0.8	9.9	25.2	37.4	26.7
A-II-2: Enhancing the welfare program	3.26	1.37	11.4	0.8	42.3	8.1	36.6
A-II-3: Better working conditions	3.75	1.23	12.4	7.4	43.8	5.8	28.9
A-II-4: Higher productivity	**3.68**	**1.32**	**5.7**	7.4	**26.2**	**11.1**	**52.4**
A-II-5: Reducing bureaucracy	3.47	1.44	7.2	5.6	32	14.4	39.2

She recommended an even more appropriate production chain geared for high volume products such as jackets and shirts. This she felt, "...is a key factor in productivity levels." Survey results, however, showed a contrary phenomenon. Firms found process problems to be near the bottom of their worries. Though they recognized some importance in them, respondents considered "Processes that are too complex" and "More processes than can be efficiently processed by the organization" as the least significant management problem in their question groups.

"Difficulties in Resolving Process Problems" was considered to be a bigger problem (Table 20). Such a finding illustrates that the true problem is how to quickly respond to existing problems. This tends to be more a political issue than a technical one. For instance, the workshop concept can lead to a lack of flexibility to changing market conditions. If a workshop's equipment, layout, and processes are too specialized, it may be slow in adapting to changes in customer preferences. One head of design noted a problem in moving from winter apparel to summer wear. Confectimex who also uses the assembly line method laments, "When are workers are used to one style, the customers don't use those products anymore." As a result, some firms employ on-site technicians to adjust the old cycles to new styles. At times, workers have dragged their heels and protested new changes. After a prolonged struggle, Confectimex found that they began to appreciate the high quality and high productivity it offered. Other

firms have noticed that workers are not nearly so opposed to changes and in fact look forward to them., while one firm even offered up a contradictory problem that they had experienced. Sometimes technicians have designed a new production method or assembly line strategy to meet a present need that has been rejected by the relevant department. Assembly-line production must stagnate while the debate is worked out.

Table 20. Descriptives and percentage frequency distributions for problems process complexity.
(1 = strong disagreement; 5 = strong agreement).

Problem	Mean	Std. Dev.	% 1	% 2	% 3	% 4	% 5
Processes that are too complex	3.58	1.07	6.8	4.2	36.4	21.2	29.7
More processes than can efficiently processed by the organization efficient	3.11	1.29	14.5	6	44.4	15.4	17.9
Difficulties in resolving process problems	3.62	1.15	2.5	5.1	44.9	14.4	31.4

Case Study: The Challenges of Change in Garment Company 20

This case study of Garment Company 20 (disguised name, per request of management) was an attempt to review our initial findings on firm-level responses to *doi moi* by taking an in depth look at one of the garment industry's superstars. Because Garment Company 20 has been one of the best performing SOEs in the garment industry for several years, it cannot be considered representative of the whole industry. Nevertheless, it offers a unique portrait of how a dynamic firm can survive and even excel in the new environment. Moreover, it illustrates that the Vietnamese legal initiatives our capable of hitting their target and stimulating constructive reforms at the firm-level. The case has three parts (1) a brief discussion of the garment industry's role in Vietnam's economy and a short history on a disguised company; (2) the process of gathering information about the firm; and (3) examples of change and their implications for the firm.

The Garment Industry in Vietnam: Review and History of Garco 20

The textile and garment industry, one of Vietnam's most important sectors, has 211 firms employing over 500,000 workers. Annually, the industry produced about 800,000 square meters of cloth and about 100 million garment products. Industry products are exported worldwide, to Germany, Japan, and Hong Kong and elsewhere. The growth rate (1991-1995) was 11% annually, one of the country's highest. Furthermore, it has attracted significant foreign investment: 111 foreign investment projects totaling US$ 1 billion by the end of 1996.

Garment Company 20 (Garco 20) is a member of the Vietnamese National Textile and Garment Corporation (VINATEX), a collection of several SOEs in the industry. Garco 20 has a reputation for high quality products, especially shirts and jackets. In 1996, the company's revenues were VN Dong (VND) 65 billion (about $US 5.1 million) with net profit accounting for 6.5% of the total turnover. Founded in 1946, Garco 20 began as a small military garment workshop, called X.1, in the northern war zone of Vietnam. Its sole output was military

uniforms; its workers were predominantly soldiers and military workmen. In 1952, X.1 merged with other small garment workshops to become Workshop X.10, also called X.10. At the end of the Franco-Vietnamese war in 1954, X.10 was ordered to join with another military garment workshop (X.40) to concentrate its production of military garments. In the early 1950s, the workshop had about 560 employees and 253 sewing machines. In January 1962, the company was removed from the military structure and became part of the light industrial ministry, with a new name (Garment Enterprise 20), although 95% of production remained military uniforms. During 1946-1975, military suppliers provided all raw materials and equipment (sewing machines and other tools). Under the slogan "More, quicker, better and cheaper," the firm produced millions of military uniforms, with technology and management essentially unchanged.

Following the America-Vietnam (1975), Garment Enterprise 20 fundamentally changed its production orientation, from meeting military demands to making export oriented products mainly for the USSR and Eastern Europe. From 1975-1990, Vietnam was member of Council for Mutual Economics Assistance (CMEA) and benefited from the large Eastern European and Soviet markets, each year exporting between 4-5 million shirts to CMEA. By 1990, the communist governments of the USSR and Eastern Europe collapsed, and Garment Enterprise 20 lost its key export markets and input supply sources. To survive, it sought new markets in Germany, Japan, and Hong Kong, relying on shirts, jackets, and other high quality apparel as the cornerstone of its marketing strategy. Thus, the firm reformed its production and business management, becoming more active and autonomous in creating business plans and strategy, approaching new markets and choosing an effective business structure.

In November 1992, the enterprise was renamed a final time, becoming Garment Company 20, nicknamed "Garco 20." Since 1995, Garco 20 has been a member of VINATEX, which regulates capital among member units, and helps member companies find stable raw material suppliers and enter new markets. However, large firms, like Garco 20, usually try to do those activities independently.

Since the early 1990s, Garco 20 has tried to take advantage of government priorities and supports (e.g., exempting turnover tax for exports of garment products and import taxes for raw materials imported for producing export clothes), cheap labor, and other resources. The company has expanded its production capacity by investing VND 2,400 million (about US$ 220,000) in 1993 to renew equipment and expand the productivity of workshops. In 1994, Garco 20 installed a modern shirt production line, imported from Germany, and continues to import modern equipment, such as automatic cutting, sewing, and embroidery machines. In 1996, the total amount of money invested was about VND 12,000 million. Those investments have created big advantages in technology and product quality for the firm, compared to other companies in Vietnam. At present, Garco 20 has 1,263 sewing machines, producing about 6 million units per year; export product accounts for about 85% of total output, reinforcing the need for high quality. The company has five divisions, making shirts for Japan, Hungary and Germany, and jackets for the Vietnamese market. The company also has a joint venture with a Japanese company to make suits as well as joint ventures with other local SOEs within Vietnam.

Description of the Case Study Method

The case study used primarily interviews with managers and employees of the firm, in addition to archival data from the firm (e.g., histories), articles published in the Vietnamese and English language business press, and finally observation of research team members during several visits to the firm.

As we discussed earlier, we conducted interviews with 10 managers, at all levels, during July-December 1997. Three top managers had worked at Garco 20 for an average of 20 years each, giving them deep insight into the company's history, culture and employees. They are the final decision-makers for key strategy and policy issues. Three middle managers were relatively young (average age 35 years), each with about 10 years' experience at the company. Most were promoted during the renovation period (1990-1996), were proactive and felt they had a fair amount of autonomy in their activities. They have modern business knowledge and skills, learned from training courses and business operations. The first line managers were relatively recently promoted, after serving as good employees. They understood the mechanisms of the workshop and are familiar with what workshop employees' needs.

For each management level, we created semi-structured questions that were in their areas of expertise and knowledge. For example, we asked top managers about business strategy and the business environment, while we queried lower level managers about working conditions, personal effects of reforms and problems with administrative reform.

Each interview was conducted by one of the Vietnamese researchers, taped, transcribed and translated into English. The interviews were analyzed by both American and Vietnamese researchers for content and to clarify areas of confusion (e.g., use of words or concepts). The interviews each lasted from 1-3 hours and were conducted at the company's headquarters and workshop sites. Access to the interviewees came through a relationship with one of the managers, a participant in a university graduate program.

Reform Attempts – Moving to the Future.

While reform has created change in many areas, we discuss selected ones here: government influence, managerial change and organization structure, and human resource management (HRM) practices.

Government influence

Prior to *doi moi*, Garco 20, like all SOEs, operated under Vietnam's planned economy mechanisms. Managerial activities focused on interpreting and implementing state assigned plans. The government (i.e., ministerial) involvement was deep and all consuming. As a result, management activities were not particularly challenging and Garco 20 usually excelled in meeting plans. As the General Director commented:

> "We are very proud of our tradition. For many years, we completed state production plans with distinction. Our shirts and jackets received the quality standard 'level 1' from the State Quality Committee. The company also has received high praise of the product quality from foreign customers in Eastern Germany, Hungary and so on....[Before renovation], the government planned everything, and we did not need to worry even about the living standards of workers, because the government provided them with everything they needed, from food and house to health cares and clothes."

Before the reform period, managerial power in Garco 20 was concentrated among top managers, who followed government issued commands, which subordinates had to execute strictly. Further, top managers did not always have enough skills to "manage." As the Vice-General Director commented,

> "In the past, our management was centralised and bureaucratic; the top manager tried to micro-manage everything inside the company, but his skills were limited. The results were terrible as he lost control in many aspects, decisions were made too slowly, and management tasks were overlapping."

When the economy was "renovated', state subsidies for companies fell drastically. Business firms now receive little or no capital from the government and must search for financing, material input, customers and clients themselves. Product prices are decided through market forces and consumer demand, meaning the company must reduce production costs and increase business effectiveness and profit According to the General Director,

> "Now, we know that doing business in a market economy is quite different from the planned economy. It is new and so difficult for us. In the new environment, we move incrementally to understand what are real products (those produced and sold in the market), real customers (consumers of the merchandise), real competitors and so on. We also [must] understand how to do business under the control of the new Vietnamese legal framework. The major objectives of one company are very clear. These are profit, market share and other benefits. In that condition, we see both opportunities and threats."

Managerial changes and organizational structure

As the General Director has commented, managers are the "locomotive" of successful reform change. A generally transparent promotion policy uses internal promotion, with specific criteria. First, a candidate is evaluated on educational qualifications and work experience related to the managerial position. The best qualified are reviewed on work attitude and maturity. Finally, the candidate must receive a favourable "vote of confidence" by subordinates. For promotions to middle manager, at least 70 % of all employees in the company must support the proposal. For General Director, confidence level must be 95-100. This contrasts with previous practice, according to the Deputy Director:

"In the past, we had to follow the plan of the government in recruiting staff. In many cases, we had to accept people who were not able to meet the requirements of our company. Now this has changed. We can select the right person for the right place and work, based on the standards and needs of the company."

To assist the "locomotives" to conduct their work efficiently, several firms, including Garco 20, have undergone restructuring of their organizations. Indeed, the notion of having a published structure chart is new for many organizaitons in Vietnam.

Like others, Garco 20's organizational structure has changed several times. Before 1993, when the firm was mainly a sewing enterprise, it had two main areas: production and administration (Exhibit 4). Renovation led to more focus on firm objectives and trade: a Trading Section, formed post 1993, focuses on regional and global business. In 1996, the company formed a joint venture with a Japanese company to produce and export high quality suits to new markets (e.g., the US, Canada) (Exhibit 5).

HRM practices

Currently, the firm has 2,800 managerial staff and production workers, of which 70% are under 35 years old. Seventy people hold a bachelor's degree or higher degree and 90 people hold vocational school degrees. Female employees account for about 80% of the total. The Vietnamese Labor Code, issued in 1995, is the basis for managing employees at market-oriented firms, especially state owned enterprises. Its impact on HRM practices at Garco 20 ranges widely. Exhibit 3 illustrates the types of changes in Garco 20's HRM activities since 1993.

The HR practices illustrate fundamental changes for the company. Reform policies have encouraged firms to be more autonomous in HRM (e.g., through Decisions 217/HDBT (1987), 312/HDBT, 388/TTG (1993) and the Labor Code of ,1995), giving senior managers more control over selection, development and management. .For example, Garco 20 has it own standards for selecting production workers: Education (completed high school); working skills (can use sewing machine to make clothes); personal characteristics (age - <25 years for men; <23 years for women; weight - >50 kgs for men; >46 kgs for women; height - > 1,60 for men; > 1,55 for women).

The firm has also begun training (e.g., short in-house training courses, study trips to vocational colleges and universities, mostly for managers). In 1992, the General Director stated that by 1997 all management staff would need at least a bachelor's degree. Lacking that, they would be removed from the management ranks. To support training, Garco 20 established a training school in 1995, conducting training courses for about 200 workers, as well as foreign language classes, especially in English.

Changes at Garco 20 brought several positive outcomes. The average skill level of the company workers is 4.6 (6-point scale) used by the government, compared to 3.5 when measured in 1990. The employees seem to understand company culture and regulations well, as there are very few cases of individuals violating company policy. Labor productivity has increased: in 1992, one worker produced between 3-4 product units/day; in 1997, the average worker produced between 16-18 product units/day. Average employee salaries have increased nearly

30% per year, since 1993. At present, the salary of one worker is between VND 800,000 (US$ 70) and VND 1,000,000 (US$ 85)/month, higher than salaries in other garment companies in Hanoi, or the north of Vietnam.

Nevertheless, the changes also have created problems for Garco 20. In Vietnam, making clothes is hard work. Workers at Garco 20 have always worked from 10 to 12 hours per day in poor working conditions, with negative impacts on employee health. According to company medical examinations in 1996, 56% of female employees were afflicted with an occupational disease. Further, the company has difficulty managing employee work time – at times there is a high demand for overtime; other times, the firm must reduce or layoff employees. In 1995, for instance, the number of man-days of unemployment was 11,536, contrasted with the number of overtime man-days, which was 119.6, leading employees to worry about possible unemployment.

Exhibit 4. Organization structure for Garco 20 pre 1993.

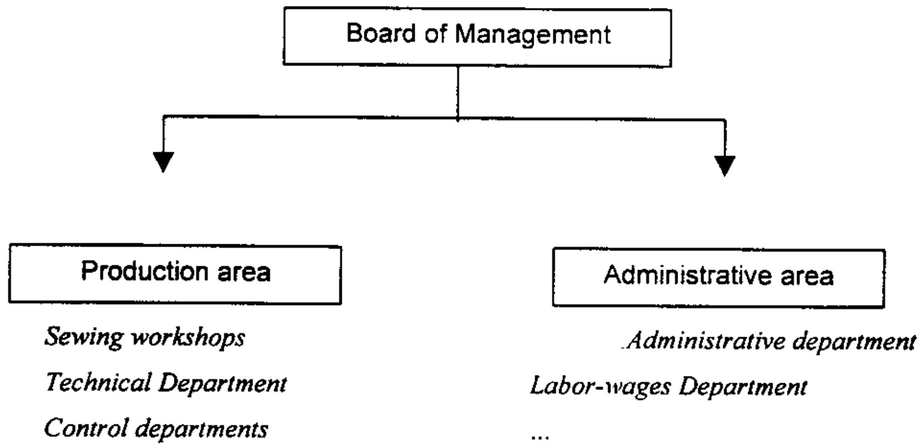


Exhibit 5. Organization structure for Garco 20 post 1993.

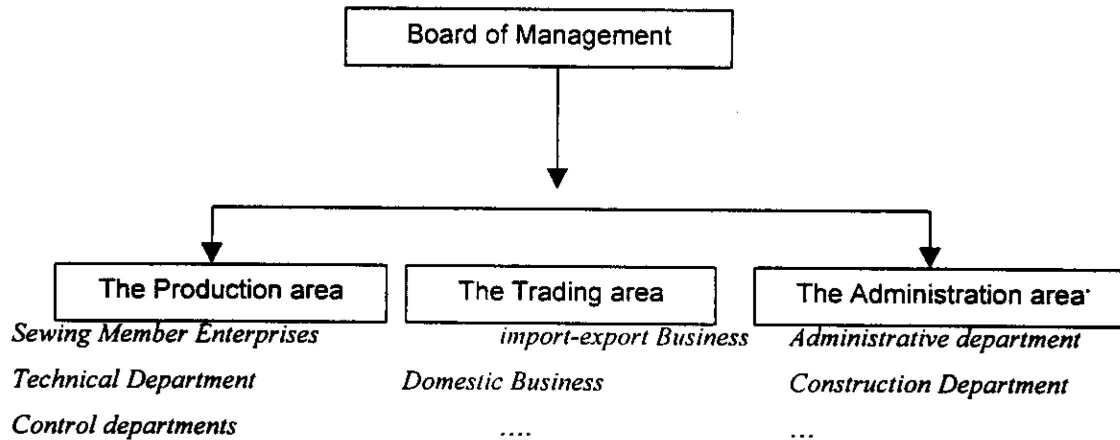


Exhibit 6. Garco 20 HRM practices before and after 1993.

Items/issues	Pre 1993	Post 1993
Selecting and recruiting workers and staff	The company followed government plans and quotas, recruiting for government, not company needs. Employees long-term employment and secure income.	The company selects based on strategy and goals, using specific criteria and standards for each job. Employees work to build income.
Assessing the performance of workers and managers	The firm used personal/individual ethics, relationships, and longevity, unclear and not easily assessed in objective ways.	The company assesses performance using criteria such as productivity, tasks finished, product quality, abilities and team effectiveness.
Payment and motivation	The company focused on "spiritual" (i.e., non material) values; material incentives were regulated/decided by the state.	The company focuses on material incentives such as salary, bonuses and other benefits.
Control of work process	The company used state norms and standards (productivity, quality), which applied to SOEs in the garment industry. The state was both supplier and customer.	The company develops its own standards (e.g., meeting customer needs). Each employee monitors his/her own performance and activities.
Dismissing employees	The company had no right to dismiss employees because they were the "employees of the state."	Firm leaders can dismiss employees, based on labor contracts or agreements, or company regulations translated from labor law.
Knowledge and working abilities	Employees and staff had narrow specialisations.	Employees have diverse skills and managerial responsibilities, to be more employable within and out of the firm.
Labor productivity	Employees could easily achieve norms set by the state.	Employees understand that increasing productivity means higher income.
Standards for promotion	Main criteria were political quality (party membership), experience, confidence of senior officers.	Main criteria are political quality, abilities, attitudes, and confidence of employees and subordinates.
Understanding of company objectives and roles	Company goals were based on state plans. The environment was stable, so employees were not concerned about the company goals or strategy.	The survival or development of the company is affected by all employees' activities. Thus, employees are concerned about strategy and leaders try to inform about company strategy and responsibilities in doing business.
Roles	Managers were state representatives and proposed production plans and orders. Workers were doers and followers.	Employees know clearly their specific tasks and responsibilities. They work for their interests and the company's goals.
Conflict and solving conflicts	Few conflicts occurred because of no competition among employees or between employees and managers. When conflicts occurred, "nice words" solved them.	Conflicts occur relating to work performance, income distribution and benefit allocation. They are solved based on laws or regulations.

Ideas for Future Directions

The project has both academic and practical benefits. First, given the lack of information about the process of transition in Vietnam, the study offers a foundation for a broader understanding of changes affecting business in Vietnam and a base for comparison with transition in other economies, both regionally (e.g., China) and in Central and Eastern Europe. In addition, we expect that the study can offer managers of SOEs (as well as private Vietnamese and foreign firms) insights into which types of reforms have or will be implemented at different stages. Such ideas will be useful if Vietnam initiates its stock market (as planned). Prospective joint venture partners and investors will have a more reliable reform timeline on which to base decisions. Further research into the process of those reforms and their impacts will support the decisions.

Likewise, managers of SOEs themselves will be able to better understand the nature of reforms and how they may affect their interactions with customers, suppliers, and competitors. Realizing the enhancements and hindrances of reforms will alert both ministry and firm level managers alike to the possibilities and difficulties of increasing trade regionally and internationally. To maximize the possibilities, though, it would be useful to know more about the implementation impacts, particularly on trade related activities.

Finally, the nature of conglomeration is worth pursuing. Is this an attempt to create a Vietnamese form of Japanese Kieretsu or South Korean Chaebol? The means that a planned to market oriented economy moves toward new forms of firm structures could enhance knowledge of what may happen in similar transitional economies.

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Document No. 417/CV-NH 14 (1998)

Appendix A

Appendix A – English version of the Survey

Appendix B – Summary of Survey respondents

The survey used for the study was based largely upon a survey developed by Prof. Robert Quinn, University of Michigan Business School. The survey was modified (in English) to fit the Vietnamese context and to remove questions that did not fit into the study's goals. The survey was translated into Vietnamese by the one of the two Vietnamese researchers on the project, then back translated by the other. Words, phrases and concepts that were unclear in the survey were discussed by the Vietnamese and English speaking researchers to reach a consensus on a common topic/meaning.

A similar process was used in analyzing the interviews – we generated semi-structured questions in English. The interviews were conducted in Vietnamese (recorded, transcribed, and translated back into English). The native English speaking researchers worked closely with the Vietnamese researchers to be sure the concepts and phrases they used in English meant what the interviewees had intended in Vietnamese. It was a slow process, especially since the interviews typically took 2 hours to conduct (in Vietnamese) and then about twice that long to translate/transcribe into English!

MANAGING CHANGE

Survey from National Economics University
Management Training Centre
Hanoi, Vietnam

We would like to learn about how your firm is managing change as Vietnam moves toward a market economy. Please answer the following questions in the most accurate way you can, without taking too much time. If you would like a summary of the results of the survey, please include your name and address at the end. Thank you very much for your time and help.

Professor NKK. Napier, Ph.D.
Visiting Professor
National Economics University

Dieu Anh, Hung, Edmund

A. Changes in your firm in the last five years:
Please circle the number that best shows the amount of change you have had:

	No change yet	Weak change	Some change	Major change	Change is complete
I. What are the major changes in your firm?					
1. Equitization	1	2	3	4	5
2. New Board of Directors	1	2	3	4	5
3. Production extension	1	2	3	4	5
4. Recruiting more staff	1	2	3	4	5
5. Restructuring	1	2	3	4	5
6. More focus on customers	1	2	3	4	5
7. Others? please specify.	1	2	3	4	5

II. What do the changes contribute to your company's development?	Strongly disagree		Agree some		Strongly agree
1. Increasing income for the company's staff	1	2	3	4	5
2. Enhancing the welfare program	1	2	3	4	5
3. Better working conditions	1	2	3	4	5
4. Higher productivity	1	2	3	4	5
5. Reducing bureaucracy	1	2	3	4	5
6. Others? please specify.	1	2	3	4	5

III. What changes have you had in the personnel or human resources area?	Strongly Disagree		Agree Some		Strongly Agree
1. Selecting people based upon job requirements and criteria rather than contacts	1	2	3	4	5
2. Creating a reward system tied to performance	1	2	3	4	5
3. Forming effective teamwork	1	2	3	4	5
4. Encouraging creativity	1	2	3	4	5
5. Ttraining employees in customer focus	1	2	3	4	5
6. Rotating people in jobs	1	2	3	4	5
7. Others? please specify.	1	2	3	4	5
IV. What have been the biggest challenges of managing the change?	**Strongly Disagree**		**Agree Some**		**Strongly Agree**
1. Potential conflicts with top managers	1	2	3	4	5
2. Lack of resources to make change	1	2	3	4	5
3. Time needed to change	1	2	3	4	5
4. Cost	1	2	3	4	5
5. Unfavorable environment	1	2	3	4	5
6. Others? please specify.	1	2	3	4	5
V. Who proposes the changes?	**Strongly Disagree**		**Agree Some**		**Strongly Agree**
1. Staff	1	2	3	4	5
2. Technicians	1	2	3	4	5
3. Top managers	1	2	3	4	5
4. The ministry	1	2	3	4	5
5. Customers	1	2	3	4	5
6. Others? please specify.	1	2	3	4	5
VI. What causes the current need for change?	**Strongly Disagree**		**Agree Some**		**Strongly Agree**
1. Changes in the market	1	2	3	4	5
2. Response to the actions of partners	1	2	3	4	5
3. Response to actions of competitors	1	2	3	4	5
4. Requirements from the ministry	1	2	3	4	5
5. Response to actions of investors	1	2	3	4	5
6. Others? please specify.	1	2	3	4	5
VII. How do these changes affect your company?	**Strongly Disagree**		**Agree Some**		**Strongly Agree**
1. Gives us a better position in the market	1	2	3	4	5

2. Improves the company's prestige	1	2	3	4	5
3. Gives stability	1	2	3	4	5
4. No impact	1	2	3	4	5
5. Others? please specify.	1	2	3	4	5

VIII. How do these changes affect you?	**Strongly Disagree**		**Agree Some**		**Strongly Agree**
1. Gives me a chance for promotion	1	2	3	4	5
2. Gives me recognition for my contribution	1	2	3	4	5
3. Helps me get a better job	1	2	3	4	5
4. Improves my relationships with others	1	2	3	4	5
5. No direct impact					
6. Others? please specify.	1	2	3	4	5

IX. Please rank the following in order of MOST important (= 1) to LEAST important (= 5) for your company	**Ranking**
1. Profits	
2. Social benefits	
3. Meeting customer need	
4. Benefiting stakeholders	
5. Other? Please specify	

X. What have been the most difficult things you have to deal with during change?	**Strongly Disagree**		**Agree Some**		**Strongly Agree**
1. Worry about losing your job	1	2	3	4	5
2. Worry about being demoted	1	2	3	4	5
3. Worry about getting moved to a different, less stable job	1	2	3	4	5
4. Others? Please specify.	1	2	3	4	5

XI. What has been the attitude of people in your company toward the changes?	**Protest strongly**	**Do not care**	**Support**	**Strongly support**
1. Top managers	1	2	3	4
2. Middle managers	1	2	3	4
3. Staff	1	2	3	4

XII. How often do you feel the following?	**Never**		**Sometimes**		**Always**

1. My goals conflict with the company goals	1	2	3	4	5
2. I sacrifice my own objectives to achieve those of the group	1	2	3	4	5

B.

I. Staying Focused: In trying to keep the organization focused on performance, how often is emphasis placed on the following:	**1 Rarely**	**2**	**3 Fairly Often**	**4**	**5 Very Often**
1. Net Income	1	2	3	4	5
2. Assessing individual performance against written objectives.	1	2	3	4	5
3. Putting in long hours	1	2	3	4	5
4. Ambitious corporate objectives	1	2	3	4	5
5. Cost control	1	2	3	4	5
6. Taking ineffective people out of the organization	1	2	3	4	5
7. Maintaining an intense work focus	1	2	3	4	5
8. Stretch goals for the organization	1	2	3	4	5
9. Profit	1	2	3	4	5
10. Removing People who do not produce results	1	2	3	4	5
11. Clearly set employee objectives	1	2	3	4	5
12. Aggressive organizational goals	1	2	3	4	5
13. Financial performance	1	2	3	4	5
14. Getting rid of people who become "dead wood"	1	2	3	4	5
15. Well defined individual performance expectations	1	2	3	4	5
16. Having an appetite for hard work	1	2	3	4	5
17. Earnings	1	2	3	4	5

II. Striving for Responsiveness: In striving to be more responsive, how often does the organization place emphasis on the following.	**1 Rarely**	**2**	**3 Fairly Often**	**4**	**5 Very Often**
1. Valuing imagination and invention	1	2	3	4	5
2. Striving for world class speed	1	2	3	4	5
3. Promoting customer responsiveness	1	2	3	4	5
4. Reengineering for faster cycle times	1	2	3	4	5
5. Anticipating the changing needs of the customer	1	2	3	4	5

6. Encouraging Innovation	1	2	3	4	5
7. Focusing on the customer	1	2	3	4	5
8. Maintaining creativity	1	2	3	4	5
9. Streamlining internal processes	1	2	3	4	5

III. Maintaining Continuity: In striving to maintaining continuity, how often does the organization put emphasis on:	**1 Rarely**	**2**	**3 Fairly Often**	**4**	**5 Very Often**
1. Educating people to follow company guidelines	1	2	3	4	5
2. Staying within the chain of command	1	2	3	4	5
3. Training people to comply with standard procedures	1	2	3	4	5
4. Instructing people on formalized operating rules	1	2	3	4	5
5. Showing loyalty to the boss	1	2	3	4	5
6. Teaching the established routines to employees	1	2	3	4	5
7. Keeping the boss informed	1	2	3	4	5

IV. Maintaining Commitment: In trying to build commitment in the human system, how often does the organization put emphasis on:	**1 Rarely**	**2**	**3 Fairly Often**	**4**	**5 Very Often**
1. Insuring people are awarded appropriately	1	2	3	4	5
2. Communicating a common vision throughout the organization	1	2	3	4	5
3. Participating in corporate development programs	1	2	3	4	5
4. Providing adequate pay for level of work required	1	2	3	4	5
5. Sending people to external education programs	1	2	3	4	5
6. Insuring continuous individual learning	1	2	3	4	5
7. Maintaining equitable incentive systems	1	2	3	4	5
8. Developing a cohesive focus throughout the workforce	1	2	3	4	5
9. Seeing that rewards are fairly distributed	1	2	3	4	5
10. Striving for shared vision among employees	1	2	3	4	5
11. Keeping people on the cutting edge of knowledge	1	2	3	4	5

C: The Pressing Problems of Modern Corporations:					

I. Performance Problems: Please indicate how important the following problems are for your organization.	1 Not Important	2	3. Somewhat Important	4.	5. Very Important
1. Poor financial performance	1	2	3	4	5
2. Difficulty getting ineffective people out of the organization	1	2	3	4	5
3. Spending too much money	1	2	3	4	5
4. Inability to get quality improvements.	1	2	3	4	5
5. Inefficient internal processes	1	2	3	4	5
6. . Insufficient emphasis on innovative ideas	1	2	3	4	5
7. Customer satisfaction problems	1	2	3	4	5
8. Narrow profit margins	1	2	3	4	5
9. Overrunning budgets	1	2	3	4	5
10. Disappointing quality results	1	2	3	4	5
11. Processes that are too complex	1	2	3	4	5
12. Lack of creativity in problem solving efforts	1	2	3	4	5
13. Difficulty responding to the voice of the customer	1	2	3	4	5
14. Low net income	1	2	3	4	5
15. Too many people who are not contributing	1	2	3	4	5
16. Under-utilizing the talents of organization members	1	2	3	4	5
17. Unmet quality expectations	1	2	3	4	5
18. Difficulties in resolving process problems	1	2	3	4	5
19. Inadequate cost control	1	2	3	4	5
20. Discouraging the introduction of new ideas	1	2	3	4	5
21. Failure to meet customer expectations.	1	2	3	4	5
22. Disappointing earnings	1	2	3	4	5
23. People who are not adding to the organization	1	2	3	4	5
24. High operating costs	1	2	3	4	5
25. Inhibiting innovative practices	1	2	3	4	5

II. Problems of confusion and discontinuity	1 Not	2	3. Somewhat	4.	5. Very

	Important		Important		Important
1. More processes than can be efficiently processed by the organization	1	2	3	4	5
2. Ambiguity about what is truly valued at the top of an organization	1	2	3	4	5
3. Pressures from external competitors	1	2	3	4	5
4. Management succession problems in new markets	1	2	3	4	5
5. Unfocused strategies for organizational expansion	1	2	3	4	5
6. Unclear direction from top management	1	2	3	4	5
7. Intense competition in the industry	1	2	3	4	5
8. Denial of the reality associated with new markets	1	2	3	4	5
9. Lack of vision in managing growth process	1	2	3	4	5
10. Shifting organizational priorities	1	2	3	4	5
11. Absence of compelling corporate vision	1	2	3	4	5
12. Lack of distinct competitive advantage	1	2	3	4	5
13. Unrealistic planning assumptions in entering new markets	1	2	3	4	5
14. Chaotic patterns of growth	1	2	3	4	5
15. Ever changing initiatives in the organization	1	2	3	4	5
16. Conflicting messages from members of the top management team.	1	2	3	4	5
17. Inability to cope with outside competition	1	2	3	4	5
18. Difficulties managing the entry into new markets	1	2	3	4	5
19. Unmanaged organizational growth	1	2	3	4	5

IV. Problems in the Human System	1 Not Important	2	3 Somewhat Important	4	5 Very Important
1. Problematic resource systems	1	2	3	4	5
2. People feel overworked	1	2	3	4	5
3. A political climate that undermines trust	1	2	3	4	5
4. Confusing matrix relationships	1	2	3	4	5
5. Limited access to information held by direct supervisors	1	2	3	4	5
6. People are working close to the point of burn out.	1	2	3	4	5
7. Self-serving behavior that hurts the organization	1	2	3	4	5
8. Frustrating multiple reporting	1	2	3	4	5

relationships					
9. Difficulty getting facts from the next level up	1	2	3	4	5
10. Reward systems that do not motivate employees	1	2	3	4	5
11. Lack of capacity necessary to complete assignments	1	2	3	4	5
12. People put personal power ahead of organizational good	1	2	3	4	5
13. Conflicting accountabilities	1	2	3	4	5
14. People feel they are approaching the limits of individual work capacity	1	2	3	4	5
15. Bosses who tightly control data on key issues	1	2	3	4	5
16. Unfair allocation of rewards	1	2	3	4	5
17. Unclear linkages between individual performance and the rewards given	1	2	3	4	5
18. People who personally benefit at the cost of the organization	1	2	3	4	5

D. Personal Demographics

How long have you been working in a State Owned Enterprise? _________ years.
How long have been working in this current State Owned Enterprise? _________years.
If possible, please write down your company's name. ___________________________.
If you want to have the result of this survey, please write down your name and address.

____

____

Following are some further informational questions. Please check one appropriate response.

1. How would you describe your company?

1. Local Company
2. National Company
3. Multinational Company
4. Global Company

2. What is your management level?

1. First Line
2. Lower Middle
3. Middle
4. Upper Middle
5. Top Management
6. Other/non-management activities.

3. How large is the company?

________Employees

4. What is the highest level of education that you have achieved?

1. Secondary School
2. Vocational School

3. Bachelor's Degree
4. Some Graduate Work
5. Master's Degree
6. Doctorate Degree

5. What industry are you in?

1. Airlines
2. Accounting
3. Banking
4. Computers
5. Consulting
6. Consumer Goods
7. Food Processing
8. Government
9. Health Services
10. Motor Vehicles
11. Oil/Chemicals
12. Housing/Real Estate
13. Retail
14. Steel Production
15. Public Service
16. Others: Please Specify

6. What is your gender?

1. Male
2. Female

7. What is your age?

_________years

8. Are you married?

1. Yes
2. No

9. Your wife/husband is:

1. A Homemaker
2. Working full time
3. Working part-time

10. Your profession is:

1. Accounting and Finance
2. Research
3. Human Resources
4. Production/Operations
5. Marketing/Selling/Service
6. Planning
7. Designing and Product Development
8. Management
9. Others

11. You have ___________ children.

12. Your schedule in a typical day/week.

_______ hours working at home.
_______ hours working at the office.
_______ hours spent commuting between work and office.

Description of survey sample

From: Edmund Malesky

Out of 240 questionnaires distributed, 134 questionnaires are usable. Following is detailed description of the sample population.

1. **Usable Questionnaires:**
   134 usable questionnaires:

2. **Geographical Jurisdiction:**
   35 from local state owned enterprises, 88 national state owned enterprises, 1 multinational, and 5 characterized themselves as global.

3. **Management Level:**
   16 listed themselves as the lowest level of management
   18 listed themselves as the second lowest level
   49 listed themselves as the middle level
   24 listed themselves as the upper middle level
   8 classified themselves as top level management
   8 were not involved in management activities
   11 did not answer

4. **Number of employees:**

11	50 or less
16	51-100
13	101-200
19	201-300
3	301-400
5	401-500
3	501-600
13	600-1000
11	1000-3000
4	3000-6000
5	6001-10,000
5	> 10,000
25	did not answer

5. **Education level:**

7	stopped after graduating from secondary schools
7	stopped after graduating from vocational colleges
103	stopped after graduating from universities
1	had done some graduate work
3	received master's degrees
1	received a doctorate

6. **Industries:**

Airline	6
Accounting	8
Banking	6
Information Technology	2
Consulting	13
Consumer Goods	11
Food Processing	0
Government	7
Health Services	1
Motor Vehicles	0
Oil/Chemicals	7
Housing/Real Estate	12
Retail	2
Steel Production	3
Public Service	17
Others	49

7. **Gender:**

male	81
female	39
no answer	11

8. **Age:**

41	22-30
13	31-35
23	36-40
14	41-45
15	46-50
9	51-55
2	56-60

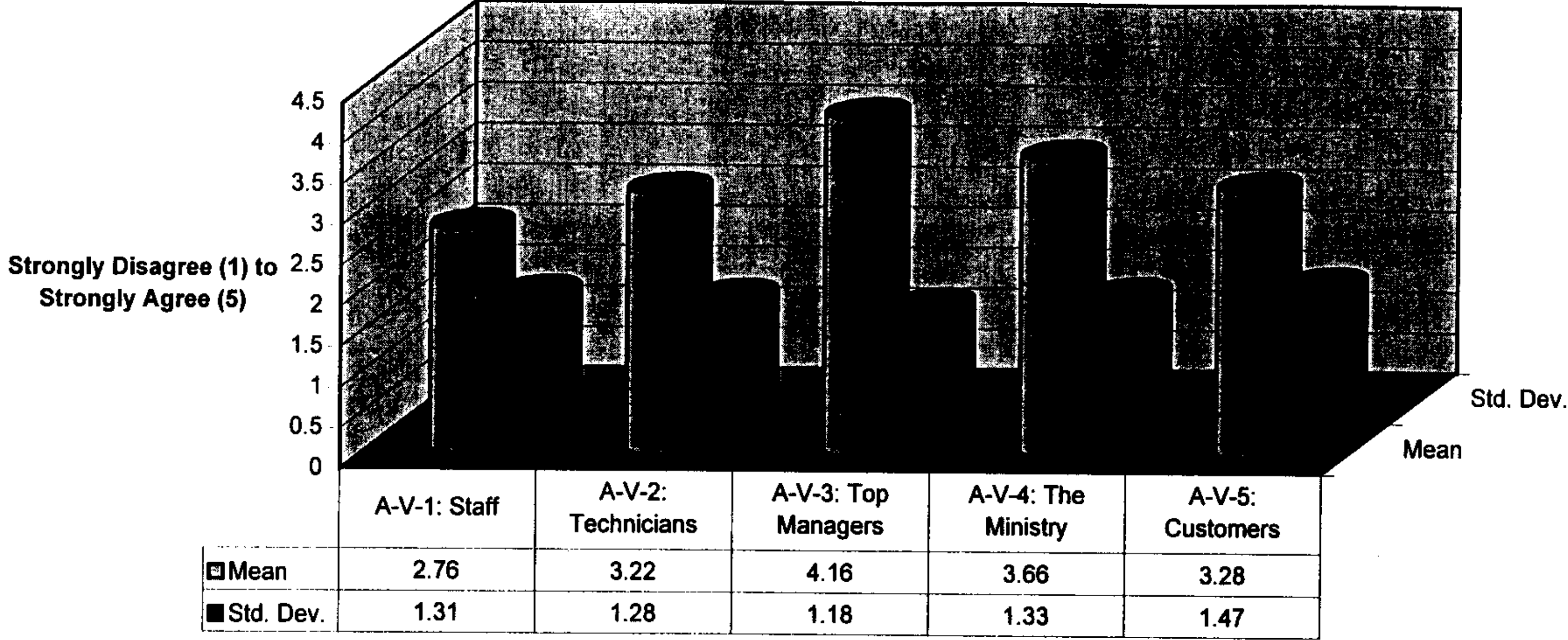
9. **Marriage:**

83 married
35 single
16 no answer

10. **Spouse employment status:**

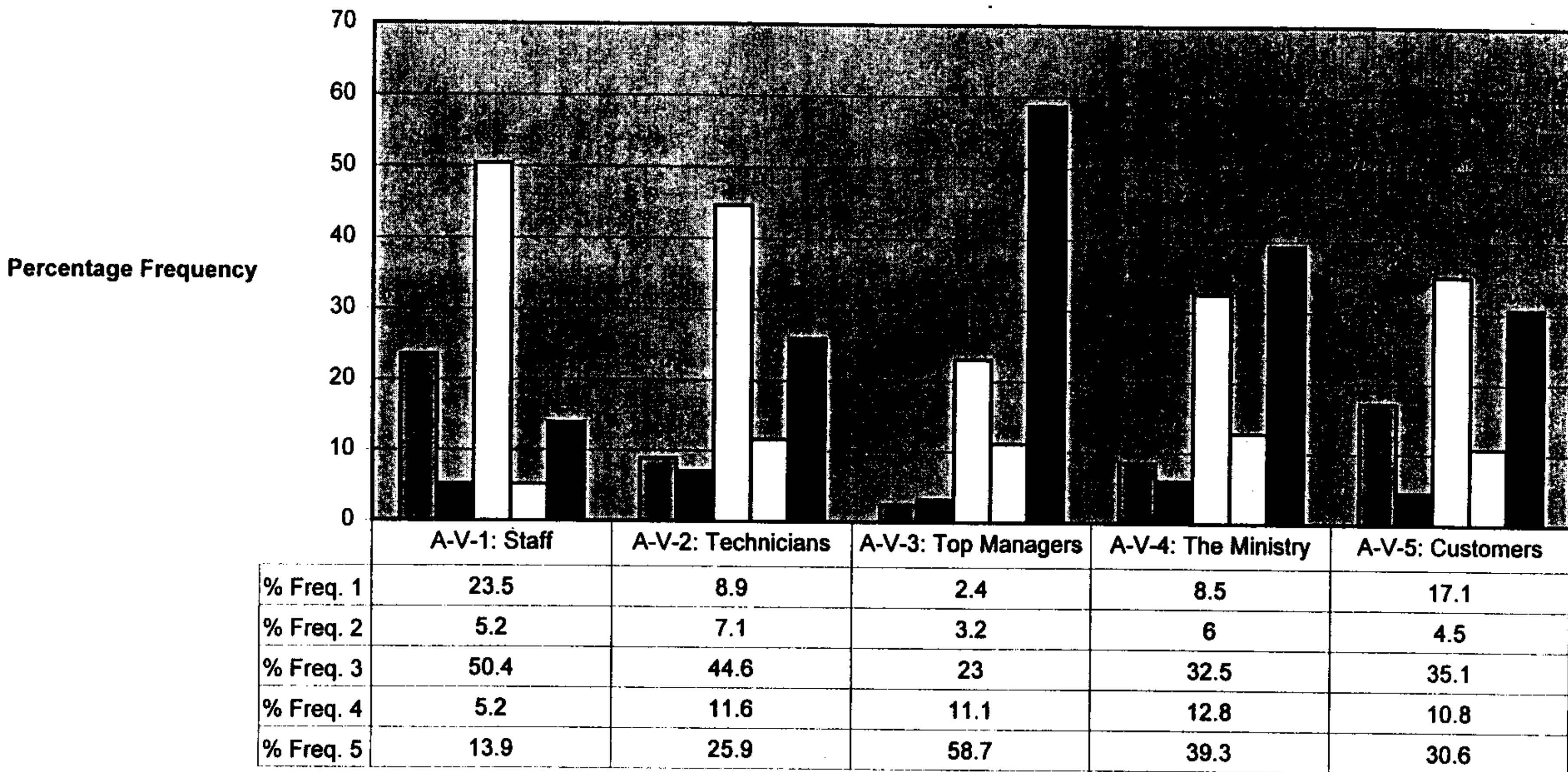
10	homemaker
68	full-time
5	part-time

Chart 1: Who proposes the changes?

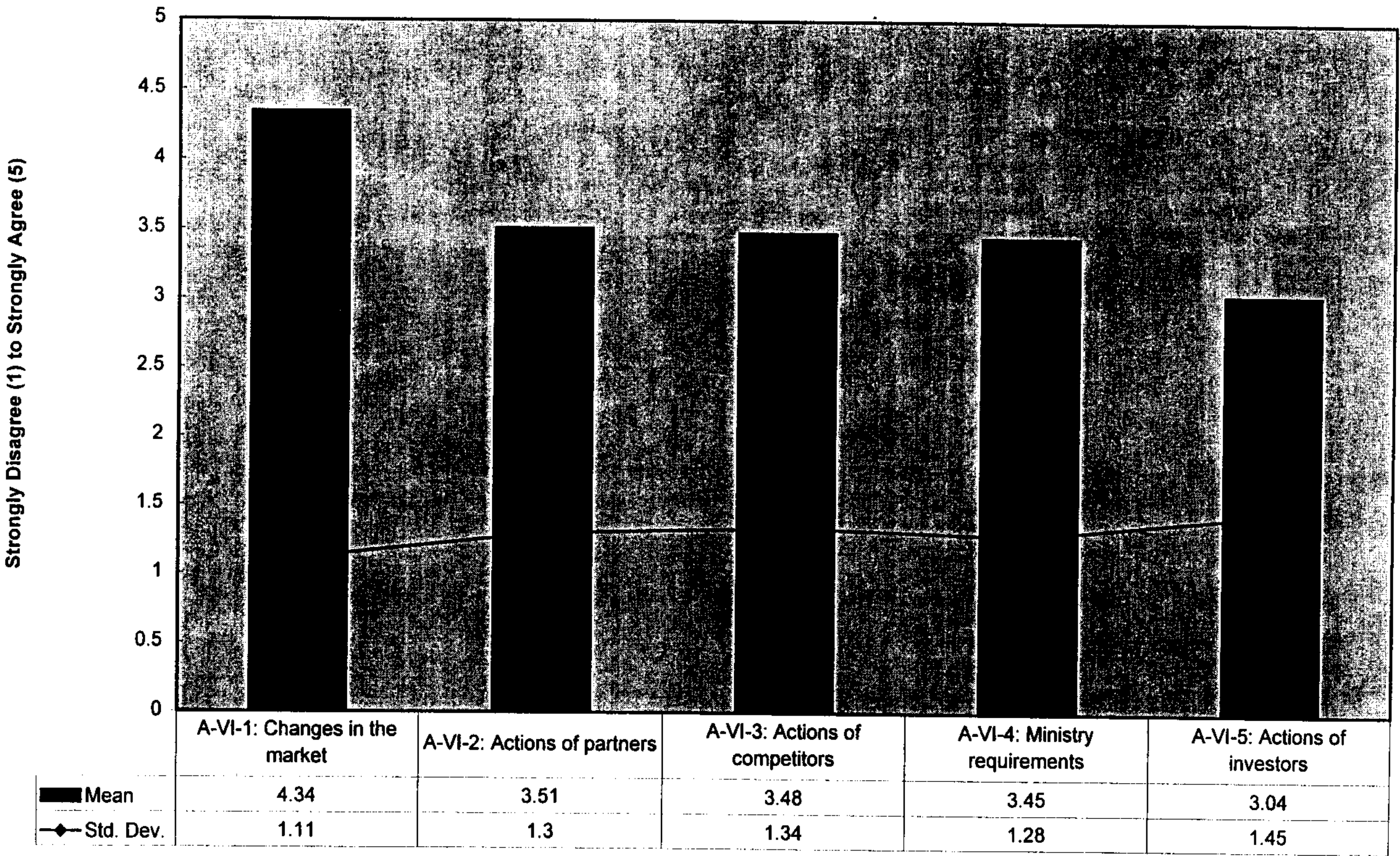


	A-V-1: Staff	A-V-2: Technicians	A-V-3: Top Managers	A-V-4: The Ministry	A-V-5: Customers
Mean	2.76	3.22	4.16	3.66	3.28
Std. Dev.	1.31	1.28	1.18	1.33	1.47

Chart 2: Who proposes the changes? (Percentage Frequency Distribution)

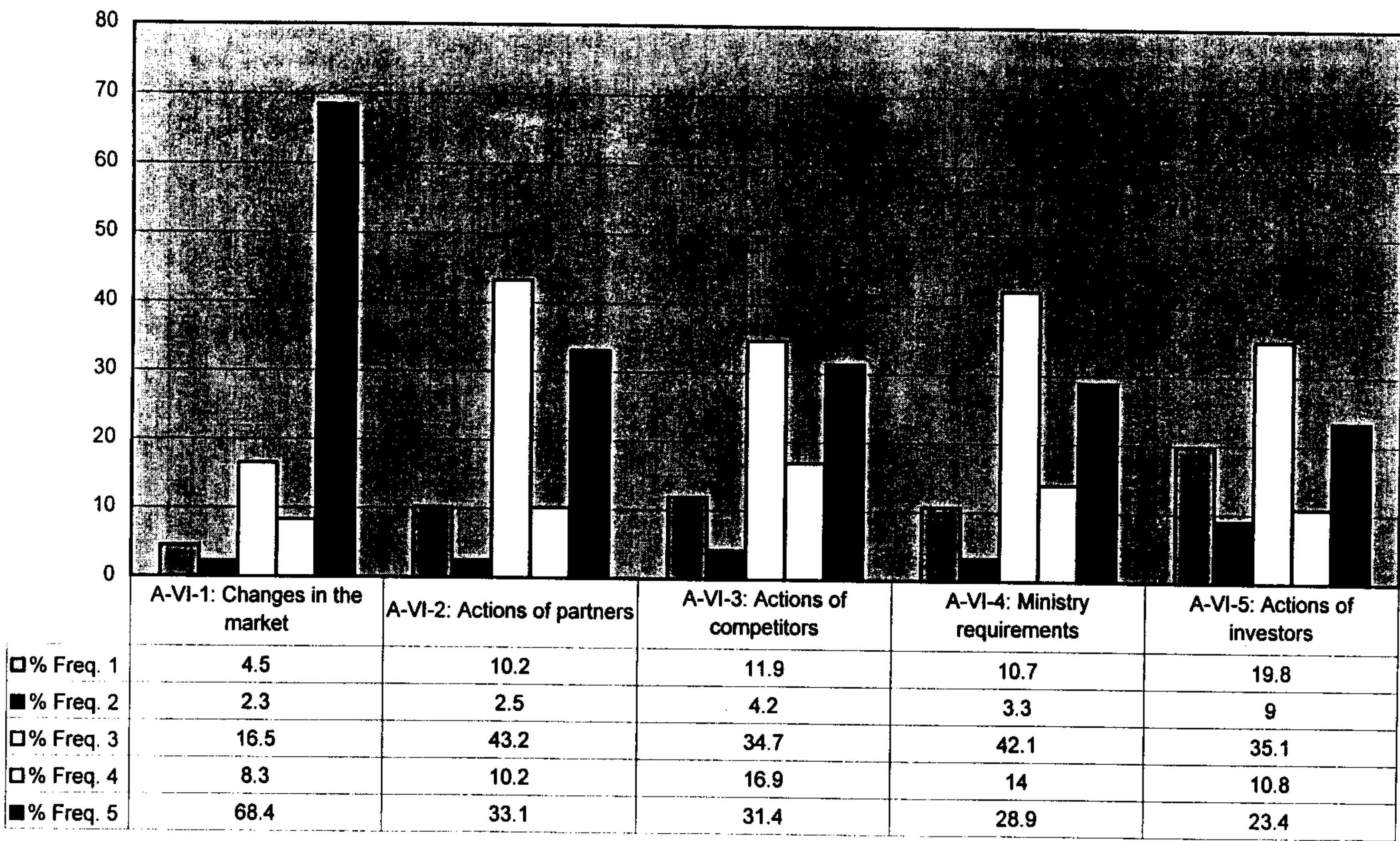


	A-V-1: Staff	A-V-2: Technicians	A-V-3: Top Managers	A-V-4: The Ministry	A-V-5: Customers
% Freq. 1	23.5	8.9	2.4	8.5	17.1
% Freq. 2	5.2	7.1	3.2	6	4.5
% Freq. 3	50.4	44.6	23	32.5	35.1
% Freq. 4	5.2	11.6	11.1	12.8	10.8
% Freq. 5	13.9	25.9	58.7	39.3	30.6



	A-VI-1: Changes in the market	A-VI-2: Actions of partners	A-VI-3: Actions of competitors	A-VI-4: Ministry requirements	A-VI-5: Actions of investors
Mean	4.34	3.51	3.48	3.45	3.04
Std. Dev.	1.11	1.3	1.34	1.28	1.45

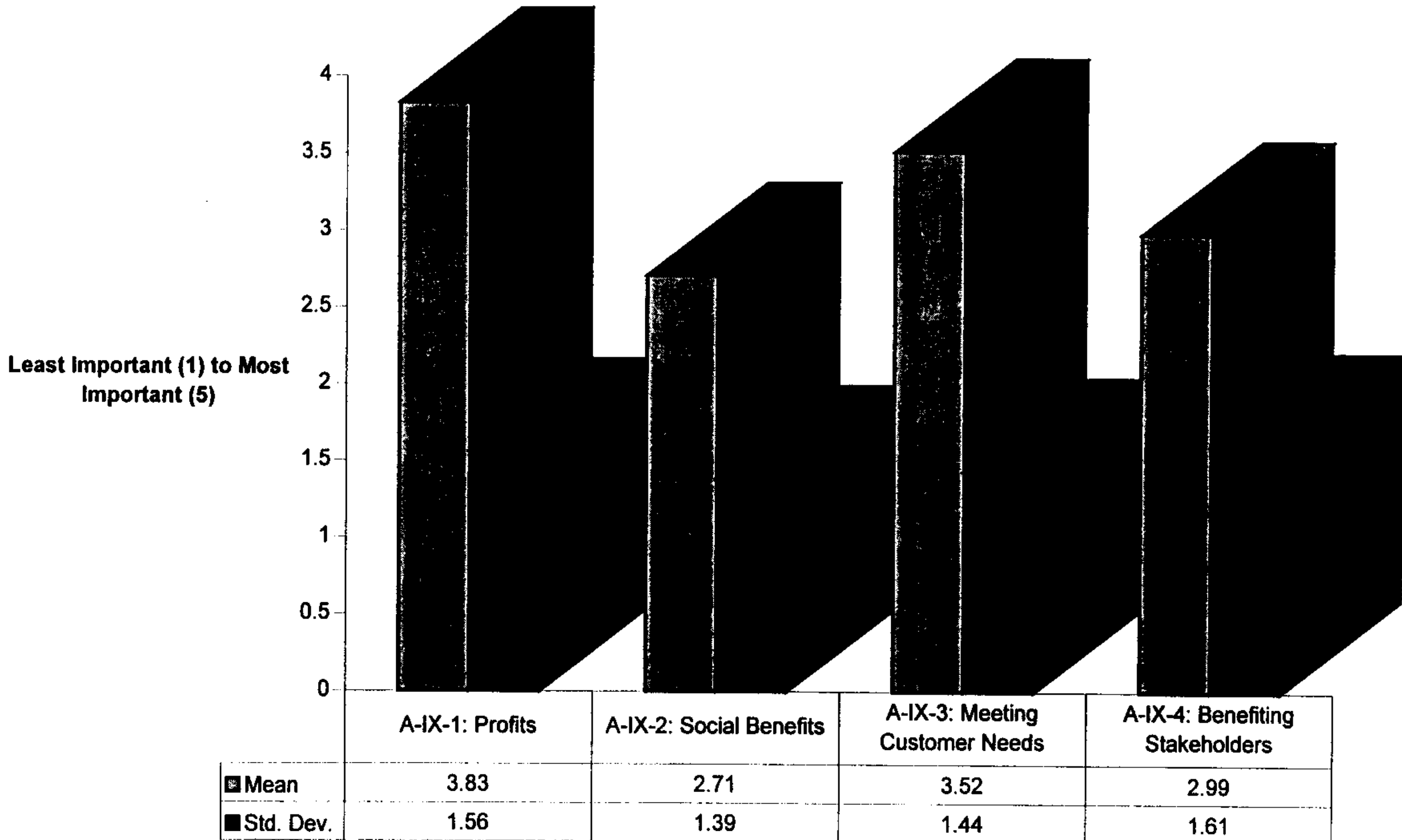
Chart 4: What caused the current need for change? (Percentage Frequency Distribution)



	A-VI-1: Changes in the market	A-VI-2: Actions of partners	A-VI-3: Actions of competitors	A-VI-4: Ministry requirements	A-VI-5: Actions of investors
% Freq. 1	4.5	10.2	11.9	10.7	19.8
% Freq. 2	2.3	2.5	4.2	3.3	9
% Freq. 3	16.5	43.2	34.7	42.1	35.1
% Freq. 4	8.3	10.2	16.9	14	10.8
% Freq. 5	68.4	33.1	31.4	28.9	23.4

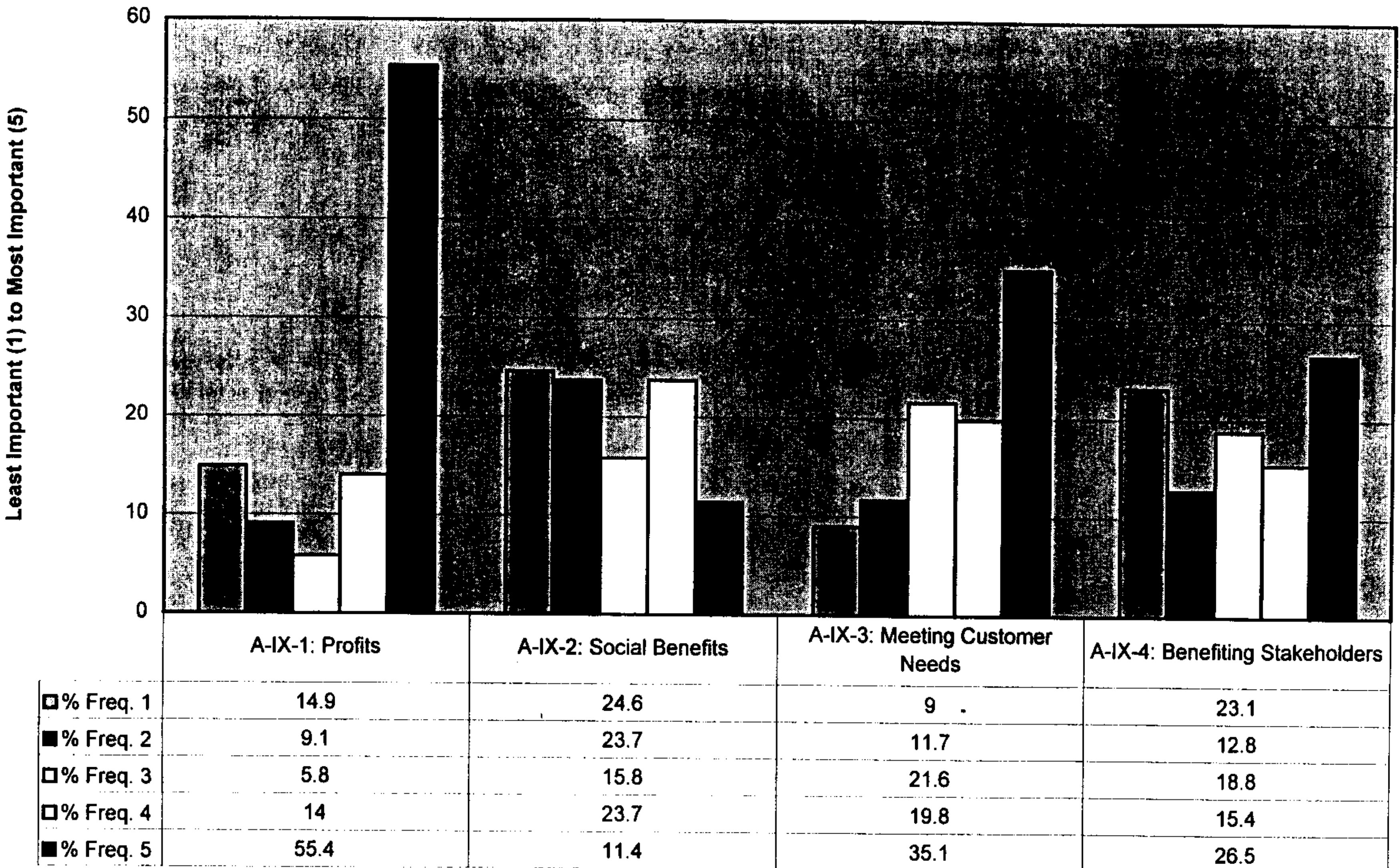
Strongly Disagree (1) to Strongly Agree (5)

Chart 5: Business Goal Rankings



	A-IX-1: Profits	A-IX-2: Social Benefits	A-IX-3: Meeting Customer Needs	A-IX-4: Benefiting Stakeholders
Mean	3.83	2.71	3.52	2.99
Std. Dev.	1.56	1.39	1.44	1.61

Chart 6: Business Goal Rankings (Percentage Frequency Distribution).



	A-IX-1: Profits	A-IX-2: Social Benefits	A-IX-3: Meeting Customer Needs	A-IX-4: Benefiting Stakeholders
% Freq. 1	14.9	24.6	9	23.1
% Freq. 2	9.1	23.7	11.7	12.8
% Freq. 3	5.8	15.8	21.6	18.8
% Freq. 4	14	23.7	19.8	15.4
% Freq. 5	55.4	11.4	35.1	26.5

Chart 7: Worried about losing job. From strongly disagree (1) to strongly agree (5).

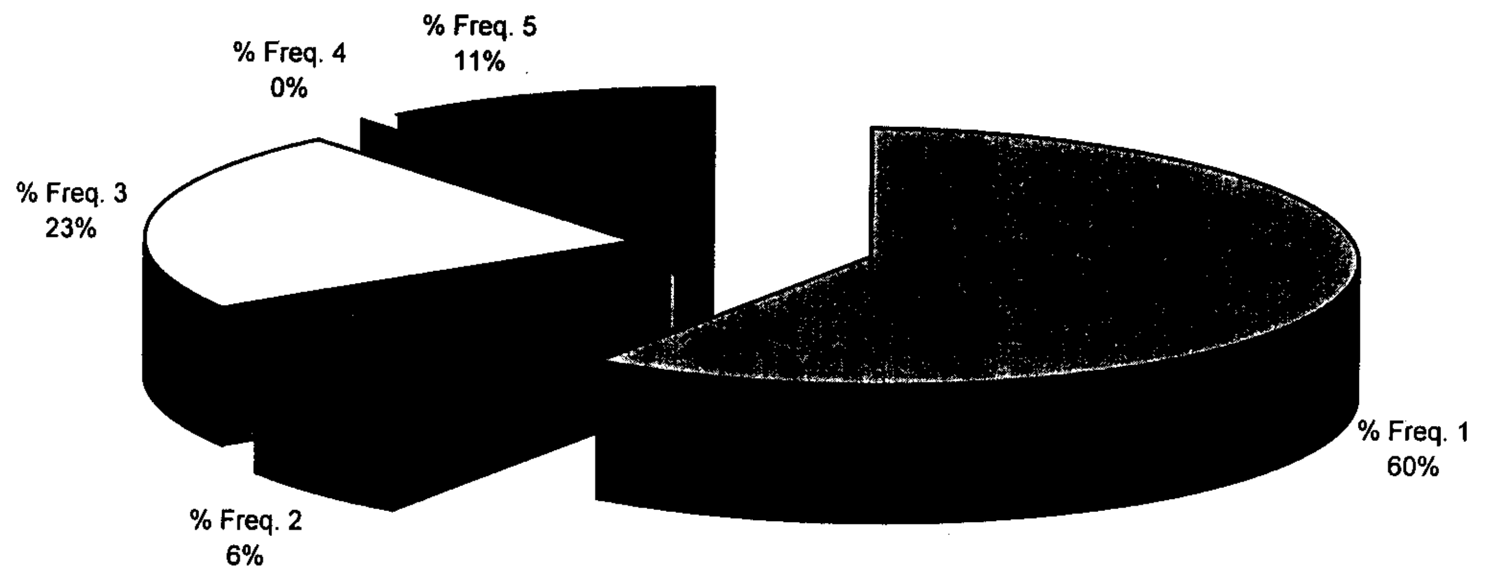


Chart 8: Worried about being demoted.
From strongly disagree (1) to strongly agree (5).

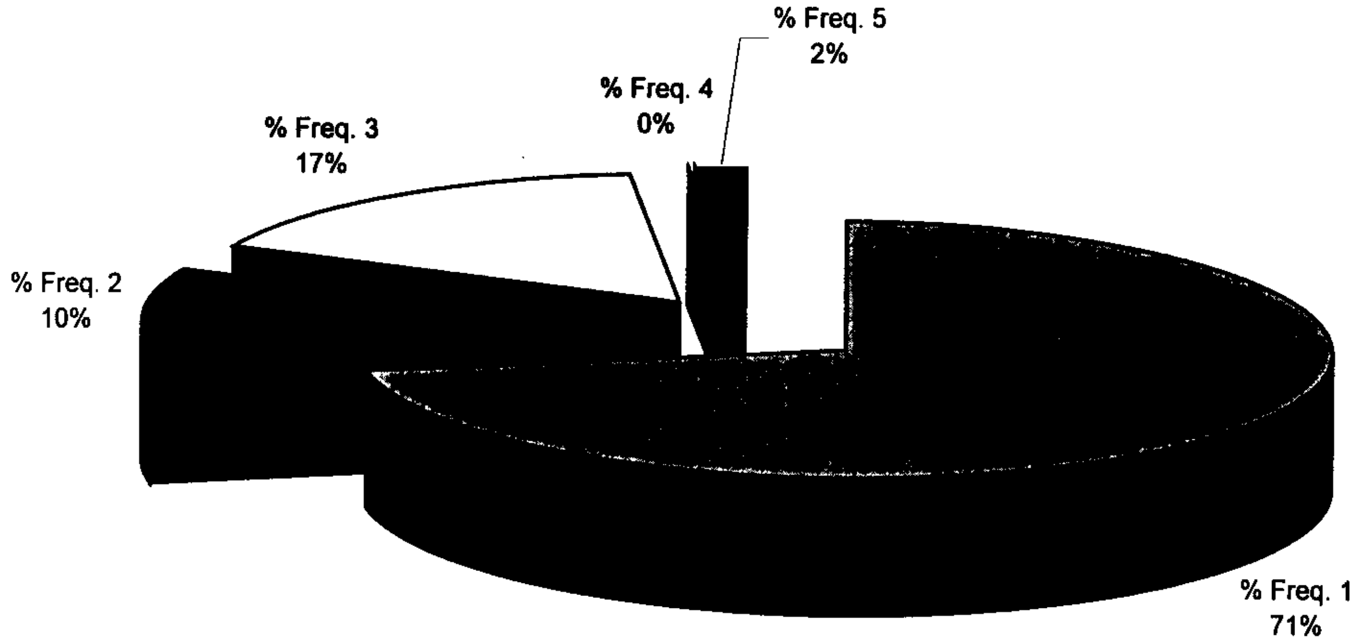


Chart 9: Worried about getting moved.
From strongly disagree (1) to strongly agree (5).

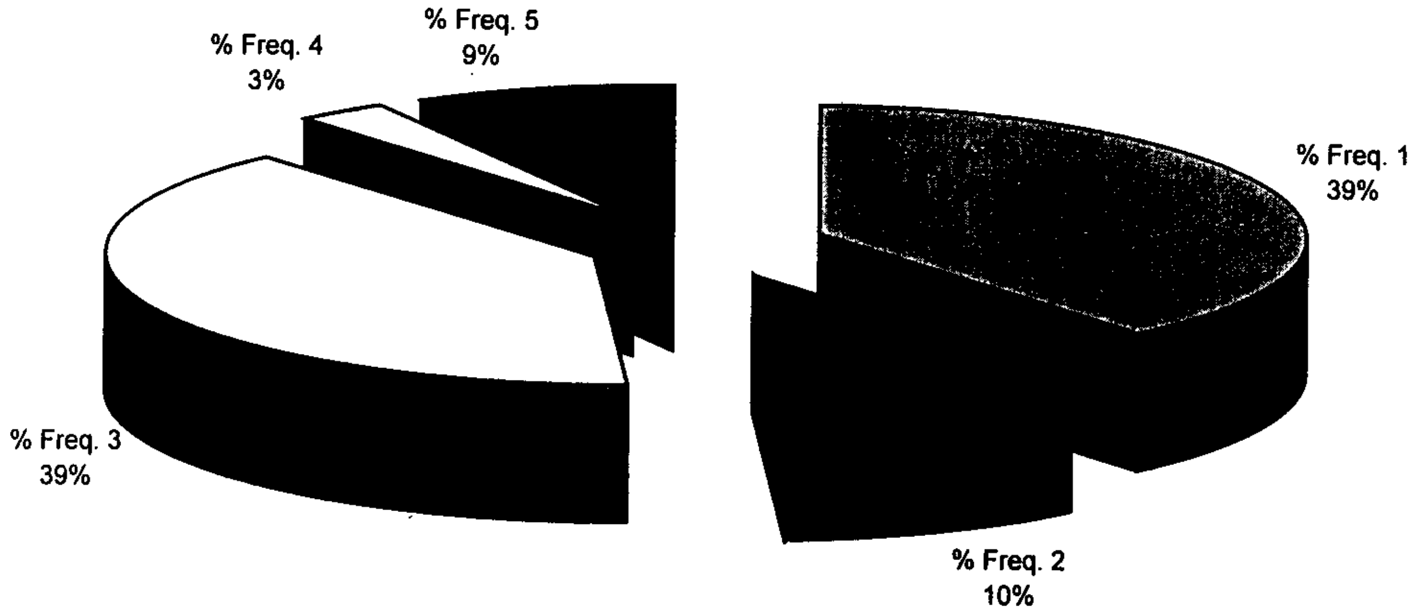
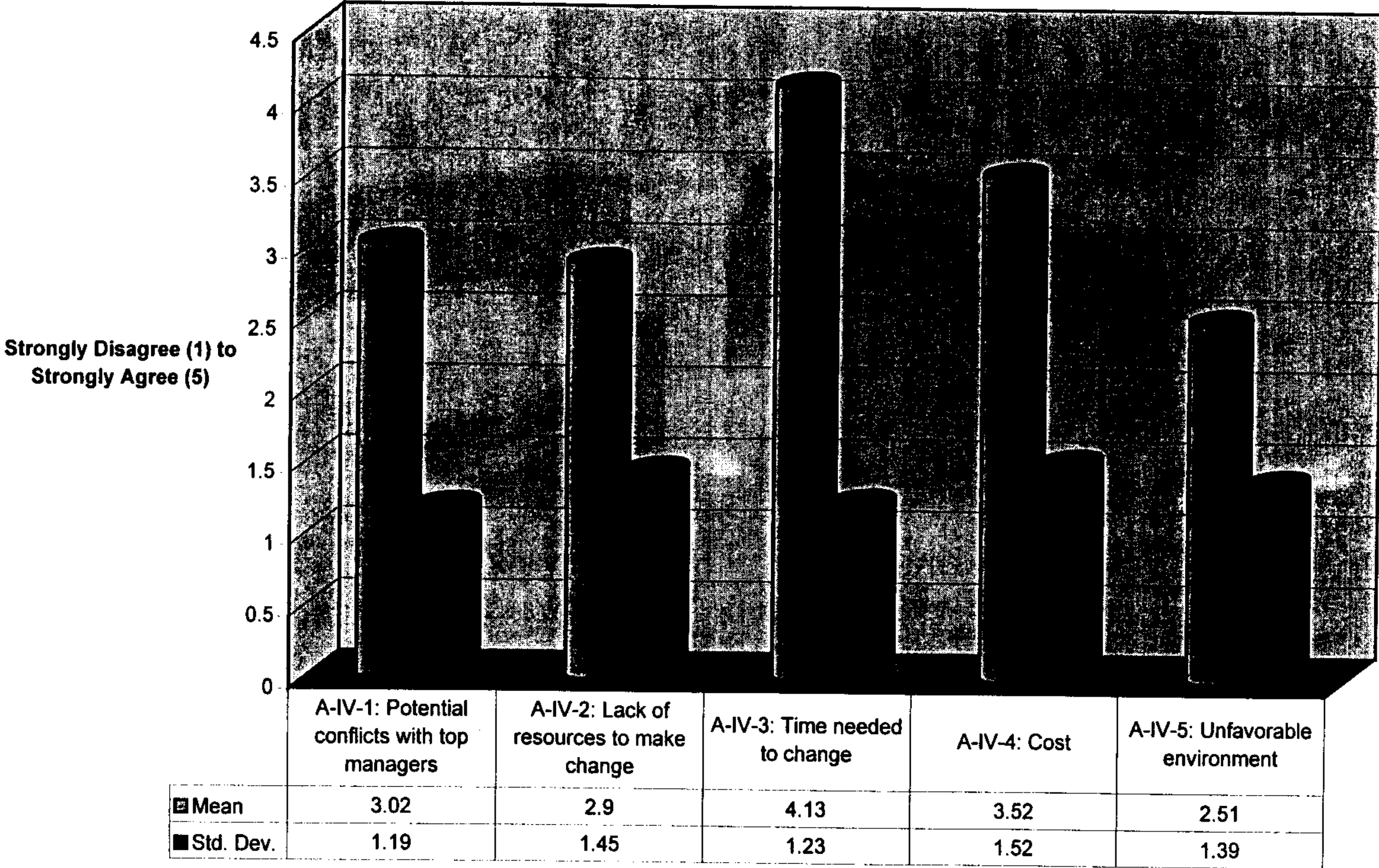
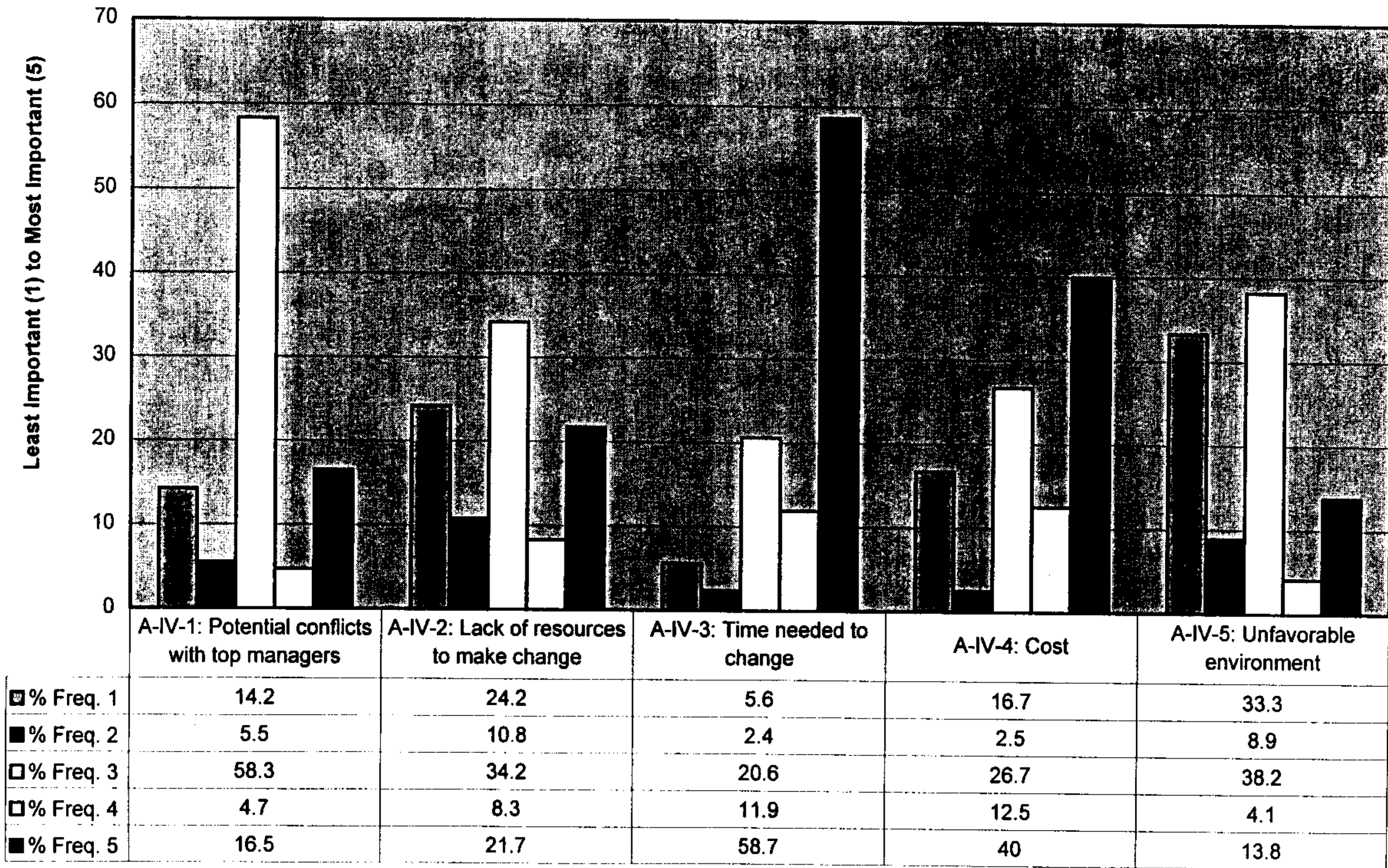


Chart 10: Challenges of change



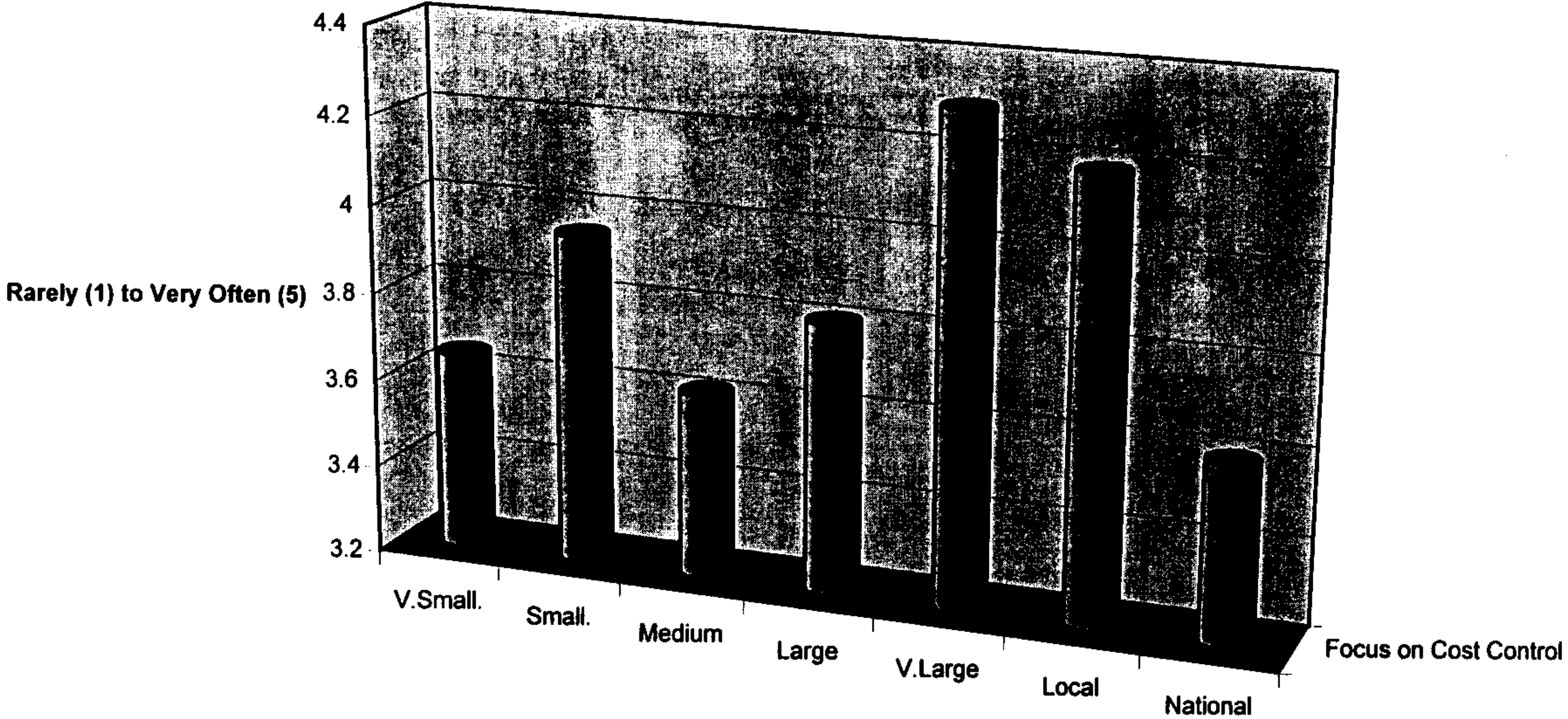
	A-IV-1: Potential conflicts with top managers	A-IV-2: Lack of resources to make change	A-IV-3: Time needed to change	A-IV-4: Cost	A-IV-5: Unfavorable environment
Mean	3.02	2.9	4.13	3.52	2.51
Std. Dev.	1.19	1.45	1.23	1.52	1.39

Chart 11: Challenges of change (Percentage Frequency Distribution).



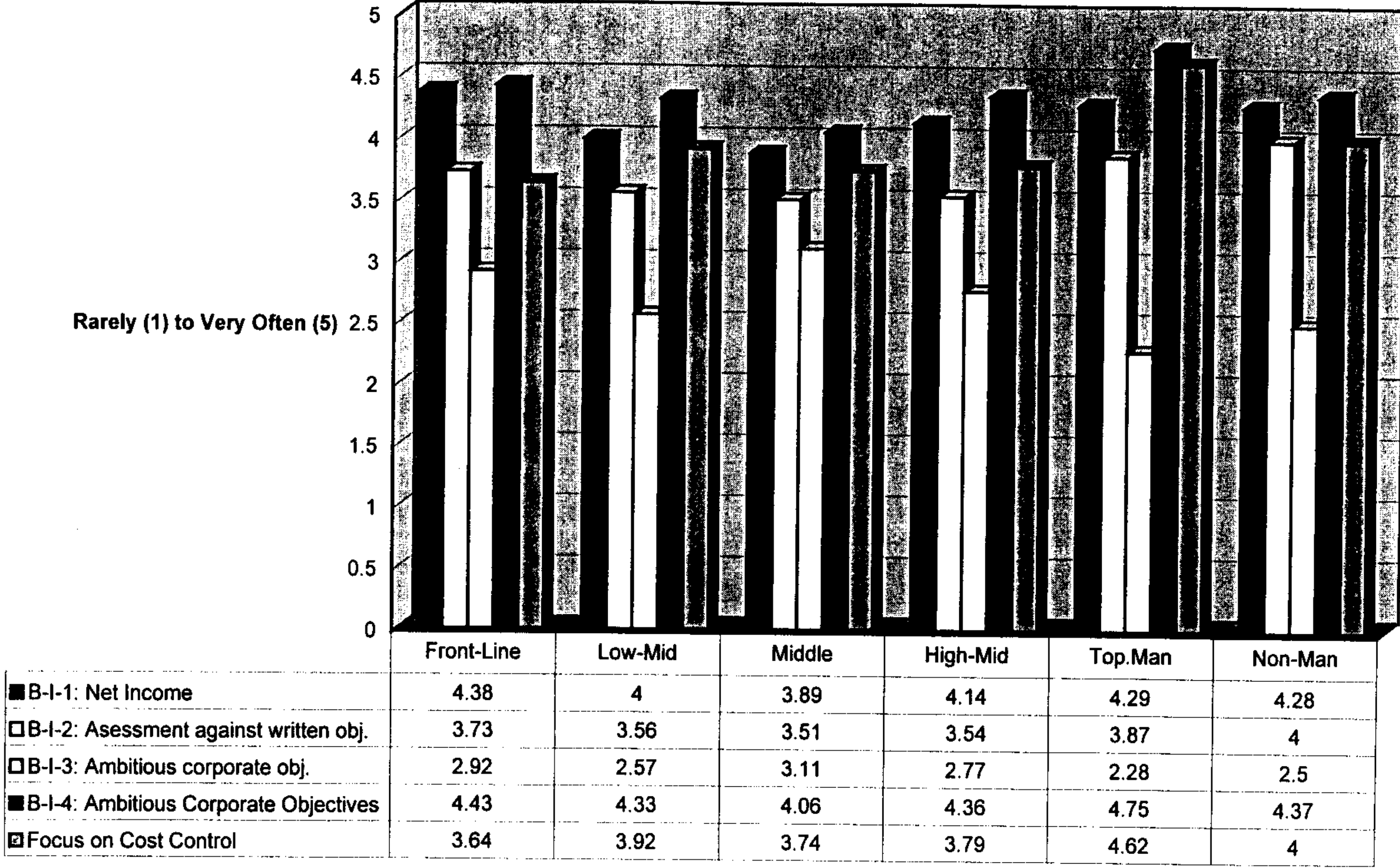
	A-IV-1: Potential conflicts with top managers	A-IV-2: Lack of resources to make change	A-IV-3: Time needed to change	A-IV-4: Cost	A-IV-5: Unfavorable environment
% Freq. 1	14.2	24.2	5.6	16.7	33.3
% Freq. 2	5.5	10.8	2.4	2.5	8.9
% Freq. 3	58.3	34.2	20.6	26.7	38.2
% Freq. 4	4.7	8.3	11.9	12.5	4.1
% Freq. 5	16.5	21.7	58.7	40	13.8

Chart 12: Focus on cost control by size and jurisdiction.



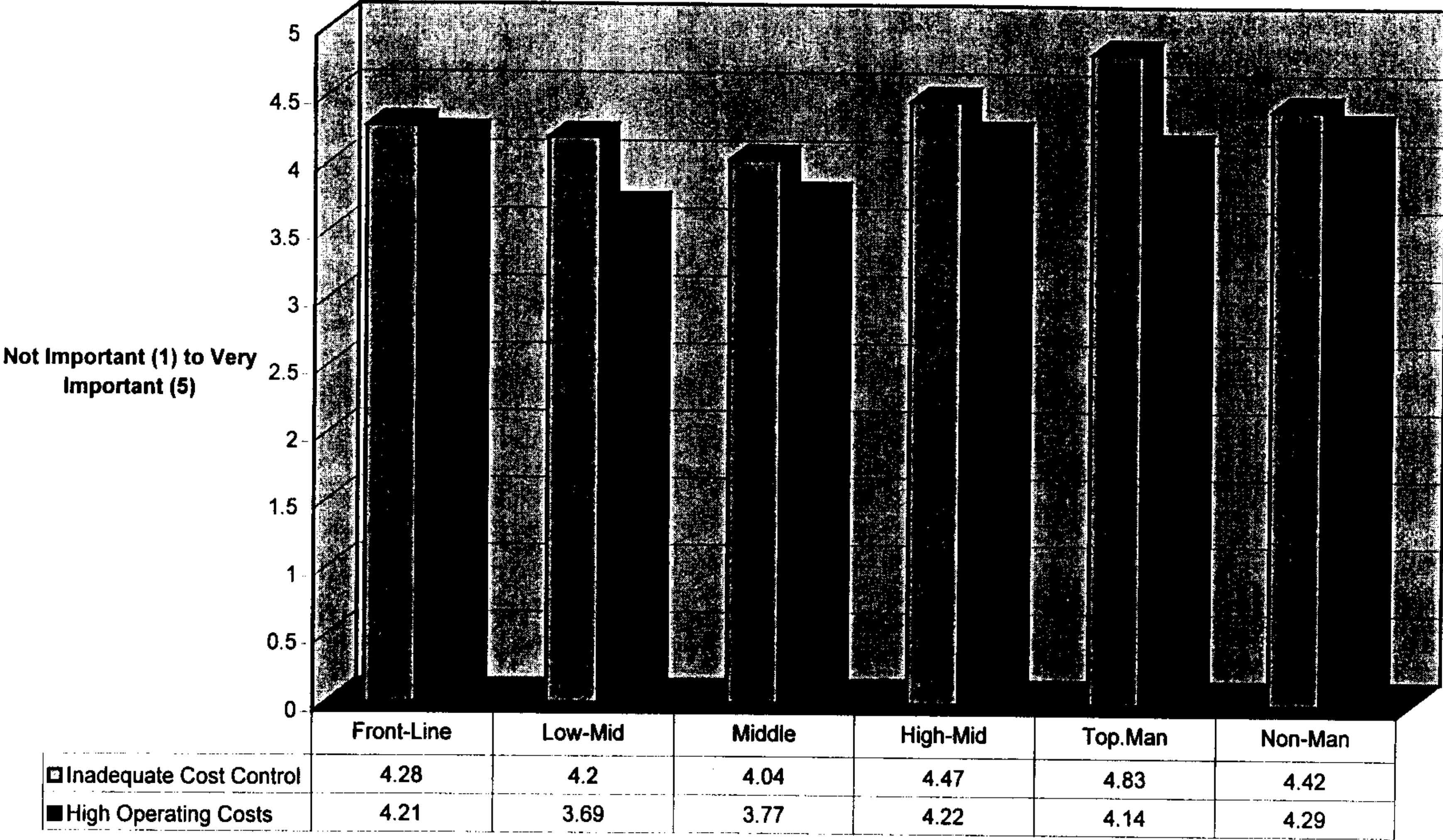
	V.Small.	Small.	Medium	Large	V.Large	Local	National
Focus on Cost Control	3.65	3.95	3.62	3.81	4.3	4.19	3.6

Chart 13: Focus on cost control by management level.



	Front-Line	Low-Mid	Middle	High-Mid	Top.Man	Non-Man
B-I-1: Net Income	4.38	4	3.89	4.14	4.29	4.28
B-I-2: Asessment against written obj.	3.73	3.56	3.51	3.54	3.87	4
B-I-3: Ambitious corporate obj.	2.92	2.57	3.11	2.77	2.28	2.5
B-I-4: Ambitious Corporate Objectives	4.43	4.33	4.06	4.36	4.75	4.37
Focus on Cost Control	3.64	3.92	3.74	3.79	4.62	4

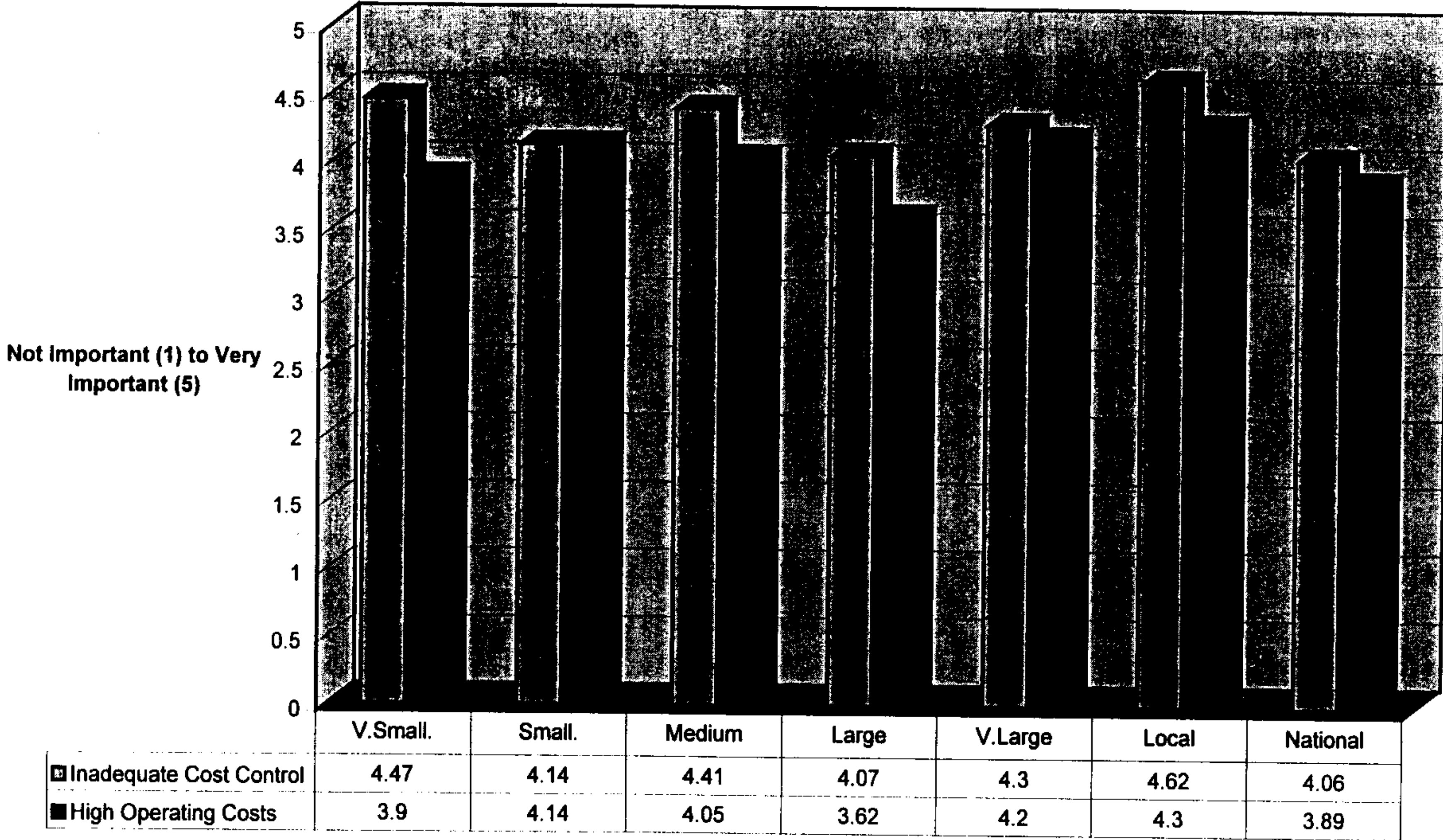
Chart 14: The problem of costs by management level.



	Front-Line	Low-Mid	Middle	High-Mid	Top.Man	Non-Man
Inadequate Cost Control	4.28	4.2	4.04	4.47	4.83	4.42
High Operating Costs	4.21	3.69	3.77	4.22	4.14	4.29

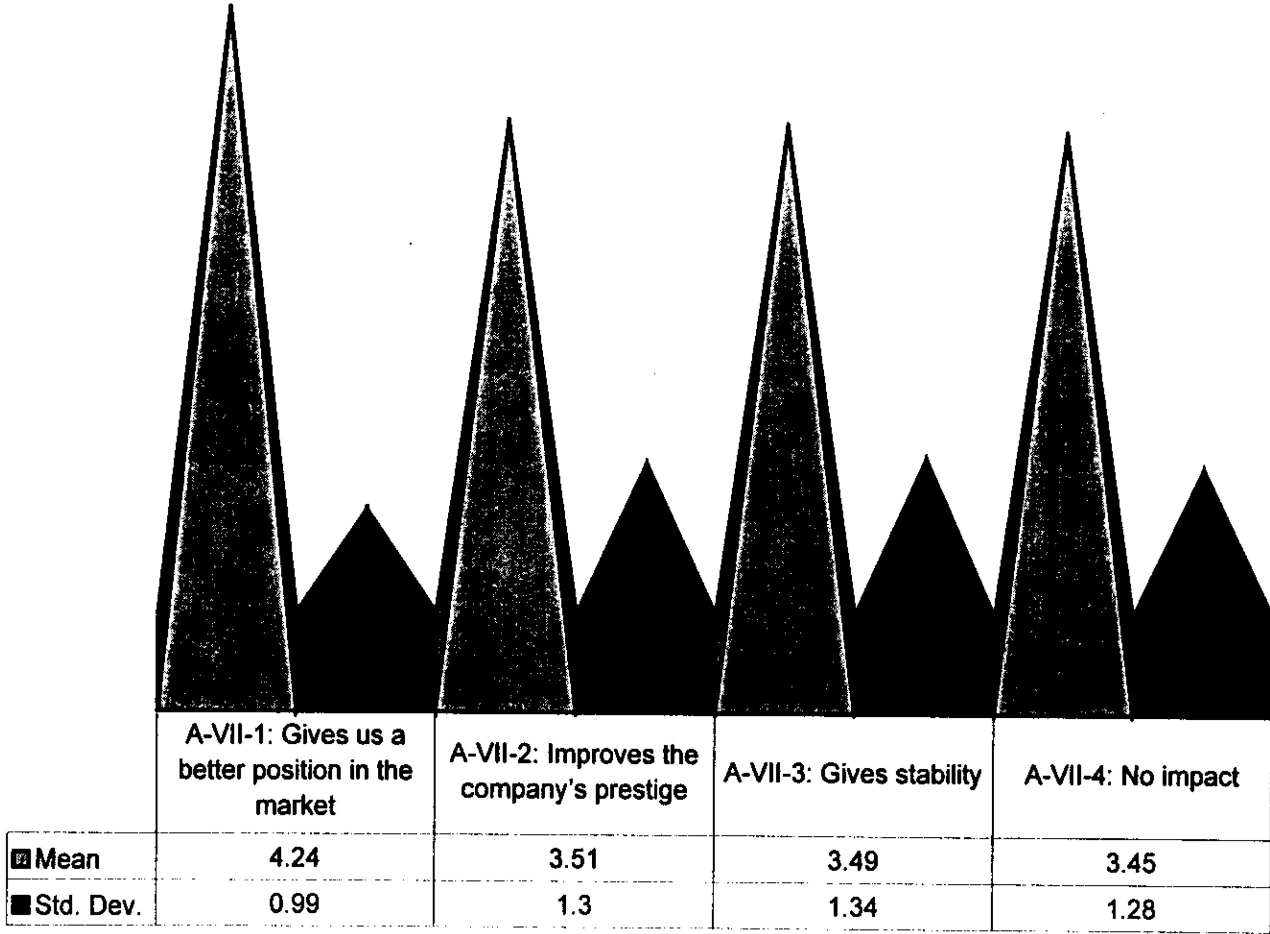
Not Important (1) to Very Important (5)

Chart 15: The problem of costs by size and jurisdiction.



	V.Small.	Small.	Medium	Large	V.Large	Local	National
Inadequate Cost Control	4.47	4.14	4.41	4.07	4.3	4.62	4.06
High Operating Costs	3.9	4.14	4.05	3.62	4.2	4.3	3.89

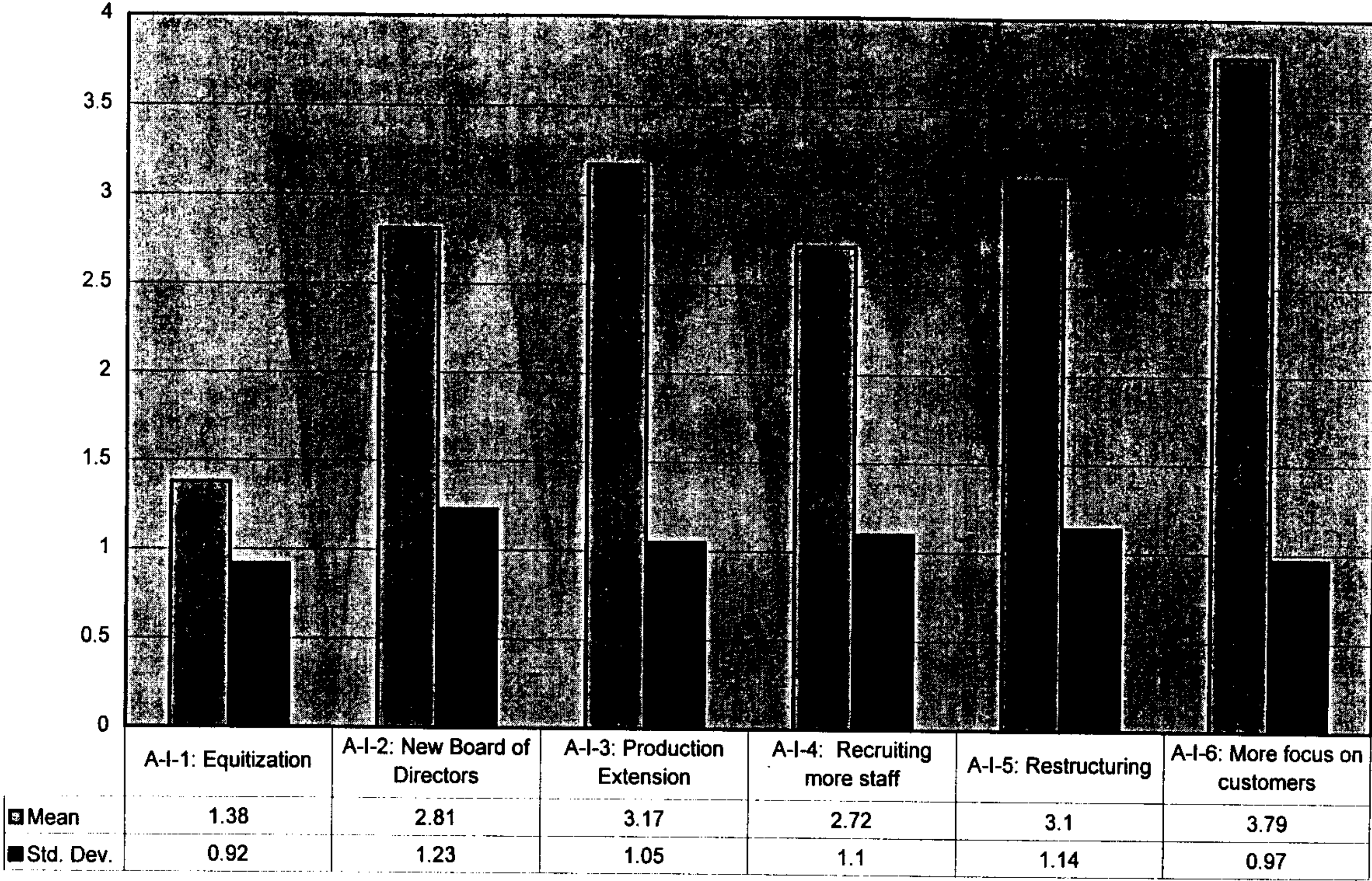
Chart 16: How do changes affect your company?



	A-VII-1: Gives us a better position in the market	A-VII-2: Improves the company's prestige	A-VII-3: Gives stability	A-VII-4: No impact
Mean	4.24	3.51	3.49	3.45
Std. Dev.	0.99	1.3	1.34	1.28

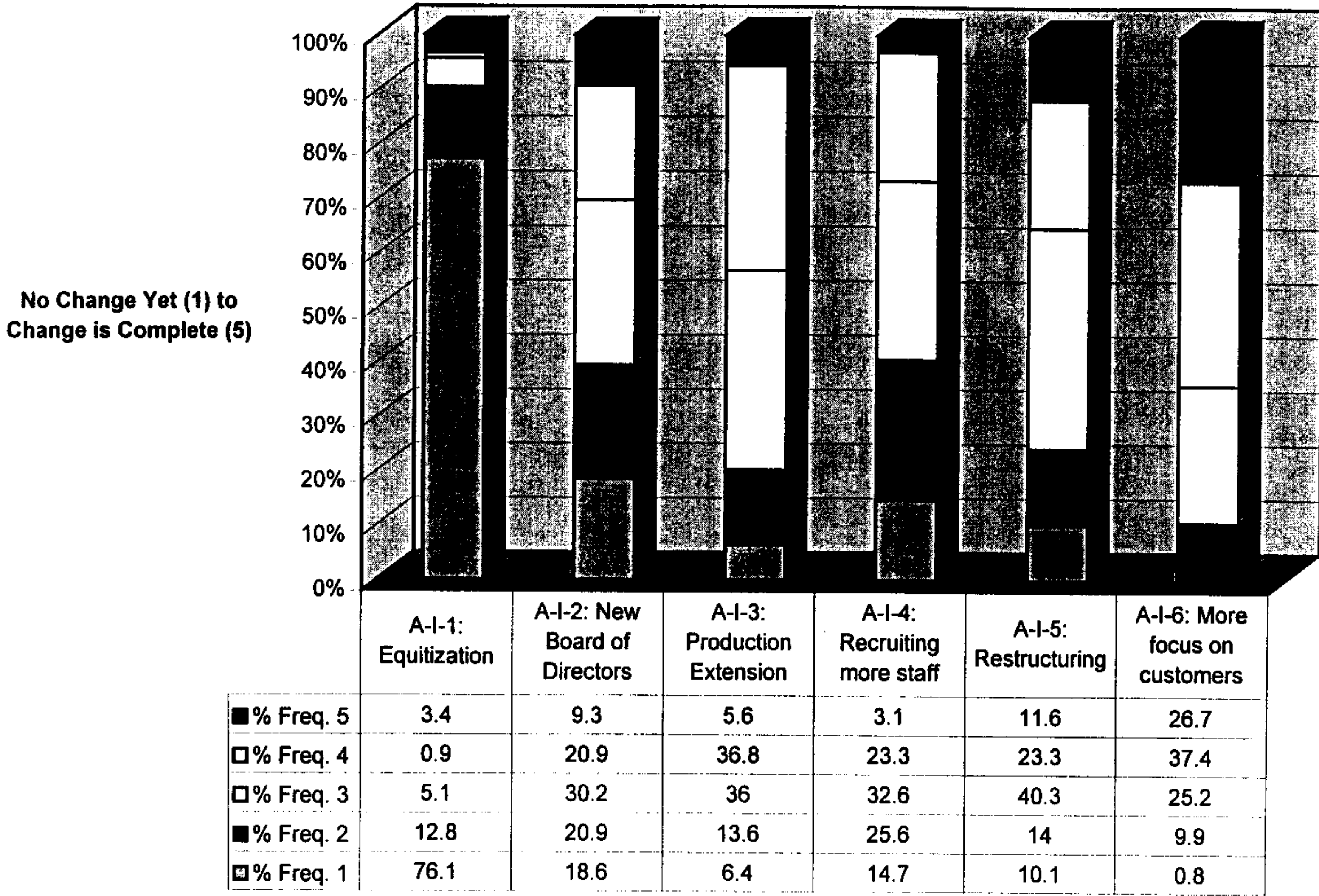
Strongly Disagree (1) to Strongly Agree (5)

Chart 17: What have been the major changes in your firm?



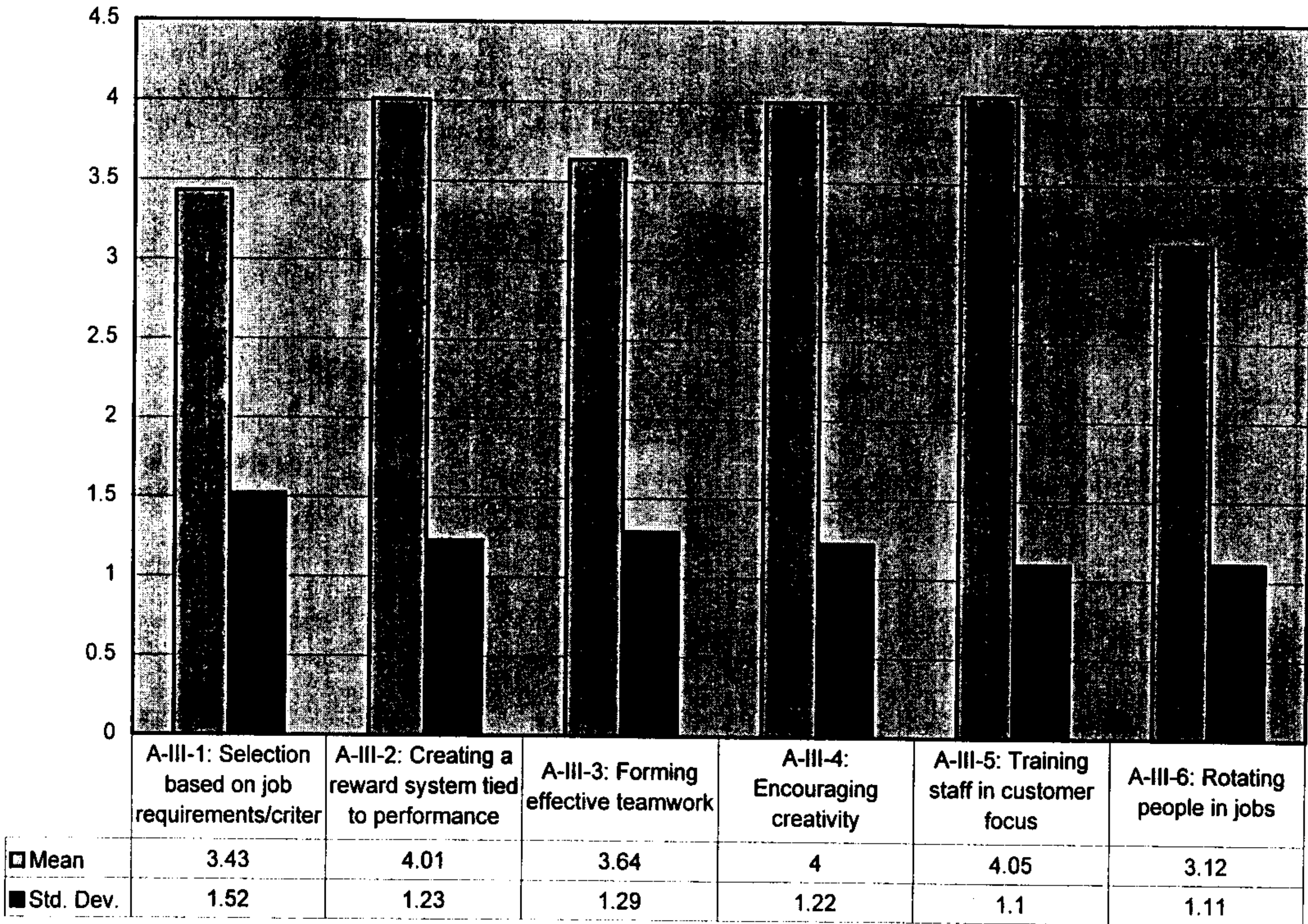
	A-I-1: Equitization	A-I-2: New Board of Directors	A-I-3: Production Extension	A-I-4: Recruiting more staff	A-I-5: Restructuring	A-I-6: More focus on customers
Mean	1.38	2.81	3.17	2.72	3.1	3.79
Std. Dev.	0.92	1.23	1.05	1.1	1.14	0.97

Chart 18: What have been the major changes in your firm? (Percentage Frequency Distribution)



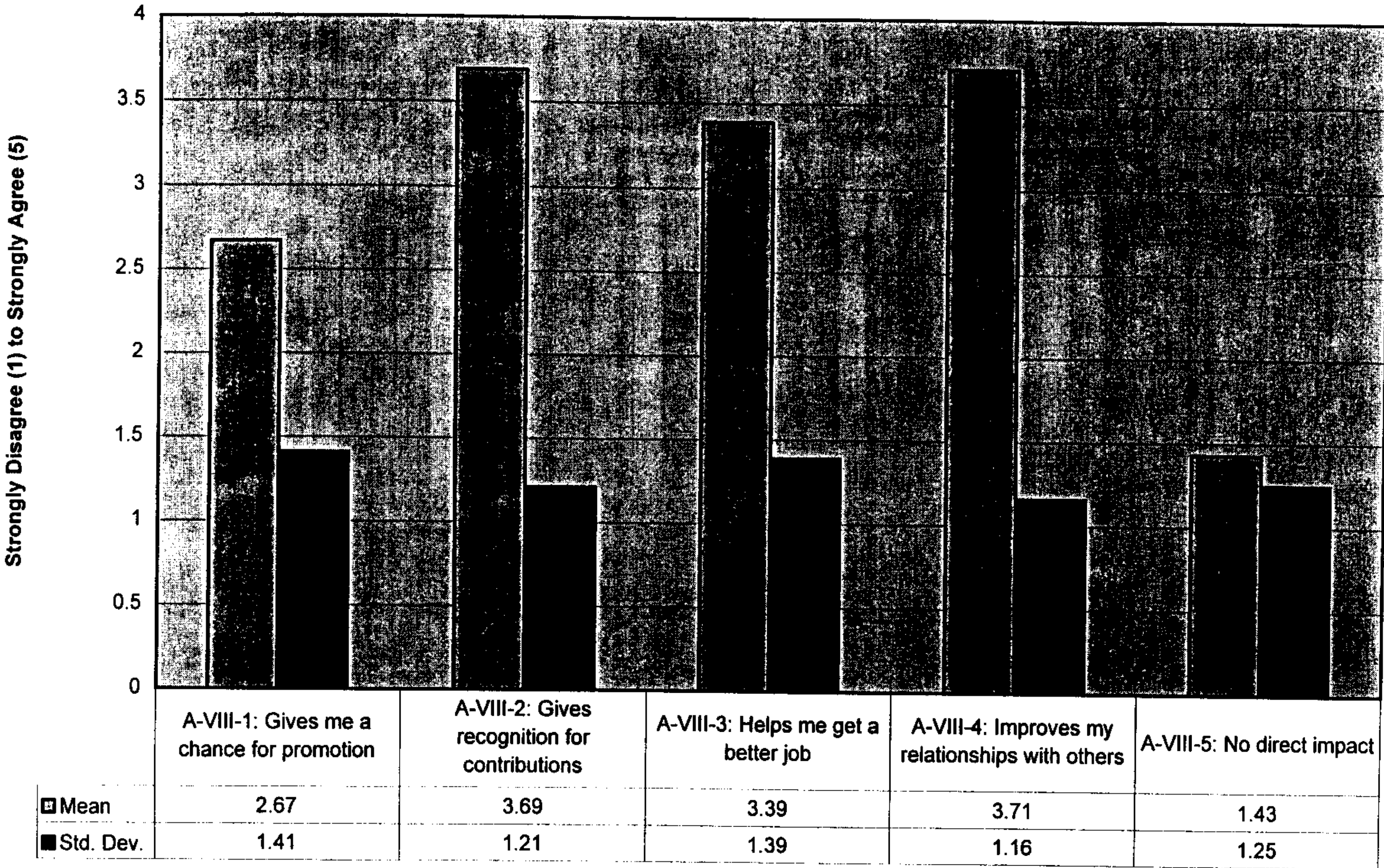
	A-I-1: Equitization	A-I-2: New Board of Directors	A-I-3: Production Extension	A-I-4: Recruiting more staff	A-I-5: Restructuring	A-I-6: More focus on customers
% Freq. 5	3.4	9.3	5.6	3.1	11.6	26.7
% Freq. 4	0.9	20.9	36.8	23.3	23.3	37.4
% Freq. 3	5.1	30.2	36	32.6	40.3	25.2
% Freq. 2	12.8	20.9	13.6	25.6	14	9.9
% Freq. 1	76.1	18.6	6.4	14.7	10.1	0.8

Chart 19: Human resource changes.



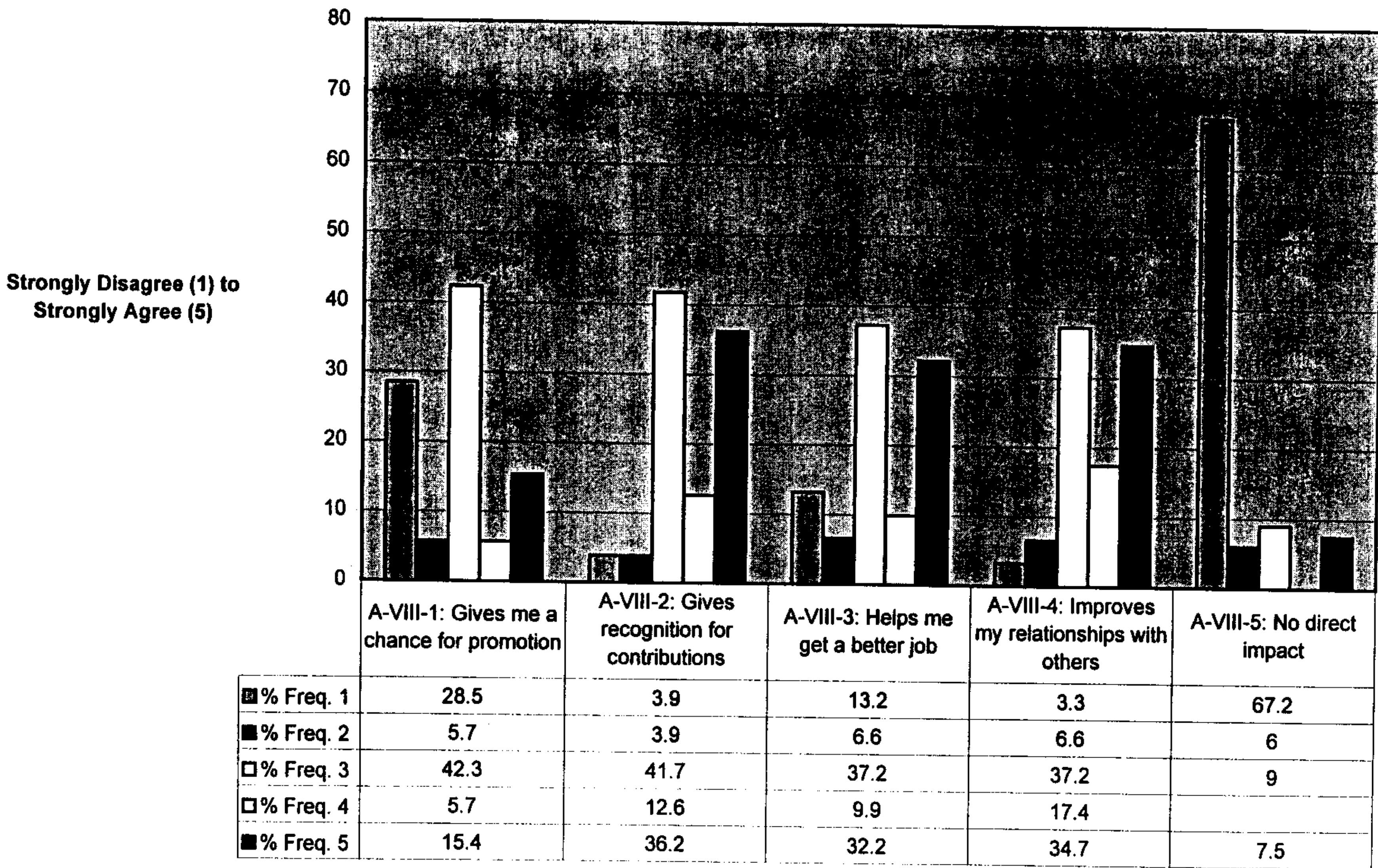
	A-III-1: Selection based on job requirements/criter	A-III-2: Creating a reward system tied to performance	A-III-3: Forming effective teamwork	A-III-4: Encouraging creativity	A-III-5: Training staff in customer focus	A-III-6: Rotating people in jobs
Mean	3.43	4.01	3.64	4	4.05	3.12
Std. Dev.	1.52	1.23	1.29	1.22	1.1	1.11

Chart 20: How do these changes affect you personally?



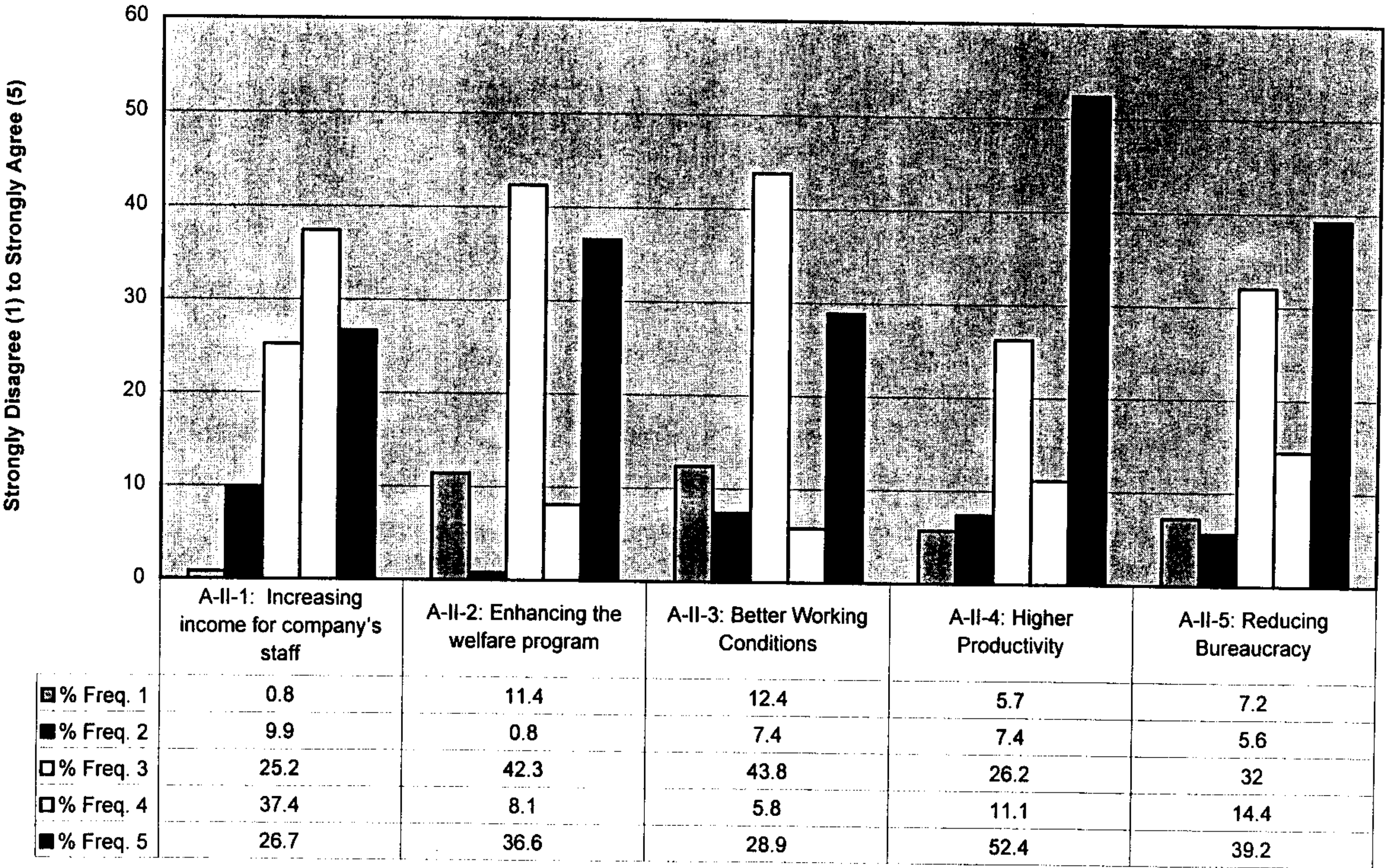
	A-VIII-1: Gives me a chance for promotion	A-VIII-2: Gives recognition for contributions	A-VIII-3: Helps me get a better job	A-VIII-4: Improves my relationships with others	A-VIII-5: No direct impact
Mean	2.67	3.69	3.39	3.71	1.43
Std. Dev.	1.41	1.21	1.39	1.16	1.25

Chart 21: How do these changes affect you personally?



	A-VIII-1: Gives me a chance for promotion	A-VIII-2: Gives recognition for contributions	A-VIII-3: Helps me get a better job	A-VIII-4: Improves my relationships with others	A-VIII-5: No direct impact
% Freq. 1	28.5	3.9	13.2	3.3	67.2
% Freq. 2	5.7	3.9	6.6	6.6	6
% Freq. 3	42.3	41.7	37.2	37.2	9
% Freq. 4	5.7	12.6	9.9	17.4	
% Freq. 5	15.4	36.2	32.2	34.7	7.5

Chart 22: Contributions to company development (Percent Frequency Distribution).



	A-II-1: Increasing income for company's staff	A-II-2: Enhancing the welfare program	A-II-3: Better Working Conditions	A-II-4: Higher Productivity	A-II-5: Reducing Bureaucracy
% Freq. 1	0.8	11.4	12.4	5.7	7.2
% Freq. 2	9.9	0.8	7.4	7.4	5.6
% Freq. 3	25.2	42.3	43.8	26.2	32
% Freq. 4	37.4	8.1	5.8	11.1	14.4
% Freq. 5	26.7	36.6	28.9	52.4	39.2

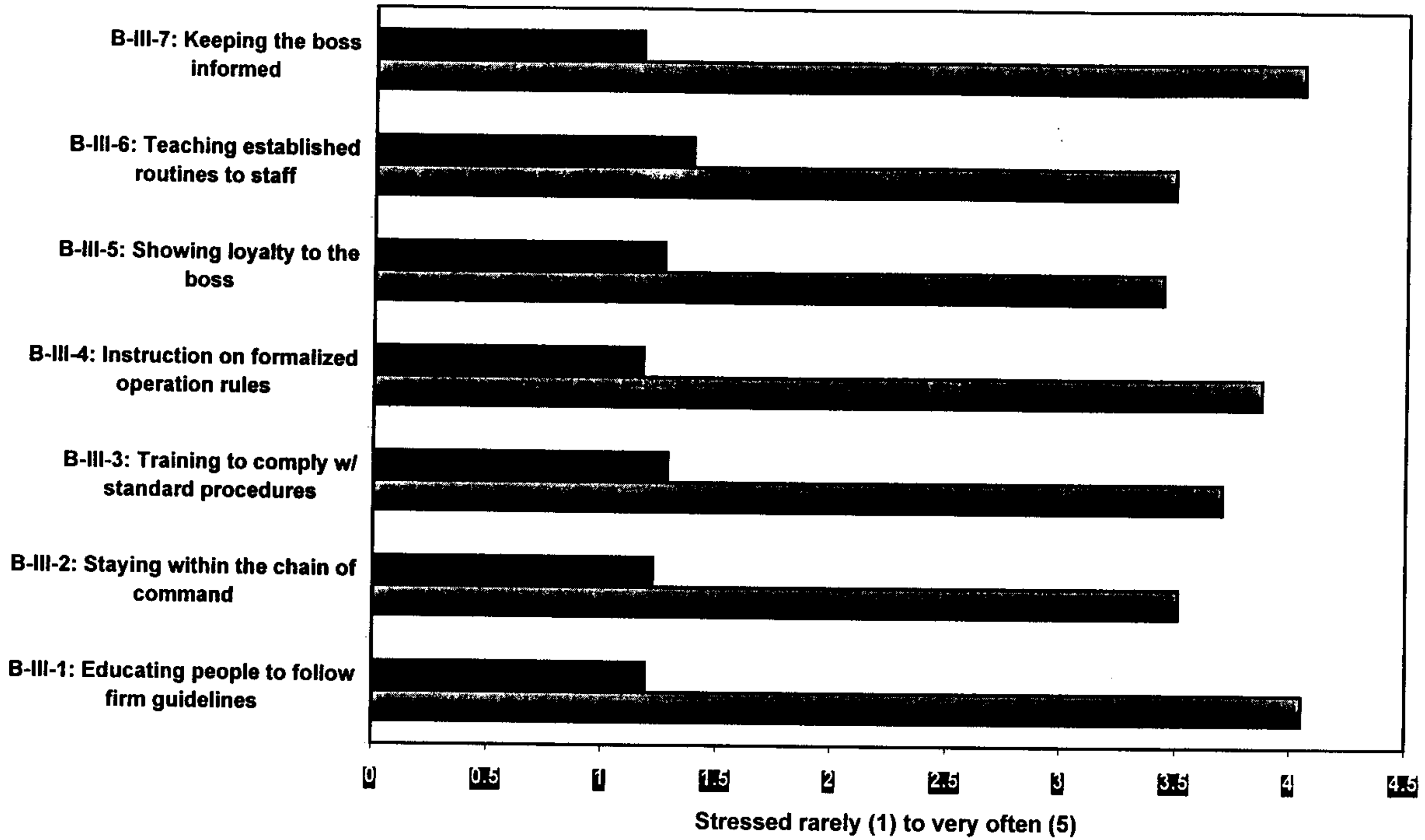
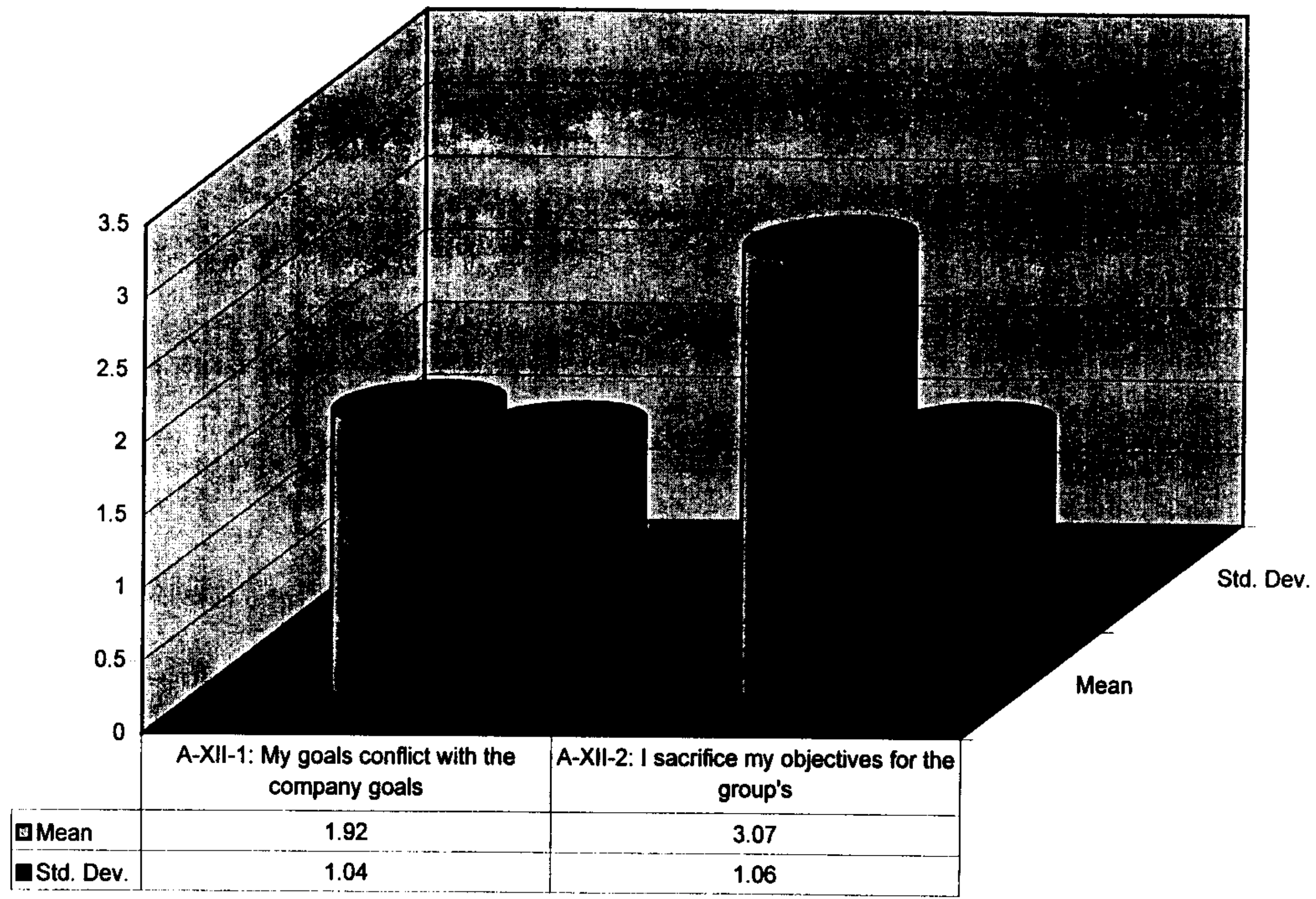


Chart 23: Methods for maintaing continuity
B-III-7: Keeping the boss informed
B-III-6: Teaching established routines to staff
B-III-5: Showing loyalty to the boss
B-III-4: Instruction on formalized operation rules
B-III-3: Training to comply w/ standard procedures
B-III-2: Staying within the chain of command
B-III-1: Educating people to follow firm guidelines
0
0.5
1
1.5
2
2.5
3
3.5
4
4.5
Stressed rarely (1) to very often (5)
Mean
Std. Dev.

Chart 24: Individual responses to company goals.



	A-XII-1: My goals conflict with the company goals	A-XII-2: I sacrifice my objectives for the group's
Mean	1.92	3.07
Std. Dev.	1.04	1.06

Strongly Disagree (1) to Strongly Agree (5)

Chart 25: Methods for improving responsiveness.

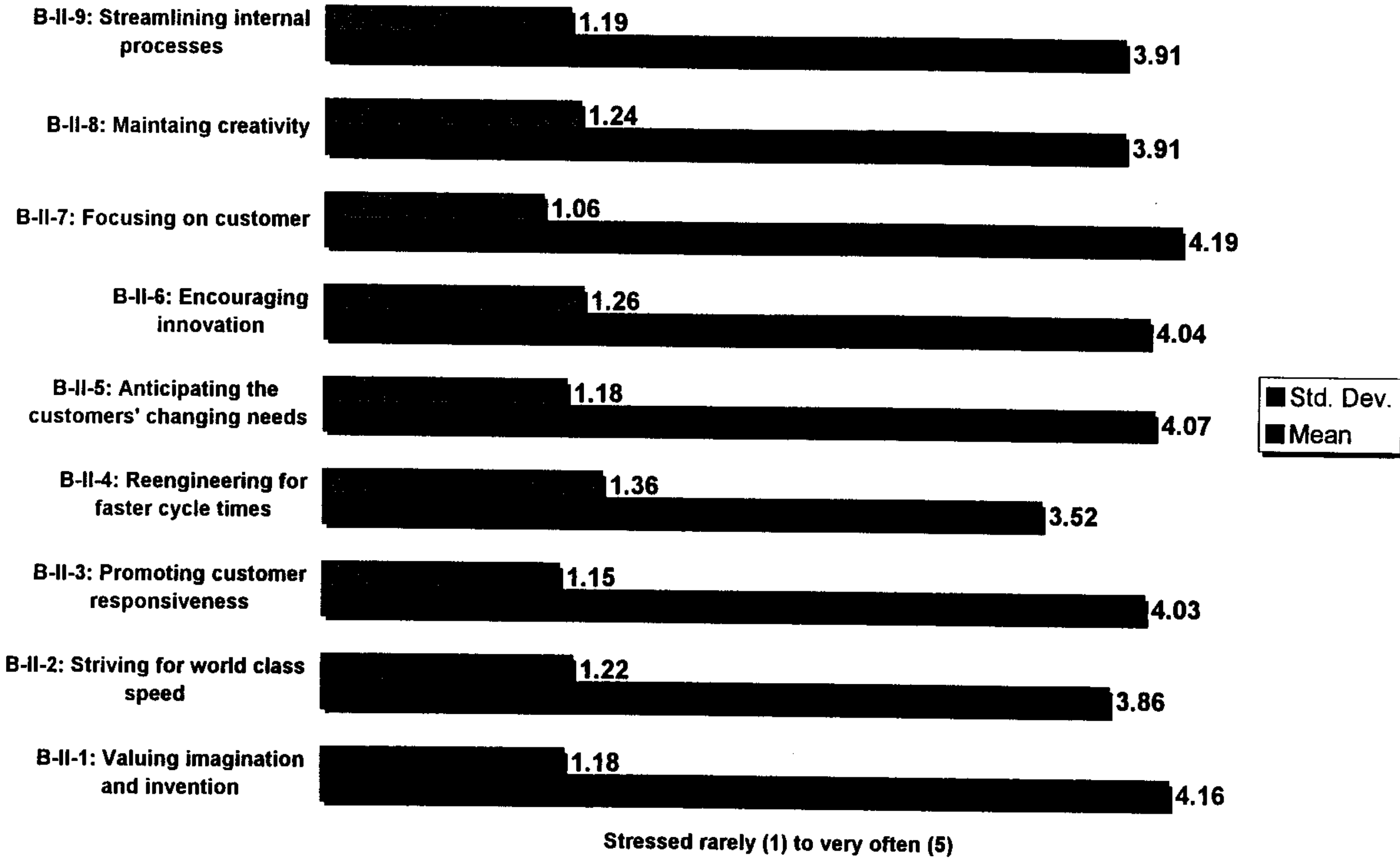
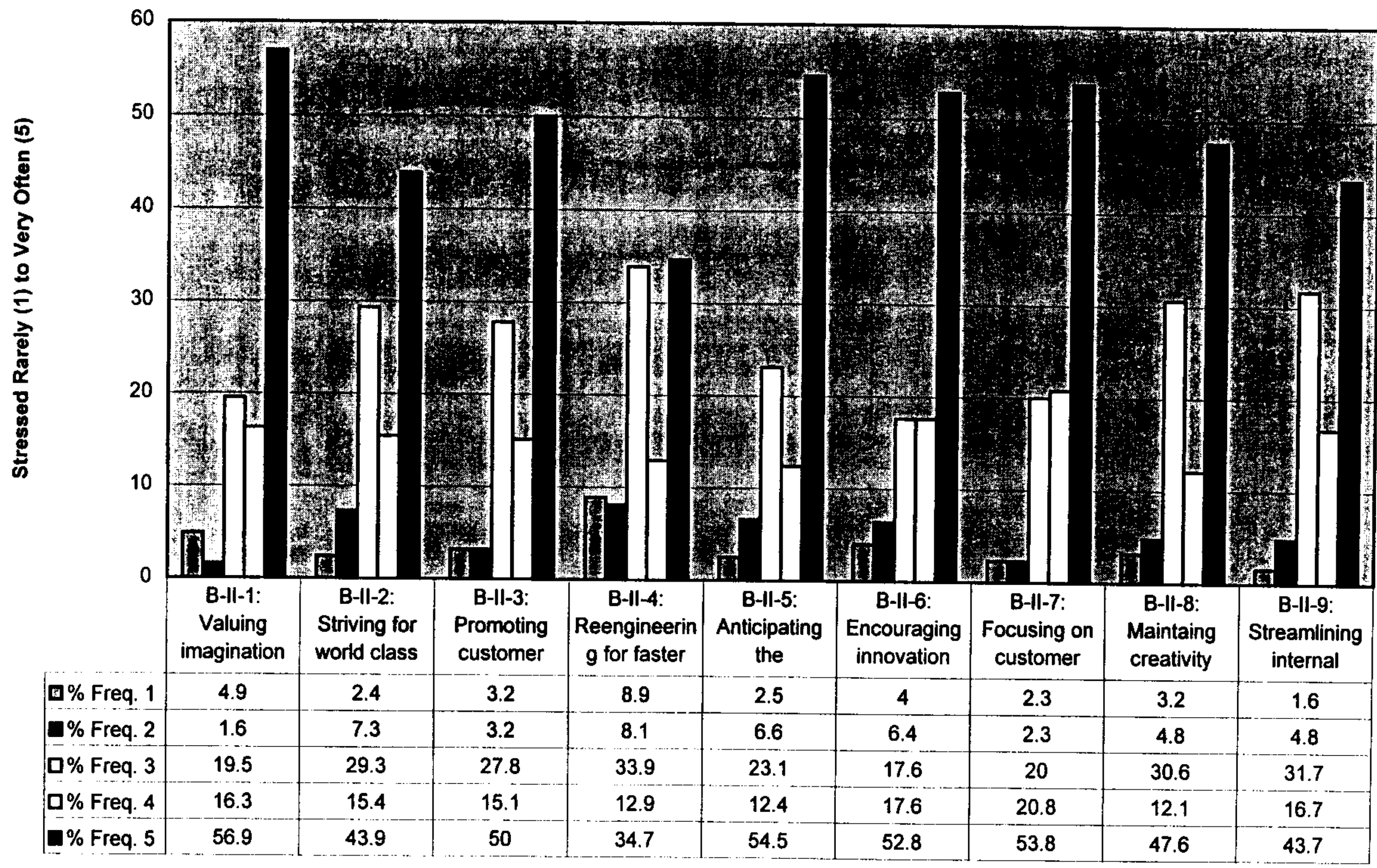


Chart 26: Methods for improving responsiveness (Percent Frequency Distribution).



	B-II-1: Valuing imagination	B-II-2: Striving for world class	B-II-3: Promoting customer	B-II-4: Reengineerin g for faster	B-II-5: Anticipating the	B-II-6: Encouraging innovation	B-II-7: Focusing on customer	B-II-8: Maintaing creativity	B-II-9: Streamlining internal
% Freq. 1	4.9	2.4	3.2	8.9	2.5	4	2.3	3.2	1.6
% Freq. 2	1.6	7.3	3.2	8.1	6.6	6.4	2.3	4.8	4.8
% Freq. 3	19.5	29.3	27.8	33.9	23.1	17.6	20	30.6	31.7
% Freq. 4	16.3	15.4	15.1	12.9	12.4	17.6	20.8	12.1	16.7
% Freq. 5	56.9	43.9	50	34.7	54.5	52.8	53.8	47.6	43.7