

SOME ASPECTS OF MANAGEMENT IN STATE-OWNED ENTERPRISES

IN THE REPUBLIC OF VIETNAM;

AS A CASE STUDY FOR DEVELOPING COUNTRIES

A THESIS

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S U M M A R Y

The operation of industries by the State on a large scale is a recent development in the world. Although State intervention in economic life is no longer a subject of political controversy, the methods of organising a public enterprise, the nature of its institution, the scope of its activities, and the ways to supervise it are still a matter of 'hot contention'.

The reasons for State intervention are varied. In developing countries the most important one is perhaps the desire to accelerate the pace of development through economic planning. Given that public enterprises in these countries utilise a considerable proportion of national scarce resources, it is vital that they should be operated efficiently and contribute to the growth of the economy. Unfortunately, impeded by a host of inherent difficulties of pre-industrial societies, it is found that the working of State-owned enterprises in many developing countries is still not very satisfactory.

The purpose of this essay is to study the management of public manufacturing industries in South Vietnam, as a case study for developing countries. It is not intended to discuss all aspects of the managerial problem, but only to look critically at some of them, viz., the creation, the control and the assessment of performance. It is believed that the understanding of their nature and interrelationship will be very helpful to the improvement of performance as well as the use of public enterprises as a crucial element in the planning process.

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## INTRODUCTION :

In modern times, the theory of State non-intervention in economic matters has become impracticable. A striking feature developing throughout the world in recent years was undoubtedly the increasing participation by the State in national economic activities. Today there is hardly any country where the government is not engaged more or less directly in the setting up and running of industrial enterprises. The right conception and right organisation of State enterprises is therefore one of the greatest internal problems of every country.

In England, one of the world's oldest State institutions run for profit is the Post Office, which dates from the reign of Charles II; in Italy, public intervention in economic activities stems back to the 1880's. There are many other examples. However, public enterprise in its actual form is a relatively recent institution.

The concept of public undertakings varies from country to country; there are not only different legal forms but also different obligations and privileges. The industrial policies of developing countries could be grouped in three categories:

- (a) emphasizing the public sector in principle,
- (b) emphasizing the private sector in principle,
- (c) having no preconceived preference in principle for either the public or the private sector.

In the Republic of Vietnam (South Vietnam) there is no resolution stipulating formally which policy be adopted but it appears that no preference for one sector or the other has been imposed during the last decade. In fact, opportunities of



growth have opened for both the public and the private sectors. Their activities were in many ways complementary rather than competitive.

In theory, public enterprises have been conceived as not only an organisation to accelerate economic growth, but also as an instrument to protect the welfare of the masses. Nowadays, no one doubts the suitability of a public concern in a mixed economy but only a few are content with the results and the way it has been managed. Problems of organisation, efficiency, profitability, control, etc., of public enterprises have been controversial topics in all countries, developed and developing alike. Criteria for assessing their performance, measures for enabling them to make the maximum contribution towards their own development and the well-being of the community have been suggested and applied, but it is believed that interval reviews should be necessary and helpful for a healthy growth.

In the past decade, a number of studies on State enterprises in developing countries have been carried out but most of the works are of a general character and mainly concerned with service industries. This study aims to see the problem from the point of view of management and concerns only manufacturing industries.

The essay consists of five chapters:

- Chapter 1 : The notion of public enterprise  
and the public sector in South Vietnam.
- Chapter 2 : Management and the type of institutions.
- Chapter 3 : The problem of control.
- Chapter 4 : The assessment of performance.
- Chapter 5 : Conclusions.

The study as a whole is not a detailed report on the Vietnamese public manufacturing sector but rather a study by exception, i.e. only some salient aspects will be selected for the discussion.

CHAPTER ONE : THE NOTION OF PUBLIC ENTERPRISE

AND THE PUBLIC SECTOR IN SOUTH VIETNAM

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- 1 ..... The notion of public enterprise
  - 1.1 Definition
  - 1.2 Purpose of public enterprises
  - 1.3 The role of the manufacturing public sector
  - 1.4 The governmental policy
- 2 ..... Public sector in South Vietnam
  - 2.1 The economic environment
  - 2.2 The growth of the public sector
  - 2.3 Organisation and structure
  - 2.4 The contribution of the public sector to the national economy
  - 2.5 Financial performance
- 3 ..... Summary

1. Notion of public enterprise :

1.1 Definition :

It is rather difficult to define precisely the nature of public enterprise. The difficulty arises from both the legal and economic points of view. It is impossible to have a definition fitting statutes of all public enterprises, because these might either have different statutes or even be operated without being given a legal form. Indeed, the structure of a public undertaking depends greatly upon the type of economic activities performed which might vary from supplying goods to providing services. Furthermore, the state of the activity might be in growth or in slump and the market share a nationwide or a limited regional one. Despite interesting attempts in recent years to formulate a unique definition for public enterprises, a satisfactory and universal one is unavailable at the moment. A number of definitions have been proposed but each of them seems to reflect only a certain aspect of the subject. It is therefore thought useful to describe the nature of public enterprise by a series of criteria such as:

1. First of all, public enterprises must be organisations having the ability to coordinate production factors to produce goods or services.

2. They perform industrial or commercial activities, consequently sell their products at a price somehow corresponding to their values. However, this price might differ from the market price fixed by the law of

demand and supply. In fact, the price of a public good or service is fixed according to the objectives the enterprise is aiming for.

3. They are oriented towards statutory goals, i.e. strive to reach the goals assigned to them by the State.

4. They are allowed to be managed autonomously and not to be considered as an ordinary public administration organisation, but subjected to the control of the State for efficiency and for the level of meeting the assigned statutory goals.

5. Governmental holding of the total capital is not an essential condition; the State needs only to have a part of capital sufficient to enable it to achieve its political objectives and to control the management of the enterprise.

These five criteria can be used separately or in a combined form to identify a public concern, but the third criterion is thought to be the most important, because it explains unambiguously the raison d'être of all public enterprises. It justifies their creation: which undoubtedly expresses the anxiety to have an organisation devoted only to maximizing the well-being of the community.

1.2 Purpose of public enterprises:

The role played by a public enterprise in the national economic development varies according to the strategies of development adopted by the government.

Public enterprises are normally used:

- \*- to stimulate private enterprise, directly or indirectly;
- \*\*- to displace private enterprise, either through nationalisation or through the pre-emption of certain branches of the economy as their exclusive domain;
- \*\*\*- to supplement private enterprise by filling gaps which private enterprise may leave open; and
- \*\*\*\*- to participate with private enterprise in undertaking certain projects.<sup>1/</sup>

Apart from the centrally-planned economies, most developing countries can be described as mixed economies, combining public and private enterprise in varying complementary roles. In some instances, a public enterprise plays only a supplementary role in the filling of gaps or in creating a stimulating effect on the development of private enterprise. In others it takes a leading role in the process of development and treats the stimulation of the private sector as of secondary importance.

1.3 The role of the manufacturing public sector:

Generally speaking, the task of the public sector is to lay the basis upon which the structure

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<sup>1/</sup> See U.N. document no.ST/TAO/M/49, Vol.1, page 3

of a dynamic economy is to arise. In developed countries its functions are usually confined to the provision of power, transport and some basic materials such as coal and steel. In developing countries, however, the scope of the public sector is much wider due to the unwillingness or inability of the private sector to develop essential industries. To accelerate the pace of economic development the entry of the public sector into the manufacturing field is therefore unavoidable. State intervention in manufacturing is basically based on the following considerations: (1) inadequacy of domestic private enterprise; (2) developmental requirements; (3) strategic needs; and (4) social equity.

The contribution of the manufacturing public sector in the economies of developing countries is undoubtedly important; but due to the lack of recent relevant data a comparative study of the pattern of development of this sector in these countries is not possible at the moment. However, on the basis of available data in some selected countries one might easily recognise the significant role played by the public enterprises in the economic life of the country concerned. Although there is a wide variation in the pattern of investment, the majority of the countries, developed and developing alike, tend to emphasise three main fields: viz. chemicals and chemical products, products of petroleum and coal, and basic metal industries. The following statistical data show this tendency rather clearly:

\* Contribution of the public manufacturing industry in some E.E.C. countries (public sector as % of the national production of the industry concerned in 1963)<sup>1/</sup>

Products	Country		
	Germany	France	Italy
Coal	40%	98%	(a)
Hydrocarbons	6%	15%	30%
Steel	8%	0%	70%
Aluminium	72%	0%	(b)
Nitrogen fertilizer	23%	58%	(c)
Naval construction	27%	0%	80%
Motor-cars	45%	38%	8%

(a) information for 1963 is not available, but in 1968 it was about 28%

(b) about 56% in 1968

(c) 40% in 1968

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<sup>1/</sup> Delion A.G., 'Entreprises publiques et communauté économique européenne' published in Revue du Marché Commun. number 88



\*\* Contribution of public manufacturing industry  
in some developing countries:<sup>1/</sup>

Country	Products	Relative importance
Argentina....	Steel ingots	60% of total national production
Brazil .....	Petroleum	85% - " -
	Steel ingots	45% - " -
Chile.....	Steel	100% - " -
	Petroleum derivatives	100% - " -
	Sugar	20% - " -
Colombia.....	Steel	100% - " -
	Caustic soda	100% - " -
	Petroleum	60% - " -
	Fertilizers	40% - " -
India.....	Steel	68% of Government investment(in 1960-61)
	Fertilizers	9% - " -
Iran.....	Sugar	70% of total national production(in 1960)
	Cement	45% - " -
	Cotton goods	35% - " -
	Caustic soda	10% - " -
South Korea...	Fertilizers	36% of Government investment
	Oil refining	26% - " -
	Shipbuilding	11% - " -
Mexico:.....	Steel ingots	45% of total national production
	Sugar	20% - " -
	Petroleum	100% - " -
Venezuela.....	Sugar	40% - " -

<sup>1/</sup> Data published in the U.N. document no.ID/CONF.1/B.13 in May 1967 on the occasion of the international symposium on industrial development held in Athens, Greece. The document did not disclose the year of reference for some of the data mentioned: it is thought to be in the early years of the 1960s.

This list is not exhaustive; it contains only some principal activities. It is therefore not possible to draw any firm inference as to the share contributed by the whole public manufacturing sector in the economies of the country concerned. Perhaps a clearer idea about the growth of this sector can be made from the following table, which depicts the planned investment in the public and private manufacturing sectors in some developing countries: <sup>1/</sup>

Country	Percentage share in planned investment in manufacturing		Percentage share of manufacturing in G.D.P. (a)
	Public	Private	
Iraq..... 1965-70	98	2	9.6
Egypt..... 1960-65	94	6	14.0
Ceylon..... 1959-68	69.7	30.3	4.1
South Korea.. 1962-66	56.7	43.3	10.6
India ..... 1961-66	53	47	18.2 (b)
Turkey ..... 1963-65	43	57	14.1
Pakistan..... 1965-70	36	64	10.2
Venezuela ... 1963-66	19.4	80.6	13.5
China (Taiwan) 1961-64	18.2	81.8	18.8
Philippines.... 1963-67	10	90	18.5

(a) Percentage share in the first year of the Plan or the year nearest to it.

(b) Includes manufacturing, construction, electricity, gas and water; share of net domestic product.

<sup>1/</sup> Data extracted from table 3 of the U.N. document mentioned in the previous footnote.

This table gives some idea of the growth of the public manufacturing sector, but again the latter's share in the economy of the countries concerned is not known because the information given in the last column did not disclose precisely the contribution of each one's private and public sector.

- 1.4 The governmental policies toward the manufacturing public enterprise: The policy of a developing country towards its public sector depends upon a number of factors. It is a function of the development goals, the means available for attaining the end sought, the structure and character of social, economic and political institutions, and the current level of the national economy. The governmental policies of developing countries therefore vary widely from one to another. Broadly speaking, their policies can however be grouped into three main categories. The first consists of countries such as Burma, Ceylon, India, Iraq, Syria and Egypt which emphasise the public sector in manufacturing on grounds of principle. But among these countries there are still wide variations in their attitudes towards the private sector. 'In the early 1960's, Burma, Syria and Egypt brought an overwhelming part of their economies including manufacturing into the public sector through nationalisation. On the other hand, Ceylon, India and Iraq not only tolerated the private sector in manufacturing, but encouraged it to develop in certain directions.' <sup>1/</sup>

The second category composed of a majority of developing countries, prefers to rely on the private sector for the development of manufacturing industries. State intervention is contemplated only for strategic reasons. 'Many of these countries hope eventually, as a matter of policy, to transfer the interest of the public sector in manufacturing to the private sector, whenever feasible.'<sup>1/</sup> Pakistan, the Philippines, Korea, Taiwan and most Latin American countries, for instance, belong to this category. The last category is formed by some countries which do not care particularly whether a specific industry is located in the public sector or in the private sector. Each case is decided on its merits. 'For example, in Cambodia, Ethiopia, Ghana and Laos all fields of investment including manufacturing are open to both the public and the private sectors.'<sup>2/</sup>

Because of the limitation of data, it is very difficult to locate the countries on the demarcation line to the correct category. Furthermore, only a few developing countries have made clear their investment policies; the attitude of the remaining majority can only be guessed through their short or medium patterns of public investment.

In India the first attempt to define the respective roles of public and private enterprise was embodied in the Industrial Policy Statement of 1948. This document stipulated that the State can 'contribute more quickly

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<sup>1/</sup>. Ibid, page 5

<sup>2/</sup> Ibid, page 6

to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units.' Private enterprise, therefore, continues to have 'a valuable role to play', but the State will not 'hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory'. Several years later, the governmental policy was made clearer by the Industrial Policy Resolution of April 1956. It says that 'the Government of India have decided to classify industries into three categories, having regard to the part which the state could play in each of them.... In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively state-owned and in which the state will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the efforts of the state. The third category will include all the remaining industries, and their future developments will in general be left to the initiative and enterprise of the private sector.....Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the state and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and

other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the state to give fair and non-discriminatory treatment to both of them.'

In the Philippines the government policy in the early years of independence was not to interfere in the the processes of production and distribution. 'The principal function of the Government is to administer the affairs of the country, not to develop industry with its own funds and enter into competition'.<sup>1/</sup> Public enterprise has been viewed as a device 'to stifle private initiative'.<sup>2/</sup> However, a new tone has been set for public enterprise by recent Administrations: 'the Government is in business only to pioneer and pave the way for private enterprise to take over'.<sup>3/</sup> and 'the Government should limit such participation only to cases where reasons of national interest require it or when such participation is desirable to stimulate private investment in a particular field'.<sup>4/</sup>

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- 1/ President Quirino's speech, 'Messages of the Presidents', vol.9, p.260.
- 2/ President Macapagal's speech to the Davao Bar Association in Feb.1956.
- 3/ President Garcia's address, 'Official Gazette', vol.54, p.231
- 4/ State of the Nation Address of the late President Magsaysay to the Third Congress of the Philippines, January 28, 1957.

These few quotations show clearly that there might be not only opposite policies followed by developing countries, but also possible changes in the attitude of a Government toward its public sector. In the final analysis, it is however agreed that, despite the difference in matter of policy, all developing countries assign a role of some kind to the public sector in their industrialisation programmes. Though a few developing countries which have taken sides in a socialism-versus-capitalism controversy, the remaining majority seem not to be paying much attention to the question of the dividing line between the public sector and the private. An industry should be located in either the public or the private sector according to the evidence available as to which will likely achieve the goal more competently.

2. Public sector in South Vietnam:

2.1 The economic environment: South Vietnam is primarily an agricultural country; it will continue to be so for some time after the war. It is estimated that from 70% to 80% of the population is currently involved directly in the production of crops, animal products and marine products. In 1969, there were about 2,000,000 farm units and over 250,000 fishermen making up South Vietnam's agriculture sector.

Agriculture has been by far the principal source of exchange earned through exports, and contributes about one-third of the national income. Rice and rubber have been

the major export commodities but since 1945 exports have sharply decreased owing to the war situation. Before the Second World War, Vietnam exported over 1 million tons of rice per year and the exports dropped to 200,000 tons on the annual average for the period from 1961 to 1963. As for rubber, the exports from 1955 to 1964 averaged more than 70,000 tons, but they fell to about 38,000 tons in 1967.

After agriculture, industry is the second important productive sector. It contributed about 10% of the GNP in 1968 and suffered apparently less effects from the war. Generally speaking, industrial activities have been developed at a rather steady growth rate in recent years.

Because of the war situation and the inadequacy of available statistical data, it is a matter of some difficulty to obtain a clear picture of the present structure of South Vietnamese industry. Only one characteristic is obvious - and that is that almost the entire manufacturing capacity of the country is concentrated in Saigon and its vicinity. Small manufacturers and cottage industries are numerous indeed, but their total number can be known only approximately. The work force totalled about 120,000 for the whole manufacturing sector in 1967, more than half of which was believed to be employed by firms in Saigon and its environs.

According to the analysis of a survey carried out in 1968 by the Vietnamese Postwar Planning Group, the most important industries in terms of invested capital



were as follows:<sup>1/</sup>

Cotton weaving and spinning.....	VN\$4,200 million	
Beverages .....	3,500	"
Paper and pulp .....	2,400	"
Tobacco .....	2,100	"
Cement and products .....	2,000	"
Pharmaceuticals .....	1,500	"

With the exception of beverages and tobacco, all the above-cited industries have been established in South Vietnam within the last ten years. Moreover, the beverages and tobacco industries, though of older foundation, have been completely re-equipped during the same period. Another common characteristic is that all, with the single exception of the cement industry, depend for their production upon imported basic or semi-processed raw materials.

Most industrial enterprises in South Vietnam have a single or family proprietor, and relatively few are partnerships. In terms of invested capital, however, the partnerships are clearly more important than businesses operated by single proprietors. Investment is also greatest in those branches in which the State participates. These include the sugar and cement industries, both with 100% public ownership. In the cotton, paper and glass industries, there is a substantial public participation as well as private investment. But on the whole, the majority of fixed investment in the country in recent years has originated in the private sector. The public

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<sup>1/</sup> at that time the official exchange rate was 118 VN\$ = 1 US\$

sector has contributed less than 20% of new fixed investment; this unnaturally low figure was due to the high level of operating cost of the war.

The responsibilities for development assumed by the public sector and those retained by the private sector in past years have been divided roughly along traditional lines. Investment for infra-structure and social services was in the hands of the Government. The sector of manufacturing, commerce, trade and finance have in general been left to the private sector; the State invested only in some key industries to assure economic growth or to meet social needs.

2.2 The growth of the South Vietnamese public sector:

After the Geneva treaty of 1954 which divided Vietnam in two parts, the public sector in South Vietnam played a role, gradually increasing in importance, in the economic life of the country. Its growth has been accounted for by three following reasons :

(a) historical factors: this is the case of enterprises transferred to the Vietnamese government by the colonial authorities or purchased from French businessmen to protect national interests.

(b) development policies: some enterprises have been set up as the results of the first two five-year plans (1956-61 and 1962-66).

(c) special occasions: others have been established by using Japanese Reparation Funds or by collaborating with private entrepreneurs.

There is no official document disclosing the total assets of these public enterprises at the moment. According to an official document published by the Management Centre for Public Enterprises in 1970,<sup>1/</sup> there are some 33 wholly or partially State-owned enterprises in the public sector. These undertakings operated under the tutelage of different ministries and varied from providing services to supplying consumer goods. In terms of legal forms, the classification was as follows:

Autonomous public institutions <sup>2/</sup>	:	15
State companies	:	3
Joint ownership companies	:	15
		<hr/>
Total.....		33

Due to the lack of up-to-date assessment, the real value of these concerns is not known. In 1970, only information on 26 of these 33 undertakings was made available by the Management Centre. Of the 26 mentioned enterprises, 15 belong to the manufacturing sector. It is estimated that the capital invested up to 1968 by the Government in the manufacturing sector stood nearly to 10 billion Vietnamese piastres. In terms of value added,

<sup>1/</sup> 'Report on Public Enterprises' (in Vietnamese) published by the Management Centre for Public Enterprises in September, 1970, page A26; hereinafter referred to as 'the 1970 Management Centre Report.'

<sup>2/</sup> The term 'Public Enterprise' has been defined in the 1970 Management Centre Report as follows: 'Public enterprises are undertakings having legal personality, operating in the field of industry, commerce, agriculture or finance. Their capitals are totally or partially owned by the State.' Basing on this definition, some 21 other autonomous public institutions have not been considered as public enterprises.

the State concerns shared about 49% of the total value added contributed to the national product by the whole manufacturing sector. The work force employed in 1969 was reported to be over 8500 persons or roughly about 7% of the total national labour force engaged in manufacturing activities. No specific study of economic aspects of public enterprises as a whole is available at the moment, but according to the 1970 Management Centre Report the share of State-owned manufacturing industries in the GNP was 2.2% in 1969. <sup>1/</sup>

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<sup>1/</sup> Calculated from data given in table No.5, part B of the Management Centre Report.

The following table summarizes some main features of the 15 State-owned manufacturing plants:

Item	Name of enterprises	Capital invested	Labour force	Share
		(in VN\$ million)	(persons)	(in percentage)
		1/	2/	3/
	<u>Autonomous Public Institutions</u>			
1	Nong-Son Coal Mine <sup>4/</sup>	47	422	100
2	An-Hoa Industrial Complex <sup>5/</sup>	4,499	707	100
3	Long-Tho Lime Factory	5	173	100
4	Ha-Tien Cement Works	1,074	825	100
	<u>State Companies</u>			
	Viet-Nam Sugar Company	175	1,323	100
6	Quang-Ngai Sugar Company <sup>5/</sup>	525	181	100
	<u>Joint ownership Companies</u>			
7	Binh-Duong Sugar Company <sup>5/</sup>	471	97	96.5
8	VN Agricultural Machines Co. <sup>5/</sup>	175	60	87.5
9	Sicovina Weaving Mill	1,135	2,925	90
10	Dofitex (Jute bag weaving mill)	29	168	97.9
11	Viet-Nam Paper Industry Co.	236	400	83
12	Cogido Paper Mill	799	649	99.9
13	Cobogido Pulp Mill	296	17	98.7
14	Viet-Nam Glass Works	100	618	51
15	Vinh-Hao Mineral Water Co. <sup>4/</sup>	6	5	60

- Footnotes: 1 Data obtained from the Directorate of Budget for 1968
- 2 Management Centre Report, table 4, part B
- 3 Ibid, table 29
- 4 Plant shut down due to the war
- 5 Plant under construction in 1970

It is worthy of note that the above capital outlays represent only the initial share of the Government and not the total capital employed by these enterprises. Governmental subventions and aids from friendly countries have not been considered as capitals shared by the State.

### 2.3 Organisation and structure:

Up to the end of 1969, all state-owned manufacturing industries were placed under the tutelage of the Ministry of Economy. A commission managed by a secretary general was set up in 1967 to coordinate their activities. In 1969, as an effort towards a more efficient control, the Government of South Vietnam reorganized the whole system. All wholly and partially-owned enterprises (whether services, or manufacturing industries) were put under the direct supervision of a new organ called 'the Management Council for Public Enterprises' headed by the Prime Minister. The secretary general of this council acts as a General Manager for all public enterprises and to assist his work a Management Centre was set up in 1970. A remarkable achievement of the Centre was the publication of the report on the actual state of the 26 most important public enterprises cited above. However, no drastic changes on the way to organise or to conduct public undertakings have been noticed since the reorganisation.

The procedures for establishment of public concerns in South Vietnam are rather similar to the French: i.e. a public enterprise can be established either by presidential decree or by Premier's order. In the case of a joint ownership enterprise, a high official will be appointed to act as the representative of the Government and he will sign on its behalf any document relating to the setting of the company concerned.

South Vietnamese public enterprises consist in the main of the two following legal forms:

- Public institution
- Joint-stock company

Detailed discussion of these forms will be the topic of Chapter 2. Although there is no general law regulating the establishment of public enterprise in South Vietnam, it is found that all joint ownership enterprises are vested with company form. Public enterprises wholly-owned by the State are usually established under the form of public institution. Only in recent years that some publicly wholly-owned enterprises were organised as State companies.

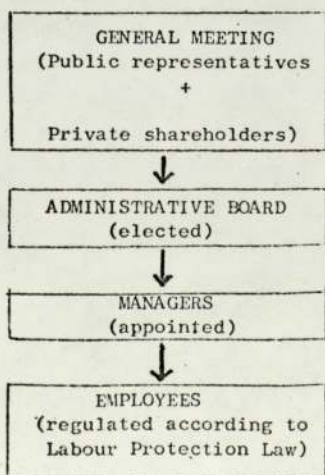
As for managerial structure, joint ownership concerns are managed by administrative boards which are elected by the general meeting. The influence of the Government in these enterprises depends therefore on the percentage of shares held by the State. While in wholly publicly-owned enterprises - as there is no general meeting of shareholders - members of the administrative board are appointed by the Government. The responsibilities for conducting the concern in this case are in the hands of the responsible Minister. Almost as a rule, strategic and important administrative decisions are taken by the Board, i.e. by the Minister because he acts at the same time as the Chairman of the Board.

With the 1969 move to reorganise the public sector,

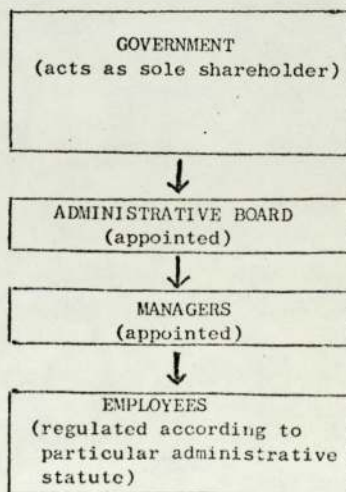
it is found that most of the powers of the relevant Minister have now been transferred to the Management Council for Public Enterprises. It is stipulated in the decree 514-a/TT/SL establishing the Council that the Council will assume the following responsibilities:

1. -Establishing managerial methods and development plans for public enterprises in accordance with the National Policies.
2. -Fixing standards for using the concern's profit.
3. -Taking appropriate measures to sell the Government's shares in joint ownership enterprises to private entrepreneurs.
4. -Appointing Board Directors and General Manager for public enterprises.
5. -Approving balance sheets.

Since not all of these provisions have been implemented due to some legal difficulties, it can be said that the managerial structure of the old type still remains unchanged and may be summarized as follows:



Organigram of a joint ownership  
enterprise



Organigram of a wholly  
publicly-owned enterprise



The main difference between these two forms resides in the formation of capital, in the creating of administrative board and in the way personnel is managed.

2.4 The contribution of the public sector to the national economy :

Since 1957, when a presidential decree-law was promoted concerning the investment policy, the public manufacturing sector has expanded at a rather rapid rate and played an important role in the economic life of the country. The Government has either invested or shared with the private sector in several capital-intensive industrial projects. Up to 1967, its shares in the six most important industries have been as follows.<sup>1/</sup>

Industry	Distribution of capital invested by sector (in percentage of total investment)		
	Public corporations	Joint ownership enterprises	Private enterprises
Sugar .....	100		
Cotton spinning & weaving.....		42	58
Jute bag weaving.....		43	57
Pulp & paper .....	51	34	15
Cement .....	100		
Glass .....		60	40

The contribution of the public sector can be seen more clearly by studying its physical output and its achievement in the effort to replace imported goods with domestic substitutes.

<sup>1/</sup> 'The Post-war Development of the Republic of Vietnam: Policies and Programmes' (Saigon, 1969), chapter 9

Product	Output of public manufacturing sector as % of					
	total national output			total national consumption		
	1964	1965	1966	1964	1965	1966
Sugar .....	61.4	67.8	75.4	61.4	67.8	53.6
Cotton fabrics ...	7.6	6.7	6.0	6.5	6.4	5.3
Cotton yarn .....	28.9	26.4	25.5	18.4	18.0	12.4
Paper .....	92.8	99.5	84.0	41.3	39.2	33.7
Cement .....	100	100	100	14.3	30.7	27.3
Glass .....	61.0	63.0	65.0	43.0	48.6	46.3

The ratios in the table show obviously that the contribution of public sector in the production of sugar, paper, cement and glass was rather impressive but still far from enough to meet the home market needs.

#### 2.5 Financial performance:

The results vary considerably from industry to industry and can be divided roughly in two groups. The first consists of industries containing elements of monopoly. There the return on the investment was about 7% a year. The second group includes industries under keen competition or whose raw material supplies fluctuated with the war situation: there the return was usually less than 4%.

As for savings, most public enterprises devoted more money to wages and salaries than to savings. The percentage of wages and salaries to net profit was around 50% in the period of 1960-66 and has increased considerably since then. War damage or expansion costs might be significant reasons for the increase. In 1967 the ratio was already greater than 1.

Financial ratio analysis shows that corrective actions are generally required in every public enterprise. Following are some key activity indicators of the public manufacturing sector.<sup>1/</sup>

<u>Types</u>	<u>Ratios of 1969 performance</u>
I. Liquidity	
1. Current ratio	1.90
2. Quick ratio	1.05
II. Leverage	
3. Debt ratio	45%
III. Activity	
4. Inventory turnover	3.80
5. Fixed assets turnover	1.44
6. Total assets turnover	0.78
IV. Profitability	
7. Profit on sales	5%
8. Return on total assets	3.7%
9. Return on net worth	7.6%

The financial performance of public enterprises was, in general, not expected to be always as good as that of private firms, but unusually low ratios might be regarded as indicators of the inefficiency. These few selected ratios show clearly that there are signs of weakness in both the way of conducting and the method of financing Vietnamese public manufacturing industries. Following chapters will explore some of these weaknesses in depth and from the point of view of management.

<sup>1/</sup> These ratios are calculated from data given in table 26/3 of the 1970 Management Centre Report.

## SUMMARY :

Public ownership is a political subject, and politics are concerned mainly with divergence and disagreement. Controversy about public enterprise has therefore not only been confined to the principle itself but also to the methods of organising the concern, the setting of objectives and the ways to supervise it.

Each country has tried to work out solutions which were best adapted to its political regime and its economical development needs. South Vietnam, as other developing countries, has been influenced rather considerably by its former ruler. Organisational structure and legal forms used in Vietnamese public sector are more or less the same as those found in France. So are its shortcomings and weaknesses.

To overcome the difficulties, South Vietnam has recently set up a Management Council for Public Enterprises to reorganise the whole sector. But no drastic change has been observed since the creation of this organ, except the alteration of some ministerial powers.

At the present time, publicly-owned manufacturing industries are vested in one of the following forms: public institution and joint-stock company. Each legal form has its own merits and weaknesses. Juridical aspects as well as administrative concepts of different types of institutions will be discussed in Chapter 2.

Most public enterprises in South Vietnam were established in the 1960s. As already noted above, they represent about half

of the total value added contributed by the whole manufacturing sector to the national product. However, the analysis of recent years' financial ratios shows that the results of the exploitation have not yet attained the level normally required of manufacturing firms. The causes of the shortcomings will be explored in some detail at Chapter 4.

CHAPTER TWO : MANAGEMENT AND THE TYPES  
OF INSTITUTIONS

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1	.....	The question of the form of organisation
	1.1	Forms of public enterprises
2	.....	Types of institutions in South Vietnam
	2.1	Creating procedures
	2.2	The legal forms
3	.....	Administrative concepts and juridical aspects of the institution
	3.1	The régie
	3.2	The office
	3.3	The autonomous public institution
	3.4	The State company
	3.5	The joint-ownership company
4	.....	Management and the form of organisation
	4.1	Criteria for the choice
	4.2	Inherent drawbacks of commercial forms
	4.3	The best form of organisation
5	.....	Conclusions

The forms of public enterprise provide a variegated picture. The relative merits of some principal types of institution have, in recent years, been exhaustively discussed by authoritative writers on political science.

The organisational pattern is a function of many social and political factors. Therefore it rarely has a universal value. A known type may work well in some countries and be unsuitable in others. Thus the 1966 Geneva Seminar on organisation and administration of public enterprises formulated the following suggestion: 'From the great variety of organisation forms now available to them (developing countries) for adoption they have to discover what works best in given circumstances.' <sup>1/</sup> The remarks shows clearly that the form of organisation should be better left to be decided by particular requirements rather than by dogmatic principles.

So the first problem confronting a developing country starting up a public enterprise is that of choosing the right form. This is important and is the beginning of wisdom.

1. The question of the form of organisation:

In the following discussion there are some legal terms which imply specific meanings and need therefore to be clarified at the outset to avoid misunderstandings. According to Professor Philip S. James, the classification of law might be as follows: 'State law, as opposed to International law, is commonly divided into various categories. The chief of these divisions is the division between Public law on the one hand, and Private law on the other.

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<sup>1/</sup> 'Report of the United Nations Seminar on Organisation and Administration of Public Enterprises' (New York, 1967) (ST/TAO/M/35), p.11, para.33: hereinafter referred to as 'The Geneva Report'.

Public law consists of those fields of law which are primarily concerned with the State itself..... Private law is that part of the law which is primarily concerned with the rights and duties of individuals..... Here it must suffice to explain that both the main division and the sub-divisions are to some extent arbitrary and that they are made primarily for the purpose of convenient exposition.' 1/

Administrative law is therefore considered as a special branch of Public law, while Commercial law is a branch of Private law. The following discussion concerns these different types of law whose meanings would be understood as outlined above.

1.1 The forms of public enterprise:

France and the United Kingdom were perhaps the first two countries in the world to evince a deep concern in different aspects of the form of organisation. In France, since the early days of the nineteenth century the State had already agreed to let the administration engage in commercial and industrial industries such as the tobacco monopoly (1810) and the gunpowder industry (1834). These undertakings were organised in the same manner as the ordinary business of government, i.e. placed under direct ministerial control, their receipts and expenditures formed part of the national budget. Such a way of organising a

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1/ James, Philip S., 'Introduction to English Law' (London, 1969) p.6



public enterprise was called the régie form.<sup>1/</sup>

Only after the First World War were there, in France, other flexible forms of organisation. Public enterprises established under the new régime were distinguished by having legal personality and financial autonomy. They were permitted to adopt totally or partially commercial accounting methods. Some legal aspects of their activities were subjected to Commercial law, while others to Administrative law. Much work was done in the inter-war period to clarify both the doctrinal and the judicial implications of the new patterns, but it was not until after the Second World War that actual organisational forms of French public enterprises emerged.

In the United Kingdom the legal aspects of public corporations have also been studied since a century ago<sup>2/</sup> and the Mersey Docks and Harbour Board, created in 1857, might be considered as the first public corporation in the country. This board did indeed pursue commercial activities, but in the public interest; it had a legal personality and liaison with local economic interests and it was financially controlled by the government. But most of the public enterprises in the United Kingdom, as in the case of France, have been only created during the last fifty years. Several types

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<sup>1/</sup> The Régie is the oldest French way to manage a public undertaking. It might have a legal personality and is subject entirely to Administrative law.

<sup>2/</sup> Grant, J. in his 'A practical treatise of the law of corporations' (London, 1850) defined a public corporation as a body incorporated by an Act of Parliament to serve the public interest, or one which fulfils certain required conditions. It is noted that Grant did not use the term 'public corporation' in the definition but doubtless the idea was the same.

of institution have been used to administer publicly-owned industries and the public corporation form is the most recent one to be tried out on an extensive scale.

For guidance on the organisation of public enterprises many developing nations tend to look to these two developed countries. Some have copied either French or British patterns, others modified the original forms to meet their own needs. But in general, as noted some twenty years ago at the Rangoon Seminar, public undertakings of developing countries were usually invested with one of the following common forms (or their equivalents) <sup>1/</sup>:

- the departmental form
- the public corporation form and
- the company form.

## 2. Types of institution in South Vietnam

### 2.1 Creating procedures:

Before examining the legal aspects of different forms of organisation, it is pertinent to outline the procedures for formulating regulations and laws in South Vietnam.

Vietnam has been occupied by the French for more than 60 years. The legislative procedures, therefore, not only deeply reflected French influence, but also from time to time contain abnormalities. Most of the concepts and the ways of organising the administrative machinery are a legacy of the colonial period. Efforts have been made in recent

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<sup>1/</sup> 'Some problems in the Organisation and Administration of Public Enterprises' (New York, 1954) (ST/TAA/M/7, p.5, para.3; hereinafter referred to as 'the Rangoon Report').

years to modernise the legal system, but till 1966 that part of the law which concerned the public enterprise sector remained untouched. Even up to 1968 the procedures for establishing public undertakings in South Vietnam were still based on some fundamental texts promulgated by the colonial government.

According to article 18 of the Law dated May 3rd, 1854, which was considered as the most fundamental text of the French colonial regime, the French President was allowed to promulgate laws and regulations in colonies.<sup>1/</sup> He had also the right to delegate this power, in many fields, to the Governor General in each colony. Therefore, almost all the decrees and a number of the orders promulgated by the colonial government, if not expressly abolished, have had simultaneously the character of both a constitutive text and a regulatory text. By using the same practice of enactment, the Government of South Vietnam has established all of its existing public enterprises either by decrees or orders, but none by Act.

## 2.2. The legal forms:

Before 1945, only two legal forms were used to run public undertakings in Vietnam, namely the régie and the autonomous public institution <sup>2/</sup> (établissement public autonome). Nowadays some new types have been added to meet the

<sup>1/</sup> With some exceptional cases where he ought to seek advice from the State Council in advance or leave the constitutive right to the Parliament, such as the case of the Press Law promulgated on July 29, 1881, or the Law relating to recidivists dated July 25, 1885.

<sup>2/</sup> The French term 'établissement public' may be translated as public body, public organ or public corporation. According to the authors of 'Public Administration in France', the use of the term public corporation, though convenient, is probably misleading. The term would more properly be translated as public institution. (see 'Public Administration in France' by F. Ridley & J. Blondel (London, 1964), p. 240.

needs of development policies.

Juridically speaking, the actual forms of organisation in South Vietnam might be classified in two main groups, viz. the 'public institution' group and the 'company' group. The latter is liable under Private law, while the former is, in theory, subject to Public law.

The public institution group in turn can be divided into two sub-groups. The first consists of those undertakings organised in the form of *régie* or Office. These forms are similar in nature to departmental forms of public enterprise in other countries. The second includes all undertakings established in the form known as autonomous public institution. This form of organisation is to some extent equivalent to the public corporation in other developing countries.

The company group can also be sub-divided into the State company and the joint-ownership company. These two forms are the most recent types of organisation tried out in South Vietnam.

In summary, Vietnamese public enterprises may thus be vested with one of the following forms:

Group	Official name	Liabile under
1. <u>Public institution</u>		
- without financial autonomy .....	Régie	Public law
	Office	"- 1/
-with financial autonomy.....	Autonomous public institution	Mixed regime
2. <u>Company</u>		
-100% State capital	State company	Private law
- less than 100%	Joint-ownership company	"-

Most manufacturing industries were established in the form of company or autonomous public institution, while service industries were usually run in the form of régie or office. The choice of the form of organisation was a matter of convenience or of historical accident rather than predicated on any previously adopted policy.

### 3. Administrative concepts and juridical aspects of the institution :

#### 3.1 The régie:

This form was the oldest way of organising a public undertaking. It is the direct provision and running of a service or industry by a government department. Administratively speaking, it is a specialised unit of a department

1/ An autonomous public institution's degree of submission to Private or Public laws varies according to the nature of the concern. If it has the character of a public administration organ engaging in activities of an industrial or commercial nature, then it is subject more to Public law than to Private law. If on the other hand it is similar in nature to private enterprises, then the reverse will happen.

engaged in operations for which separate legal status and separate budget are necessary. At the present time, only two manufacturing plants in South Vietnam are organised in the régime form: a lime factory and a coal mine.

The régime form appeared in Vietnam at the beginning of this century and its juridical source was the French decree dated December 30, 1912, regulating the financial system for colonial territories. Among other things, only two forms of doing business were prescribed in this decree, namely:

1 - the 'exploitation en régime', which is the direct running of a public service by the authority.

2 - the 'concession', which is the indirect running of a service. In this form, the service is conceded to a private firm but the operation is controlled by the authority.

### 3.2 The Office:

The office form is rather widely employed in South Vietnam to run public utility undertakings such as electricity, water and housing, but none of the manufacturing industries was invested with this form.<sup>1/</sup>

The office form is different from others by its temporary character. It is understood in administrative circles as not an enterprise carrying on business, nor a public service having a permanent character but a temporary

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<sup>1/</sup> In France also, the office form is rarely used for manufacturing industry, the exceptional case being perhaps the O.N.I.A. (Office National Industriel de l'Azote) established in 1924.

public organ. In conformity with its temporariness, the assets of an office are, upon liquidation, to be absorbed into the national budget. If, on the other hand, an office is to be responsible later on for new activities of a permanent character, then it might become a public enterprise with another suitable form such as a *régie* or a state company.<sup>1/</sup>

### 3.3 The autonomous public institution:

There is no public corporation of the British type in South Vietnam but there exists an equivalent form, the autonomous public institution. World opinion has run strongly in favour of the public corporation; it is therefore interesting to have a close look at this special form.

The Vietnamese autonomous public institution stems from the French model, 'Etablissement public à caractère industriel'.

In France the 'Etablissement public' was defined as a specialised public organ with legal personality.<sup>2/</sup> The term was clarified for the first time in 1856 by the Court of Cassation while it was adjudicating the nature of Caen city's savings-bank. Before that date the term was used as synonymous with a private type of organisation known as 'Etablissement d'Utilité Publique'. But juridically speaking, the

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<sup>1/</sup> The National Office for Electrification is an example of this transformation. This office was established for rehabilitating war-damaged power installations, but later Presidential Orders gave it responsibilities for developing hydro-electric and steam generating plants. It became an autonomous public institution in 1964, then a company in 1970.

<sup>2/</sup> Haurious A., 'Précis de Droit Administratif et de Droit Public' (Paris, 1927), p.131.

term has never been officially defined. The French legislators, in the early part of this century, conceived it as belonging to the residual category of administrative organs, i.e. those which are less close to the traditional administration structure.<sup>1/</sup>

The lack of a legislative text which explicitly gives the legal definition for a public institution has led to contradictory consequences: the rapid growth of the so-called residual category and the rapid disaggregation of the initial concept. The situation has been noted by a French researcher as follows: 'Concerning the problem of public institutions, one faces the following rather curious situation: a notion which exists in positive law but which is loosely defined by the legislator for its objective and for its juridical consequences, a notion upon which jurisprudence was often brought to express its own opinion but never came to more satisfactory results.'<sup>2/</sup>

In South Vietnam, the Etablissement Public'<sup>3/</sup> form appeared for the first time in 1914 with the creation of the port of Saigon. It was then considered an important innovation in the administrative machinery. All public

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<sup>1/</sup> Aucoc, 'Conférences sur l'Administration et le Droit Administratif' (Paris, 1885), p.351.

<sup>2/</sup> Martin-Pannetier A., 'Eléments d'Analyse Comparative des Etablissements Publics en Droit Français et en Droit Anglais' (Paris, 1966), p.11.

<sup>3/</sup> The term 'Etablissement public à caractère industriel et commercial' has been used in France only since the First World War, to distinguish it from the traditional type of 'Etablissement public à caractère administratif'. General regulations concerning its management, its commercial character etc. were laid down for the first time by a decree promulgated on December 15, 1934.



institutions, as mentioned earlier, have been created by decree-laws. But in 1966, it was stipulated by article 86 of the decree-law 19-SLu that public institution of autonomous type would henceforth be created by an Act.<sup>1/</sup> The definition given therein was as follows: 'Autonomous public institutions are organs established by the government; of administrative, industrial, commercial, or financial character; having legal personality and enjoying autonomous management. Autonomous public institutions will be created by Acts and in conformity with general regulations fixed by the Prime Minister according to joint proposals of the Ministry of Finance and the Ministry in charge.' Definitions for other types of organisation were also given in this decree-law which is, indeed, the only juridical text existing at present relevant to the forms of public enterprises. However, the definition given to each type is, juridically speaking, not of great value, because it fails to define the legal regime under which the undertaking should be regulated, as well as failing to point out the aim of each type.

As the autonomous public institution is the closest form to the British public corporation, it may now be suitable to compare some of their general characteristics to see how far the similarity extends.

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<sup>1/</sup> Decree-law 019-Slu promulgated on September 3, 1966 aims to modernise the national financial and accounting system. It replaces the decree promulgated on Dec. 30, 1912.

1. All autonomous public institutions enjoy a moral personality and a financial autonomy, which cause them to have their own properties and a distinct juridical existence. There is thus no difference between the two forms on this point.

2. All autonomous public institutions are operated under a mixed juridical regime, i.e. they are subject to Administrative law in some aspects and to Commercial law in others.<sup>1/</sup>

In the United Kingdom, the type of laws applied to a public corporation depends upon the category to which it belongs. 'A public corporation which is not the servant or agent of the Crown is liable under the ordinary law of the land in almost the same way as a commercial company or a private person, except in so far as special immunity is conferred upon it by the legislation which creates it.'<sup>2/</sup> Most of the public corporations are subject to the ordinary law, but some were expressly stated to act on behalf of the Crown. Only in the latter case have they the privileges attaching to the Crown in litigation.

3. There is no legal limitation in the use of the autonomous public institution form. It can be used to vest service industries as well as manufacturing industries in much the same way as the public corporation form in the United Kingdom.

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<sup>1/</sup> Generally speaking, commercial activities of a public enterprise are governed by Commercial law; regulations on the creation, dissolution, control and organisation are subject to Administrative law.

<sup>2/</sup> Robson, W.A., 'Nationalised Industries and Public Ownership' (London 1966) p.70

4. The procedures of financial control are usually outlined in the enactment creating a public institution but its financial and economic obligations have rarely been laid down. There is no special document to guide the financial behaviour of an autonomous public institution as the White Papers do for the British public corporations.

The above are some of the legal characteristics of an autonomous public institution. It would be impossible to describe all the judicial aspects of this form of organisation, because the concept of public institution is a generic notion, not a specific one; i.e., there are different kinds of public institutions, and each in turn has its particular type of activities and will accordingly be governed by specific regulations. The term 'autonomous public institution' is only a convenient expression to indicate a category of public enterprises having some common characteristics, it does not contain in itself the whole legal character of the concern. Therefore, the legislatures have, in most cases, avoided using the term 'autonomous public institution' in the enactment; they preferred to use a general expression such as 'institution having legal personality and administrative and financial autonomy'. If there is any contention, it is the task of the jurist to discover the legislative intention, to see which type of public institution he is dealing with, and what is its real qualification: administrative, commercial, or industrial.

As noted above, the term 'autonomous public institution' has already been legally defined in the decree-law 019-SLu. The definition given to it was, from the legal point of view, inadequate<sup>1/</sup> but the important point in this connection is that it was the first time the term was officially adopted.

#### 3.4 The State company:

A State company is an undertaking wholly owned by the State and established in the form of a joint stock company. It is liable under the law in the same way as a privately owned company. There are at present only four public undertakings vested in this form in South Vietnam: one electricity company, two sugar companies and one industrial estate development company.

The joint stock company form has been used rather widely in France, Italy, India and many developing countries. This form offers major advantages as well as notable conveniences, but there are also many shortcomings and fictitious aspects which have been sharply criticized by noted experts.

In some former French colonies, the State company form has been used since the promulgation of the law dated April 30, 1946, relative to the ten-year economic and social development plans in French overseas territories.

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<sup>1/</sup> There are as many definitions of public institutions as there are authors writing about them. The following may be considered as a concise definition: 'A public institution of economic character is a moral personality, created by public authority, subject to a mixed juridical regime, having economic activities aiming to serve the public (Martin-Pannetier, op.cit., p.23)

The State company has therein been conceived as an undertaking 'which will be managed with the methods and the flexibility of privately-owned commercial or industrial enterprises and will only be subject to a posteriori financial controls.' <sup>1/</sup>

The State company appeared in South Vietnam for the first time in 1963 when an industrial estate development organ was established. The form has been described in the enactment as an organ 'of public interest character, having corporate personality and with administrative and financial autonomy.' Despite its existence, the form has not yet been defined in any legal text. The fundamental decree-law 019 SLu did not prescribe it as a way to run a public enterprise. Juridically speaking, the State company is in the same situation as the autonomous public institution before 1966, in so far as the definition is concerned. Reasons have been advanced to account for the situation; a main one is that the form is still being tested. Little comment is therefore required on the legal basis of this form but it is worthwhile examining in some detail its two main fictitious aspects, namely the shareholder's name and the enterprise's capital.

In South Vietnam the law on the formation and working of joint-stock companies is still the old French company law promulgated on July 24, 1867, according to

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<sup>1/</sup> Article 2 of this law stipulated the purpose of this institution. According to the spirit of the law, the Minister of the Department of French Overseas Territories has the responsibility of encouraging private investment and in case private businessmen lack means or willingness to participate in the project, he might establish State company or mixed-ownership company by using the FIDES fund (Fonds d'Investissement pour le Developpement Economique et Social des Territoires d'Outre-Mer).

which a joint-stock company is a moral person and needs to have at least seven shareholders. This law did not prescribe such forms of organisation as the one-man company or non-shareholder company. Thus, fictitious aspects of the shareholder problem in State company are unavoidable and also insoluble.

The current practice is to borrow the name of the seven government officials nominated to be members of the Board of Directors and register them as shareholders of the enterprise. The borrowing of the name is an illegal act, being forbidden by Law, but as there is no alternative it is still in use.

As for the problem of the enterprise's capital, it is interesting to note that the capital of a joint-stock company relates to the notion of its corporate personality. In the eyes of the Law, the corporate personality does not mean simply that the group of shareholders has been considered as an indivisible group but it identifies to itself all properties of the concern. It also distinguishes the properties of the group from the properties of each shareholder. Actual regulations relating to State property and its alienation indicate rather clearly that the property of a State company is owned by the State and not by the enterprise. In this connection, a French scholar has had the following comment:<sup>1/</sup>

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<sup>1/</sup> Houin, R., 'La gestion des entreprises publiques et les méthodes de droit commercial' in Archives de Philosophie du Droit, 1952, p.89.

'It seems that the enterprise acts purely and simply as a kind of manager or concessionaire responsible for the working of the property.'

### 3.5 The joint-ownership company:

Of this last method of running a public enterprise, the Rangoon Seminar says:

'The Seminar discussion revealed great interest on the part of all the countries of the ECAFE region in the concept of "mixed economic enterprise", and use of the commercial company for this purpose. It should be emphasized that the term "mixed enterprise" does not describe a legal or organisational form but an economic concept. It includes various forms of joint enterprise shared between the State and private interests.'<sup>1/</sup>

Several important manufacturing industries in South Vietnam are operating in the form of joint-ownership companies and the term has a rather clear juridical meaning. It has in fact been defined in the decree-law 019-SLu of 1966 as follows: 'joint-ownership companies are companies or enterprises liable under Private Law, and public credit institutions having State capital participation, or having received State subvention, loan or pre-paid credit.'

Another decree-law promulgated much earlier, the 229-TC/KT of June 24, 1955, stipulated that only two organisational forms are accepted, namely the joint-stock company and the limited liability company.

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<sup>1/</sup> 'Rangoon Report', op.cit., p.12

Clearly, the term 'joint-ownership company' is no longer an expression of convenience to show an economic concept but has, in South Vietnam, a well defined legal meaning applicable to the identification of public enterprises.

The formula of "mixed enterprise" has been praised for two reasons: (1) as capable of attracting private participation and (2) as best adapted to the complete transfer of the enterprise to the private sector, should this be desired.

The first point calls for some further comments because the degree of attracting private partners varies with the degree of control over the concern by the public authorities. Undoubtedly, if effective control is given to the private partner and public capital participation amounts to little more than a form of government assistance to private enterprise, there may be no difficulty in attracting private participation. On the other hand, if effective control is in the hands of the public authorities, it is quite uncertain that the device would attract private investors, because they may be afraid that their own interests will be sacrificed to the public interest.

Analysis of the capital structure of the thirteen most important joint-ownership companies in South Vietnam shows that only four have State participation constituting less than 30% of the total capital.<sup>1/</sup> It therefore seems

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<sup>1/</sup> The State capital participation varies from 50.5% to 99.9% of the total. The overall percentage is 85.7% ('Report on Public Enterprises, 1970, part B, table 29) (See page 21 above)



that the pattern of mixed enterprise has not yet had encouraging results, at least as an instrument of attracting private investment. Several reasons have been advanced to explain this: privileges retained by the State may be a main cause to deter private capital from investment. These privileges concern many aspects such as the procedure of control, the appointment of representatives and the alienation of shares.

As far as the legal aspect is concerned, it may be said that a mixed enterprise - even if it has the form of a joint-stock company and is operating entirely under Commercial law - contains some anomalies in its structure and in its operation. The role played by a mixed enterprise in the national economy and the important share taken by the State have made it subject to a regime of special control: internally by the presence of State representatives and externally by the inspection of different auditing offices of both the Government and the Parliament. Beside these controlling measures, the State also prescribes restrictions on the alienation, e.g. that the shares of Vietnamese holders can only be transferred to others of the same nationality.

As for the appointment of its representatives, the State also does not want to respect the rule of proportion. It is stipulated in article 10 of decree-law 229-TC/KT that: 'in case the application of Commercial law does not permit the State to have representatives on the Board of Directors, Board of Managers or Supervisory Board, then a number of

representatives will be arbitrarily fixed in separate agreements or in the Article of Association.....'

Admittedly the operations of mixed enterprises are restricted by certain conditions imposed by the State, but this is not an exceptional case found only in South Vietnam. In France and in some former French colonial countries, the law stipulates unambiguously the number of the State's representatives, in the case where the State is a minority shareholder. <sup>1/</sup> In India, besides the normal reservations found in other developing countries, the Government has retained further privileges such as the right to restrict the distribution of profits, to approve any change in the capital structure and to enter into a special contract with the private shareholders. <sup>2/</sup>

The reservations made in favour of the State in joint-ownership companies are therefore quite universal; they constitute the main difference, from a legal point of view, between a mixed and a privately-owned enterprise.

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<sup>1/</sup> Article 12 of the French law No.49/485 promulgated on July 25, 1949, stated clearly that a number of seats proportionate to the shares will be reserved to the State whenever the State participation is equal to or greater than 10% of the capital. In each case this number should not be greater than two thirds of the total number of seats on each Board but in any case not less than two seats.

In the Ivory Coast, similar or even more severe conditions are laid down: e.g. when the shares held separately or jointly by the State and other public organs or local collectives exceed 50% of the capital the mixed enterprise will be controlled by the Audit Office of the Supreme Court in the same way as other State companies or other industrial and commercial public institutions. ('Les entreprises publiques en Cote d'Ivoire' by Michel Bernard in L'Economie Ouest-Africaine, No.170, Feb.1970)

<sup>2/</sup> Jain, R.K., 'Management of State enterprises in India' (Bombay, 1967), p.62

4. Management and the form of organisation:

We have now briefly reviewed the alternative legal forms available to Vietnamese public enterprises. While it is too early to pronounce final judgment on the best type of organisation, it is useful to consider some of the problems relating to the choice of such a type.

The idea was once widespread and has still not entirely disappeared, that the success or failure of a public enterprise depends more on the legal form than on any other factor. The Rangoon Report, for instance, put it in this way: 'The single most critical control point is the law, decree or other basic authority providing for the creation of a public enterprise. This is likely to determine in large measure all other organisational relationships.' <sup>1/</sup> A decade later, the Geneva Seminar admitted that it is an exaggeration and 'there is no discoverable correlation between the legal rights and obligations of a public enterprise and the quality of the performance which it achieves.' <sup>2/</sup>

It is therefore generally recognized today that the success or failure of a concern varies functionally with several factors. Although the legal form cannot replace them all, it would be an equally ridiculous exaggeration to allege that the legal structure of the enterprise is entirely unimportant. A good form of organisation could

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<sup>1/</sup> Rangoon Report, op.cit., chapter 2, para.5

<sup>2/</sup> Geneva Report, op.cit., chapter 2, para 28

indeed avoid a sea of troubles for the working of the undertaking at later stages, and provide its management with opportunities to produce good results.

4.1 Criteria for the choice:

Two recent favourite forms of organisation are the autonomous public institution and the company. To understand their nature, a brief review of criteria for their choice is unquestionably necessary. These criteria are designed to meet following requirements:

For the former: (1) a more flexible form of management than the departmental pattern is needed, i.e. a greater amount of autonomy in the matters of internal operations, administration and management.

(2) the principle of dichotomy in its administration is followed, i.e. the determination of policy is subject to ministerial and parliamentary control, while operating decisions are decided by the governing boards of the concern.

(3) its powers, duties, immunities and organisational relationship need to be clearly laid down by an Act so that the assigned function can be easily and fully achieved.

For the latter: (1) the concern involves mainly industrial and commercial activities and needs therefore to have a separate identity for legal purposes, i.e. to sue or be sued for acquiring, holding and disposing of property in its own name.

(2) a dynamic and flexible pattern of management is needed, i.e. a pattern which can be quickly

and easily adaptable, or changeable, in accordance with its external conjuncture.

(3) if an industry is taken over by the government, the company form is thought to be more convenient to retain its commercial continuity and practices.

The current practice for the choice of a form of organisation is mainly based on these several premises. The list is not at all an exhaustive one, but does contain fundamental criteria which are actually in use in South Vietnam. The other considerations which indicate potential advantages of each form are such as the possible association of non-officials in the managerial function or the application of the disciplines, sanctions and controls of the Companies law directly to the management of a company; and the flexibility of an autonomous public institution in modifying objectives and policies according to the general economic policy of the Government of the day. On the whole, however, these considerations are primarily aimed to provide the concern with a reasonable freedom of action and a viable form of organisation. They are therefore rather biased towards problems of managerial autonomy than to the logic of juridical aspects of the institution concerned. The adoption of existing commercial forms indicates this tendency unambiguously.

#### 4.2 Inherent drawbacks of commercial forms:

Although the application of commercial statutes and company pattern of structure in the running of public enterprises has the merit of providing the concern with a

necessary degree of freedom, as well as making large-scale delegations of authority possible, it has inherent drawbacks in many theoretical respects.

Firstly, there are fictitious aspects from legal points of view, such as those concerning the nature and the transfer of a State company's own property, the application of the provisions of the Companies Act, and the status of government official share-holders.

Secondly, there are anomalies in the operation of a State company. Some basic principles which are the foundations of a joint-stock company, such as the concept of the distribution of power, the homogeneity of members and the control system have been greatly altered and lost most of their original values when used by the State.

Thirdly, the company device evades parliamentary control. Under company management, the Minister can refuse to disclose the information asked for on the grounds that he, as a shareholder, has no absolute right to obtain it.<sup>1/</sup> Therefore, 'it is in no way an instrument of democratic socialism but is rather a device for avoiding public accountability and control.'<sup>2/</sup>

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<sup>1/</sup> 'What is disclosed to shareholders, is dependent upon the discretion of the Directors in accordance with the merits of the case and exercised within the framework of the law and of the company's Articles of Association. An important consideration is that while shareholders should be given information regarding the activities of the company, there should be no disclosure which is likely to affect the interests of the company adversely.' -- Jain R.K., op.cit., p.78.

<sup>2/</sup> Robson, op.cit., p.78

All these inherent drawbacks stem from the fact that each juridical form has been created and developed to meet the need of a certain social and economic requirement. Thus, the company form has been on that account designed for private enterprise and for the search for profits. It is doubtful whether public enterprises embody such features. Consequently fictitious aspects are rather inherent, one cannot take advantage of commercial methods by merely transposing the form while discarding the profit-making spirit which is its main driving force.

#### 4.3 The best form of organisation:

So far the account has presented some administrative concepts, juridical aspects, criteria for the choice and inherent drawbacks of different legal forms of Vietnamese public enterprises. This chapter may now be concluded by considering the question of a best form of organisation, which is undoubtedly an important and controversial topic of public administration science.

As already mentioned, several different organisational types have been tried out in almost every country in the world; while each has apparent merit, none appears to have a clear advantage over the others. Admittedly, opinion in the United Kingdom has run strongly in favour of the public corporation; while in some other continental countries the company form is preferred. It is thus extremely difficult to say which form is the best, as to isolate the influence of a form on the performance of an enterprise from all the other factors is usually impossible.

Experience shows that the question of the form would be better left to be determined with reference to particular requirements of the case.

The central question is, then, what major premises should a good form of organisation be based on.

One way to the answer is through a study of the philosophy of public enterprise. Another way is through an analysis of important forms that have been used and how they have evolved. Following premises are formulated in the light of such theoretical and pragmatic considerations:

1. The organisation should have a clear definition of purposes.
2. Its legal aspects and internal structure should be such as to be adaptable, or changeable, in accordance with the purpose for which the organisation is established.
3. The organisation should live as a dynamic and not as a static entity, i.e. it must be able to grow, not merely to exist.
4. It is also a highly integrated entity, i.e. in some ways it is highly centralized, while in other ways it is highly decentralized.
5. Leading principles of management should be laid down as clearly as possible in the Act establishing the enterprise, especially those concerning the policy making, the financial and economic obligations, the personnel administration, and the accountability.
6. The laws governing the organisation and its working should be such as will enable the organisation to achieve its goal with a requisite degree of autonomy.



These premises touch on major aspects of the principle of organisation and management. The list is not intended to be comprehensive, but contains important elements which must be taken into account while establishing a public enterprise. They may serve as guidelines to legislation for the organisation and control as well as to Executive for the working of public enterprises.

5. Conclusions:

From the juridical point of view, there exist some similarities between the types of institutions used in South Vietnam and those mentioned in the Rangoon Seminar report. In general terms the concept behind each form has been more or less the same and in all cases originated in Western countries.

In South Vietnam the difficulties on the legal side might be summed up in two groups. The first concerns difficulties resulting from the lack of appropriate legal texts, such as the lack of a text for implementing all the provisions of the recent 019-SLu decree-law or the continued application of some old French texts of the colonial era. The second is concerned with the nature of the laws themselves, such as the contrast between Public law and Private law or the nature of the concepts backing the laws, such as the contradiction between concepts of commercial law and public interest.

Difficulties of the first type can be expected to be solved gradually because they are time-dependent factors,

but those of the second type really place the countries concerned on the horns of a dilemma, because they concern both the legislature and the jurisprudence. For countries which have a clear-cut distinction between Public law and Private law this conceptual crisis is unavoidable, as the public enterprise concept is strange and unsuitable to all of them. The concept of public enterprise is, in fact, not only concerned with juridical aspects of daily operations of the enterprise but also touches directly on the structure of the administrative machinery and the economic and social system adopted by the State. It is really part of a complex conceptual system in which one notion cannot be changed without modifying the others.

The presence of public enterprise makes it difficult to have a clear view of the nature of public property, which has hitherto been quite different from that of private property. It also confuses the traditional concept of the role of public organ, hitherto conceived to be of a purely administrative character.

The imitation of the commercial form and commercial methods to operate public undertakings not only creates fictitious aspects but also alters the nature of commercial law on many points. Professor Houin put it as follows: 'in a country like France where Public law and Private law have coexisted and faced each other for many years, the appearance of new institutions on the border of the two disciplines creates delicate juridical problems of a mixed nature. It has been believed that some of the difficulties

met with in public enterprises could easily be solved by a pure and simple extension of the limits and the rules which have proved to be of value in private enterprises. Experience shows that to a large extent this was an illusion. If the application of commercial statutes gives good results just because it is well adapted to the needs of private, industrial or commercial enterprises, even when they are not inspired by a speculative motive; on the contrary, the transposition of a joint-stock company form into a State enterprise was almost solely a matter of formality and verbosity, because the interest-group which is the skeleton of the statute is completely missing in a State enterprise.<sup>1/</sup>

These observations reveal that the difficulties are in both theoretical and practical fields. As economic evolution has in the past fifty years been pursued at a much faster rate than development of jurisprudence, the legislators in many countries have been obliged to take temporary measures; and the easiest was to extend the limits of existing institutions. This method will certainly lead to a conceptual crisis, because each type of law has its own field of application, each has been designed to meet the need of a certain sphere with well-defined limits. In the United Kingdom and some other countries of the Commonwealth the problem is simply, thanks to the monistic character of the law, to find out which pattern

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<sup>1/</sup> Houin R., op.cit., pp. 79 - 107

is the best for the purpose; but in France and in countries where the law is fundamentally of dualistic character the problem is, on the contrary, not only to find out the best pattern but also to fit it in with some basic principles that govern the whole system. When the practice deviates far enough from the fundamental rules, the crisis will be unavoidable. To rectify the situation means to amend or to change these rules, in other words it means to revise completely the concept of public and private sectors, to accept the idea that the State and the private sector have the same responsibilities in some fields and that only one type of law should be devised and applied to both these fields. Up to now the research for such a new law is still going on in such countries and the problem is certainly a challenging task for the legislators and the jurists.

From the point of view of management, the important thing is, however, not the way to arrive at the law but the content of the law itself. One may therefore readily agree that public enterprise laws ought to be drafted with great care. Although a good legal text does not assure a good management, it does create a workable atmosphere for future operation and goal achievement of the enterprise.

CHAPTER THREE : THE PROBLEM OF CONTROL

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1	.....	The problem of ministerial control
2	.....	Ministerial control in South Vietnam
	2.1	The tutelage notion
	2.2	The technique tutelage
	2.3	The financial tutelage
3	.....	Parliamentary control
4	.....	How the controls work in practice
5	.....	Some weaknesses and difficulties in the process of control
6	.....	Summary and conclusions

One of the most difficult problems in the field of public enterprise, as recognized by many well-known experts, is to determine the degree and character of the control. Too much control will reduce the public corporation to the status of a government department, while too little control will place public enterprise outside the democratic regime and be a step towards the corporative state.<sup>1/</sup>

Several international seminars have been held during the past twenty years to discuss the problem. Some general conclusions have been formulated, but no particular control pattern has been considered as of universal value. There is a wide spectrum of degrees of control and the tendencies are so contrasting that no body can assert which is the right one. The effectiveness of a measure of control depends not only upon the nature of the measure, but also on many external factors such as the competence and the willingness of the controllers, the organisational relationship, and the political atmosphere of the moment. But despite possible differences concerning the way to conduct the control, the basic idea backing it remains the same throughout the world: that is, to keep a public enterprise working properly within a certain pre-set framework while achieving the assigned goal. This principle is essentially simple and acceptable; nevertheless, it leads on to controversy. How far and by what means control should be carried out are, indeed, not easy questions to answer.

Each country has worked out its own solution, suited to its political regime and economic circumstances. The solutions may be different, but consist always of two main parts, namely the governmental control and the parliamentary control.

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<sup>1/</sup> Socialist Union : Twentieth Century Socialism (1956),p.95

In South Vietnam, the development of the concept of control proceeds relatively slowly. Before 1966, control was exercised almost entirely by the Government, the role played by the Parliament was negligible. But since 1966, two new laws have been promulgated to strengthen the role of the Parliament. The first is the decree-law 019-SLu which provides for the establishment of an audit agency responsible directly to Parliament. The second is the law 9/68 prescribing the organisation of the Inspectorate, a special institution with the power to inspect accounts of public agencies and public corporations. One third of the eighteen members of the Inspectorate is appointed by the Parliament, the rest by the Government and the Supreme Court. <sup>1/</sup>

The establishment of these two organs is relatively recent. They are, up to the time being, still in the stage of training staff members. Thus, there has been little change, but it is expected that in the future their achievements will help to rationalize as well as to improve the functioning of public enterprises.

Following sections will present the actual concept of control in South Vietnam. It is worthy of note here that the word 'control' used in Vietnamese administrative law does not have the same meaning as understood in English law, it has a stricter sense. Ministerial control and parliamentary control,

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<sup>1/</sup> Inspectorate is a special institution in South Vietnam. It has been set up in accordance with the article 88 of the Constitution and is empowered to : (1) inspect, control and investigate personnel of all public and private agencies engaged in acts harmful to the national interest; (2) inspect accounts of public agencies and public corporations; (3) audit the property of personnel of public agencies.

as understood in the United Kingdom, have their equivalent in South Vietnam as ministerial tutelage and parliamentary tutelage.<sup>1/</sup> To retain the originality, the word 'tutelage' will be used when required.

1. The problem of ministerial control :

Discussing the problem of control, in the Management Centre Report the following remark was made: 'At the present time, the control is regulated very tightly on paper; but in practice it is not very effective.....'

Therefore, it is interesting to study first the nature of the problem in some detail, to understand the impact of control measures on the performance of Vietnamese public enterprises.

Ministerial control is a normal action taken by every government to keep public enterprises operating in line with their assigned duties. Although there is no uniform pattern in the world, ministerial control can in general be classified into two main groups. In the first group, the responsible Minister possesses only few powers, usually limited to specific matters.

In the United Kingdom, in the first generation of public corporations -- that is, those created before 1945 -- political control was comparatively negligible. Ministers did not have the right to control the day-to-day administration of the corporations. Post-war legislation, however,

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<sup>1/</sup> In English law "tutelage" means guardianship, the public and unpaid duty imposed by the civil law on one or more persons of managing the affairs of a person under the age of puberty. In South Vietnam, and in France too, the word has a wider sense; it can be used in Public Law and means checking of public enterprises with a power of applying sanctions.



presents a sharp contrast. Controlling powers of Ministers have become much wider and more general. The appropriate Minister may, after consulting the governing board, give a public corporation 'directions of a general character as to exercise and performance by the corporation of their functions in relation to matters which appear to him to affect the national interest; and the corporation concerned must give effect to any such directions'. There are a few slight verbal variations in the statutes concerning this formulation of ministerial powers, but the effect of the enactments is broadly similar.<sup>1/</sup>

In some other countries such as France, Italy and Germany, a reverse trend has been observed. The actual tendency is to ease the ministerial control as much as possible. In Germany, public corporations are working on the basis of the principle of self-determination. The State does not intervene in the internal activities of the enterprise and it is the task of the Board of Directors to determine the best policy to be adopted in order to keep the enterprise running in a good financial condition.<sup>2/</sup> Inspired by the German experience, France has, since 1969, tried out a new pattern of managing public enterprises.

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1/ Robson, W.A., op.cit., page 140

2/ 'L'évolution des entreprises publiques dans la communauté européenne au cours des dernières années', published in May 1971 by the Centre Européen de l'Entreprise Publique, page 27. Hereinafter this document will be referred to as 'C.E.E.P. report'

On the one hand, the French tended to substitute the rigid form of 'public institution' (Etablissement Public) by the more modern and dynamic form prescribed in the new 1966 Companies Act. On the other hand, to ease ministerial control and also to reinforce the responsibility of the Directors, some important public enterprises have been allowed to be operated on the 'programme contract' basis. According to this new mode, the responsible Minister will sign a contract with the enterprise concerned, he lays down clearly the assigned objectives to be achieved as well as the operating criteria to be used. He also makes clear reciprocal obligations of each side, those of the Government and those of the management team. <sup>1/</sup> It seems still too soon to assess the results of this radical change, but it is obvious that enterprises operating under this new regime will henceforth have a chance to stand effectively in a competitive market thanks to the omission of all a priori controls and the full use of management initiatives.

In Italy, State enterprises have long been conceived as necessary instruments to guarantee a rapid carrying out of economic development plans. <sup>2/</sup> Thus, ministerial control seems to be very tight at Board level. Besides having the power to nominate members of the Board of Directors, the responsible Minister may supervise the working of the concerned enterprise by the use of memoranda instructions.

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1/ C.E.E.P. report, op.cit., page 97

2/ C.E.E.P. report, op.cit., page 134

When he loses his confidence in the execution of the approved 'Annual Programme' by the actual Board, he may dissolve it and set up a new one. However, thanks to the policy of grouping individual enterprises into functionally oriented holding companies (enti autonomi di gestione) and the application of the principle of active and autonomous management to all companies, there is virtually complete autonomy at operating level. Operating responsibilities lie with the Board of each holding company; and ministerial control concerns only the holding company, not its dependent companies. The Minister concerned assumes the responsibility for formulating the annual working programme (relazione programmatica) and policy directives, and it is the task of the Board to carry them out in such a way as to assure the holding company's efficiency and co-ordination.

Developments in the concept of ministerial control in the above-cited countries illustrate, in fact, a whole range of possible Government intervention in the running of public enterprises. The principle of ministerial control is widely accepted; there is no need to argue about it. However, to attain a proper balance between autonomy and control is not at all an easy task. It is a delicate one, often difficult to achieve. If control is close, the enterprise may lose its dynamism; if control is loose, the enterprise may easily become a functional state within the state.

The problem to be solved is, therefore, how much managerial autonomy the enterprise ought to receive and how far the responsible Minister should exercise his power of control.

The general opinion seems to be that Ministerial control should concern broad directives and questions of policy and should not interfere with the day-to-day working of the enterprise. Although this principle sounds quite simple and easy to adopt, experience shows that proper relationships between the responsible Minister and the managers concerned have not yet been established in many developing countries.

In many Middle-East and Southern Asian countries, it is observed that all effective decisions have been taken for the public enterprise by the Minister; whilst in Latin America it is more frequently found that the Minister 'does little more than speak for the enterprise in the legislature'. In between these two extremes, every intermediate stage is possible and may be observed somewhere or other in the world. <sup>1/</sup>

## 2. Ministerial control in South Vietnam :

Ministerial controls in South Vietnam do not substantially differ from those exercised in France, that is the controls have been conceived as of two distinct types : the technique tutelage and the financial tutelage.

### 2.1 The tutelage notion :

The word 'tutelage' has been used in Vietnamese Public Law to show the authority exercised by the Government on collectivities or on public autonomous organs. The concept of tutelage implies an idea of functional decentralisation; it

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<sup>1/</sup> New Delhi Seminar Report, op.cit., page 20

applies first to local collectivities to meet political needs, then to public enterprises to assure managerial responsiveness. In both cases, it contains an idea of operational autonomy, i.e. freedom to operate within certain limits prescribed by the Government. Thus the task of the tutelary Ministry is to watch and see that the concern respects the prescribed framework. Tutelage, conceived as such, mainly consists of the control of regularity and the approval of important decisions. There is of course a difference between the working of a political tutelage and an economic tutelage. A political tutelage is somewhat hierarchical in character, i.e. it is exercised during the course of the operation, while an economic tutelage is more or less of a business character, i.e. mainly exercised at the end of the operation to assess the achievement. This distinction is theoretically rather clear, but in practice, due to external factors such as the influence of pressure groups, it is sometimes difficult to distinguish the true nature of ministerial control over an enterprise.

Another interesting point to note is the difference in shades of meaning of the words 'tutelage' and 'control' in Vietnamese law.

The words tutelage and control have often been used indifferently one for another; and the word control itself implies, in turn, different meanings when used in different contexts.

Tutelage, in Vietnamese Public Law, means checking with concomitant power of applying sanctions, e.g. approval of an act with the possibility of refusing to approve it;

appointment of Board members with the right to remove them. Tutelage, therefore, implies a prerogative of the Government, the relevant Ministers or their representatives. While control, on the other hand, means simply an act of supervision, which, carried out by the tutelary authorities or for their account, aims to prepare for a proper exercise of the tutelage itself. Thus, a public enterprise can be subject to different control measures such as an a priori control, a permanent control, or an a posteriori control

2.2. The technique tutelage :

The word 'technique' used here does not mean that the responsible Minister is in charge for all technical aspects of the enterprise. It means rather that he is responsible for those aspects connected with some sort of regulations in respect of which he has the duty to supervise, that is to say, in these aspects, there is no discrimination between public and private enterprises. Thus, the technique tutelage can be understood as a kind of activity supervision rather than a pure administrative control of one or many public enterprises.

The relationship between the enterprise and the relevant Minister therefore implies two different aspects. The first concerns the legal aspect due to the special activity of the concern. The second is of a public and political nature due to the non-profit making character of a public enterprise.

As has been mentioned above, it is the responsibility of the Minister to keep all enterprises in line with the regulations relating to their special field of activity, regardless of the owner's legal status. So, there is little

to say about first aspect, the juridical one; but it is worthwhile studying in some detail the second aspect because it affects more or less directly the working of public enterprises.

In South Vietnam, up to this stage, there is no law stipulating the limits of the power as well as the responsibility of the relevant Minister. In 1966, some responsibilities of the Minister of Finance and of the responsible Minister were prescribed in the decree-law 019-SLu. But all of these concern only matters of accounting and financial character. The relationship between the responsible Minister and the Board of Directors is therefore based upon some kind of convention or routine rather than upon any well defined legal text. Consequently, the influence of the Minister may be different from one public enterprise to another. It is also possible that some of his power may be delegated to the Board, but in general the following decisions need his approval or are decided jointly by him and the Minister of Finance :

- the annual budget and scheduled expenditure programmes.
- new investment programmes.
- balance sheets, profit and loss accounts, profit utilisation plans and clearances for Board members.
- directors emoluments.

The power of control over matters of a financial nature only represents part of the authority exercised by the Ministers and is what in administrative circles is called a 'tutelage over the actions'. Another part of the authority is the right to appoint and dismiss a Board member, an auditor or

or a Government commissioner; this is what is normally called the 'tutelage over personnel'.

In following up the activities of an enterprise, the responsible Minister is mainly assisted by a Government Commissioner, appointed by him, who will act as his own representative at the Board's meetings. There is no general regulation about the status and the functions of Government Commissioners. The appointment is a matter of convenience rather than required by law; because in many legal texts establishing State enterprises as well as joint-ownership enterprises, no provision was made for their presence, even though they were appointed by the tutelary ministry.

Normally a Government Commissioner is appointed to each joint-ownership enterprise, but sometimes one is appointed even for a wholly publicly-owned enterprise. His presence in the latter seems to be unnecessary, because the concern is already controlled by the Board members appointed by the Minister himself. This over-control can, however, be explained to some degree by the two following considerations : the first is the desire to avoid the situation of ' a state within the state ' created by excessive managerial autonomy; the second is to facilitate the exercise of the tutelage itself, because a Government Commissioner is often a high official in charge of the actual preparation of the decisions to be taken by the relevant Minister.



The Government Commissioner should be invited to attend Board meetings and general meetings. He acts as consultant, i.e. with no voting right, but is empowered to investigate on the spot and to check all documents. He will inform the responsible Minister of the current situation of the concern and will advise him whether any intervention is needed to re-align its operation.

In France, a Government Commissioner may, in some cases, have a much wider authority than his homologue in South Vietnam. For instance, at the French Railway Corporation (S.N.C.F.), he has the right to ask for the holding of a Board meeting or to put any issue on the agenda. In some other public corporations, he is even armed with a right of veto which will temporarily stay the execution of the Board's decisions.<sup>1/</sup>

### 2.3 The financial tutelage :

This type of tutelage aims to supplement certain insufficiencies of the technique tutelage. As its name implies, it mainly concerns matters of an economic or financial character. The financial tutelage is carried out by the Ministry of Finance and the need for it seems to be justified on the following grounds :

First of all, to realise the assigned objectives, public enterprises usually work in a very close relationship with the responsible Ministers. There is no law stipulating that public enterprises should be run directly by the Minister but in many cases in South Vietnam, the Minister is usually nominated as chairman of the Board of Directors. In such a

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<sup>1/</sup> Delion A.G., op.cit., page 74

case, public enterprises may be nothing other than mere operating organs carrying out the Minister's directives. Then, the relevant Minister will no longer be in a good position to judge objectively the result of 'his' enterprise's actions.

Secondly, the similarity in technical background between officials of the tutelary Ministry and those appointed to be directors or managers of the enterprise, causes them to have more or less similar views on many problems. Consequently, technical aspects may receive more attention than financial ones.

Thirdly, Board members and the general manager of a public enterprise are usually high officials of the tutelary Ministry. They are appointed by the responsible Minister to work permanently or for a fixed period in the enterprise. Their salaries are normally double or triple their previous ones. It is therefore very difficult for their colleagues or officials of lower rank at the tutelary Ministry to exercise the severe control required by regulations. This is understandable, since their colleagues or officials of lower rank either expect to be assigned to work at public enterprises some day to get a higher salary, or wish to keep good relations with the others when they return to the Ministry later on.

Besides its effect in offsetting these possible shortcomings of a technical tutelage, a financial control has also its own raison d'être : A public enterprise, according to Public Law, is a form of public property.

To mention a few of the implications, its working, the results of its operation and its liabilities to third parties are directly concerned with financial matters; that is to say, with the national budget. Therefore it is a legal responsibility of the Ministry of Finance to supervise it and to help it running in a healthy financial condition. Furthermore, the budgetary control exercised by the Ministry of Finance may be used as a safety brake to restrain any misuse of ministerial autonomy enjoyed by responsible Ministries. This measure of precaution has proved to be useful in countries where Ministers were members of different political parties or pressure groups.

Financial tutelage concerns mainly the annual budget, new investments and the regularity of operating accounts. In South Vietnam, this task is carried out by three different offices of the Ministry of Finance. One is under the General Direction of Budget and Foreign Aid, one is with the Direction of Financial Inspection, and the last is composed of financial controllers for public enterprises. In practice, it is the financial controller, rather than the other two offices, who reports and advises the Minister on most of the financial problems of a public enterprise. The responsibility and the authority of this agent over a joint-ownership company were stipulated in article 5 of decree 229-TC/KT of June 24, 1955. He enjoys almost the same right as his counterpart, the Government Commissioner appointed by the Ministry in charge of technique tutelage. A financial controller is also appointed to a wholly publicly-owned enterprise, but in this case

he does not enjoy so much authority as he would have in a joint-ownership company. His duty is only to check all the operating accounts, once or twice a year, to see if there is anything not in conformity with the financial regulations.

3. Parliamentary control :

The ultimate authority of the Parliament over public enterprises is generally recognized throughout the world; but how far Ministers should be answerable to Parliament, and to what subject the debate should be confined, are still unsettled matters in many countries.

In the United Kingdom, it has long been recognized that while Parliament has a right to discuss and determine matters of major policy concerning the nationalised industries, the day-to-day conduct of their business by the public corporations should be immune from parliamentary inquisition. The position was first adumbrated in the report of the Broadcasting Committee set up in 1925. Shortly after the BBC was established in 1927 the Postmaster-General stated in Parliament that he was responsible for questions of general policy, but not for questions of detail and particular points of the service.<sup>1/</sup>

In the United States, none of the limitations to which the British Parliament has subjected itself apply. Special and Standing Committees of Congress can conduct thorough investigations of the administration of enterprises. Some of these investigations have been exceptionally searching in character.<sup>2/</sup>

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1/ Robson, William A., op.cit., page 165

2/ Hanson, A.H., op.cit., page 389.

In France, parliamentary controls also appear to be more far-reaching than in Britain. According to the order 58-1100 of November 17, 1958, relative to the working of Parliament, special Control Committees could be set up to examine the financial, economic or technical management of public enterprises. The findings of the investigation, and its conclusions, should be reported to the Parliament. As for permanent control, the French Parliament has, among its six Standing Committees, the Committee in charge of Financial, Economic and Planning Affairs. Members of this committee are appointed, as stipulated in order 58-1374 issued on December 30, 1959, to follow up and to evaluate the management of State enterprises as well as of joint-ownership enterprises. Their reports are used mainly for the purpose of budgetary discussion, but naturally they can be used for any others such as for general debates and questions, for the proposal of new controlling measures or new laws.

This brief review of the situation prevailing in the United Kingdom, the U.S.A. and France shows clearly that there exist different kinds and degrees of control over public enterprise by the legislature. Their experience will certainly be of great help to developing countries but care must be taken in adopting the form and the spirit of control. As pointed out at the Rangoon Seminar in 1954, "within the ECAFE region parliamentary enquiries are much more likely to deal with the day-to-day operations of public enterprises...."<sup>1/</sup> This was reasserted at the Geneva Seminar

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<sup>1/</sup> Rangoon Seminar Report, op.cit., page 28

in 1966: "legislators are more interested in detail operations than in broad policies and results. And this is, indeed, a very familiar phenomenon to anyone who has observed the behaviour typical of parliamentarians in developing countries." 1/

These observations show clearly that it is quite dangerous to try to transfer political ways of life from a developed to an under-developed country without taking into account constitutional factors and the personal characteristics of the MPs of the concerned country.

In South Vietnam, up to the present time, public enterprises have all been created by decree-laws, i.e. solely by executive procedures. Being established in the absence of legislation as such, Vietnamese public enterprises have, during the past two decades, practically passed beyond the orbit of parliamentary control. Furthermore, the wartime conditions in Vietnam constitute another factor which has considerably reduced the power of the Parliament. The President has obtained full power to deal with matters of defence and economic development. Hence Parliament has in practice played a relatively passive role. Except at the review and approval of the annual budgetary programmes of the Executive, the legislative body may have no opportunity to examine the public enterprise problem.

In recent years, in an effort to normalise the situation as well as to enable Parliament to supervise

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1/ Geneva Seminar Report, op.cit., page 28

public enterprises effectively in the future, two special organs have been established. An audit agency, prescribed in the decree-law 019-SLu in 1966, was set up in September 1969. This organ was called 'The General Audit Office for Public Accounts'. Its main task is auditing, i.e. a verification of the accounting and financial transactions of the past year, to determine whether they depart from standard procedures; but it is also empowered to enforce a priori controls when it deems them necessary. The Auditor General sends his reports, together with his recommendations, to a special institution named 'the Inspectorate'. This organ was set up in October 1968. Its membership was given as eighteen, one third of whom were to be appointed by the legislature. One task of the Inspectorate, among others, is to scrutinize the reports prepared by the General Audit Office. The Inspectorate will take necessary disciplinary measures or sanctions against those who are responsible for any tort.

Each year, after studying the Auditor General's reports, the Inspectorate will form its own judgment on the execution of the previous year's budget. Its observations and recommendations will be forwarded to the Executive, the Supreme Court and the Legislature.

These two organs are not yet in a state of full operation, their staff members are still in training. Therefore, it is too early to assess their contribution - for good or for ill - to the control of public enterprises in general and to parliamentary control in particular. There are, however, strong reasons to believe that their presence will create a significant

impact on public enterprise sector. Their tasks are limited to financial matters and are essentially the verification of balance sheet items. But the ramifications of these items do extend into all aspects of the business and so many managerial decisions are based upon financial information. Therefore, their interpretations of financial performance do exercise a degree of control over the future operations of the business itself. In this sense, these two organs have a real, though still limited, management-control function.

4. How the controls work in practice :

In preceding sections, some of the theoretical background concerning the control concept in South Vietnam has been considered. It is now of interest to look more closely into the application of the control measures in practice. There are definitely two parties involved in the control process : those who exercise the power of control and those who are subjected to the control measures. The former consist of the responsible Ministers, the Government Commissioners and the Financial Controllers on the one hand, and the Parliament on the other. The latter are undoubtedly public enterprises themselves.

In South Vietnam there is up to now, as mentioned in section 2.2 above, no law stating explicitly the limits of the power and responsibility of the relevant Minister over a public enterprise. But implicitly the concept of ministerial control improvised after the French model 'tutelle technique et tutelle financière' has been adopted.



To exercise their power, French Ministers have the right to appoint Board Directors (to carry out Government policies) and Minister's representatives (such as Government Commissioners or Financial Controllers, to see if the policies and administrative procedures are executed properly). In this way there is in France a distinction between the overall supervision and the task execution, i.e. between the Minister's control power and the Board's autonomy. It is also only in this manner that a difference between the supervision power (pouvoir de tutelle) and the hierarchical power (pouvoir hiérarchique) can exist and be recognized.

In South Vietnam, almost all public enterprises have the relevant Minister as Chairman of the Board of Directors. Only a few affiliated companies formed by the Vietnam Credit Bank, a governmental banking institution, are exceptions to this. In some other developing countries such as in India and Burma the formula 'Minister-cum-Chairman' was also in use, but in these countries it appears that the role played by responsible Ministers has not been conceived in the same way as in Vietnam or in France. These countries have followed the practice of giving the relevant Ministers a general authority to 'supervise and direct' corporations and enterprises under their jurisdiction. This concept of broad ministerial control and authority has been rejected, at least in theory, in France. Therefore, it is obviously that in South Vietnam only the form of the French model was adopted, but not the spirit in which it had been used in France. This gives rise to many abnormal problems, from both theoretical and practical

points of view. On theoretical side, a consequence is confusion of the demarcation between control and execution. The Rangoon seminar, when discussing this method, put it as follows : 'if a Minister serves as Chairman, he may well be placed in the equivocal position of being made a party to actions which he will subsequently have to review in his supervisory capacity, or of dealing with fellow board members whose appointment and dismissal are within his authority. Furthermore, he will be subject to detailed questioning in Parliament concerning day-to-day operations of the enterprise'.<sup>1/</sup> This gospel truth needs no further comment.

From the practical point of view, this arrangement threatens to impair the effectiveness of management itself, for the two following reasons. In the first place, there is the quite ordinary problem of finding time. 'The necessity of attending numerous board meetings may impose an unduly onerous burden on Ministers who are likely to have far more important responsibilities.'<sup>2/</sup> Actually, in South Vietnam, it is found that the Minister of Economic Affairs is Chairman of at least ten enterprises. Indubitably he is not physically able to find the necessary time to give to their needs. Secondly, Ministers are not managers by profession. Thus,

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1/ Rangoon Seminar Report, op.cit., page 24

2/ ibid, page 24

they have had the natural tendency to assimilate a public enterprise as an 'extended arm' of a governmental department, then to direct it with standard government regulations and procedures. This attitude, due to the lack of the required professional knowledge, leads to serious trouble : confusion between the power of supervision and the power of hierarchy. This phenomenon has been confirmed by the Vietnamese Management Centre for Public Enterprises. Its 1970 report said 'There is a confusion between the tutelage power and the hierarchical power. On many occasions, an autonomous public organ has been operated directly by the relevant Minister simply as a regular governmental office under his jurisdiction.' <sup>1/</sup>

Management effectiveness lies in full understanding of the nature and significance of the management process, together with the soundness of the organisational framework and clear lines of responsibility. In the light of past experience, one may readily admit that such desiderata will hardly be achieved by the arrangement 'Minister-cum-Chairman'.

The presence of the Minister on the Board of Directors also confuses the concept of the role of ministerial representatives. The Government Commissioners and the Financial Controllers are, in theory, representatives of the responsible Ministers, i.e. they are designated to work in the absence of

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<sup>1/</sup> 1970 Management Centre Report, op.cit., page A.29 )

those who have appointed them. It is evident that their presence will become unnecessary once the relevant Minister is himself on the Board. To avoid this paradox, it is found that only a few Government Commissioners are appointed in practice; and if appointed, they act simply as special assistants of the responsible Ministers rather than performing the task of a real representative. On the contrary, each joint-ownership enterprise has, as required by law, a Financial Controller appointed by the Minister of Finance. But he can also do little in the presence of the Minister-cum-Chairman because he holds a much lower rank in hierarchy. So, psychologically he dares not oppose any measure taken by the Minister, even if the Minister is not his own boss and even he is endowed by law with a veto right. Besides the difficulties connected with the presence of the Minister and their low ranking, another, more serious, problem is the inadequate definition of responsibilities.

The responsibility of a Government Commissioner is usually defined in the legal text establishing the enterprise. It is not well defined, but at least understandable : e.g. 'to follow up the activities of the enterprise' and 'to report to his superior the results of the meeting as well as the decisions taken by the Board of Directors' or 'to discuss and propose appropriate measures'. In the absence of the Minister, a Government Commissioner can, in this way, play a useful part : as a reporter to his chief and as an adviser to the concern.

On the other hand, the responsibility of a Financial Controller is so loosely defined as to confuse everyone. His responsibility, as defined by the decree 229 TC/KT, is simply 'to attend general meetings and Board meetings' and 'to protest all decisions which injure the interests of the State'. No provision of the decree prescribes the real function of a Financial Controller, which undoubtedly consists of the two following main activities :

- to report to the Minister of Finance the actual state of the financial performance and management of the concern.

- to advise and to propose appropriate measures to the Minister as well as to the enterprise so that the benefit can be enjoyed by both parties.

The absence of a well-defined definition of responsibilities has been at the root of many troubles. A Financial Controller, who is unaware of his duties, has a tendency to behave either at the one extreme as a mere observer, or at the other extreme as a kind of financial inspector or auditor. As a matter of fact, his function is not simply that of an observer and his responsibility has nothing to do with the inspection of accounts or auditing work. He is empowered to see all documents on the spot, in order to check financial transactions, but this is designed to help him fulfil his representative duty and should not in any way be confused with the work of an inspector or an auditor.

The misunderstanding of the real function of the Financial Controller in Vietnamese public enterprises has

brought serious consequences, some of which are worth noting here :

- the inspector of the Direction of Financial Inspection thinks that it is unnecessary for him to check public enterprises.

- the internal auditor of the Ministry of Finance deems it superfluous to have a close look at the concern's accounting and transactions.

- the external auditor of joint-ownership enterprises judges it unimportant to be present at the annual general meeting.

All these fallacies stem from the lack of a clearly defined responsibility of a Financial Controller. He has indeed vaguely performed his role, so that everyone thinks he has adequately done his duty. Obviously, the unavoidable result is a vicious circle : the ambiguity in responsibilities leads to poor controlling; to improve results new controlling agencies are established ; the addition of new agencies makes the control functions overlap; the overlapping will undoubtedly lead to the confusion of responsibilities; and so the cycle starts again.

In France, the Financial Controller's responsibility was first prescribed in a decree promulgated on October 25, 1935 ; but later on, in 1944 an order changed his name to State Controller (Contrôleur d'Etat) and his responsibility was no longer confined to financial matters as before, but now encompassed also the control of economic activities. For those State Controllers appointed to be representatives in

State enterprises, their responsibilities have been stipulated in subsequent legal texts as 'to follow up the economic activity and the financial management of the enterprise' (May 1955) and 'to veto any decision which appears to harm the public interest, or is of a nature to modify considerably the costs and the resources of the enterprise, or violates financial regulations' (May 1953). To reinforce the role of State controllers, the French Minister of Financial and Economic Affairs was permitted to delegate his signature to them for approving on his behalf matters other than those concerning bank accounts and financial shares (May 1955).

The model of Financial Controller adopted in South Vietnam is the old French model of 1935. Significant changes, to enhance the role of a controller, have been made since then in France and some of the noteworthy modifications have been pointed out in the preceding paragraph. In the light of past experience, it is thought that a review is needed to clarify the duty and the function of a Vietnamese Financial Controller if one wishes him to perform his assigned task properly and beneficially.

Obviously, if the controls exercised by the Ministers and their representatives do not produce satisfactory results, it is absurd to expect that parliamentary control would be better; because the latter is indirect, by its very nature, i.e. a control exercised on another controlling agency. Once ministerial controls have been loosely exercised, Parliament would naturally not be in a favourable position to understand

properly the state and the achievements of public enterprises. For reasons already mentioned, the Vietnamese Parliament has in practice had little influence on the public enterprise sector in the last two decades. However, with the help of the two recently established institutions, namely the General Audit Office and the Inspectorate, it is hoped that Parliament will soon comprehend with sufficient insight its proper role in this new sphere of activity.

5. Some weaknesses and difficulties in the process of control :

In the foregoing sections, various aspects of the problem of control have been discussed, especially those aspects relating to the theoretical concept of control and the way it works in practice. Comments have also been made on some weaknesses, but it would be useful to add a few more specific comments on the cause of these weaknesses, as viewed from the standpoint of management.

(\*) The first comment called for relates to the purpose and nature of control.

The purpose of control is 'to compel events to conform to plans'.<sup>1/</sup> Thus it implies the measurement of performance and the correction of negative deviations, to assure the accomplishment of plans. Consequently, the nature of control consists of two distinct aspects : a static aspect reflecting the setting up of standards such as regulations and performance criteria; and a dynamic aspect which is the measurement of actual results against these standards and the correction of deviations.

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1/ B.E. Goetz, 'Management Planning and Control' (New York, 1949) p.229



Control activities in South Vietnam, as seen in the fore-going analysis, have been mainly limited to the controlling of expenses, the inspection of records and the enforcement of the respect for established regulations or agreements. Obviously these activities are of purely administrative character; alone they could not match the needs of managerial control. To disclose where failures have been (or are) occurring and who was (or is) responsible for them is of course as necessary in any control system, but to know what should be done to avoid similar mistakes and what measures should be taken to improve future performance are far more important, not to say vital, from the managerial point of view. The practice of the present control system in South Vietnam seems to neglect more or less totally the planning and forecasting character of a managerial control. This leads naturally to the assimilation of the control of a public enterprise to the control of a public administration body. Indubitably, a control of bureaucratic character would be unfitted to the working of an enterprise owing not only/its lack of flexibility, but also to its slowness in reporting deviations.

When the purpose and nature of control have not been well understood, it is not surprising to find out that the control seems to impair the enterprise's running rather to help it to rectify its course towards a better achievement.

The unawareness of managerial needs leads to a direct consequence : the complete lack of managerial performance criteria, or in other words the total absence of the control

of management quality. Controls used today in South Vietnam are of an indirect kind, i.e. grounded on administrative regulations and aimed at catching errors after the fact. The concept of direct control, -- based on the quality of Board Directors and aimed to prevent errors, seems to be given little or no attention by most responsible Ministers. Obviously, the best means of assuring that plans work out is to secure the best possible quality of managers. This cannot of course be achieved without the existence of standards against which managerial performance will be assessed. It was not unfamiliar to find in many developing countries the phenomenon that Managing Directors of public enterprises have spent more time in lobbying than in improving their management performance. Their posts seem to depend heavily upon their political skill rather than on their management ability. The peculiar result of this situation is a chain reaction where everyone on the lower level feels he needs some sort of political support rather than a professional knowledge, to insure the job.

This dramatic situation, if it happens, is also due partly to negligence in the process of selecting senior managers, on the part of the Government itself. In many instances, persons other than those carefully screened are appointed members of Board of Directors or managing heads. Inevitably, incompetent managers must seek political protection to be allowed to continue in office.

The absence of standards for management assessment and for the selection of senior personnel leads to another anomaly

which is the transformation of management work into a closely politically-dependent function. It is easy to find in many developing countries the phenomenon that managing heads were changed each time there was a change of responsible Ministers.

Therefore, in periods of political instability public enterprises may suffer the crisis in the same way as the Government itself. In South Vietnam, it is reported that in the period from 1964 to 1967 most of the important State enterprises had their Chairman or Managing Director changed at least once a year. Clearly, wherever this happens the morale and performance will be badly damaged, slackness and inefficiency will be unavoidable.

(\*\*) Since the effectiveness of a control system does not depend solely on the awareness of the purpose and nature of control but also on the suitability of the structure of the control system, i.e. on the adaptation of control devices to the organisational structure. So the actual structure does need some additional consideration.

Two remarkable weaknesses of the actual control system are the complexity of its structure and its failure to meet the true needs.

As has been pointed out, Vietnamese public enterprises are, in principle, subject to the control of several persons and organs.

For direct control :

- the responsible Minister
- the Government Commissioner
- the Financial Controller
- the Directorate of Budget and Foreign Aids
- the Directorate of Financial Inspection

For indirect control :

- the Central Inspection Office of the Prime  
Minister's Office
- the General Audit Office
- the Inspectorate
- the Parliamentarians

All these persons or organs have the legal right to carry out control activities over public enterprises to discharge their duties or to meet the needs of their own office. Unquestionably, if all of them are conscientious enough to accomplish their duty as it should be done, public enterprise will certainly lose most of its dynamism and the morale of those who manage it will be seriously undermined. It needs no argument that the system must be revised.

One of the basic principles of organisation structure is that the control responsibility should be exercised only by those who are responsible for the execution of plans. Accordingly, the actual complex system can be reformed to the following simpler one :

For direct control : - the responsible Minister  
- the Directorate of Budget  
- the General Audit Office

For indirect control : - the Parliament

This simplified pattern not only reduces the load on the enterprise, it also makes clear the allocation of responsibilities to each controlling organ and thereby improves the effectiveness of the whole system by relieving it of actual confusion in the lines of authority.

(\*\*\*) Up to this point, observation has been made of :

- the need for a sound understanding of the purpose and nature of managerial control.
- the need to set up a logical control system answerable to the concept of management control.

All this is pervaded by the human element and that, in the final analysis, is the key for any efficient management. It is, therefore, imperative that controls be exercised consciously by all those involved in the task of control. The lack of competent and duty-conscious personnel is one well-known difficulty, among others, encountered by developing countries. This gives rise to a very delicate problem which is doubtless the problem of properly employing this scarce human resource. A blunder usually committed by developing countries is to concentrate too much effort on planning and executing development plans, while devoting too little to assessing their achievements. In many instances, what the Government wants are prodigious inaugural ceremonies and what the pressure groups care for are to have their members run the enterprises. When these conditions have been satisfied, it seems that nobody really worries about the working of the enterprise. Even the

relevant Ministers, for various reasons already mentioned, are themselves not keen to make any drastic change to innovate the control system.

As Fayol so clearly recognized decades ago, 'control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything, things, people, actions.'<sup>1/</sup> Control is thus not an easy task at all, it needs really well-trained people to discharge the duty. The Controller either involving himself in direct controlling activities (on the ministerial side) or in indirect activities (on the parliamentary side) must be expected to understand the problems and facts of control from a management point of view. He must be equipped to interpret and to present essential management information for ministerial decision-making and parliamentary debates.

Undoubtedly, it takes time to select and train this type of personnel. Thus it is vital that the need for developing such a new skill should be recognised as early as possible by the Authorities since the quality of the Controllers can, after all, make or break the effectiveness of a whole control system.

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<sup>1/</sup> Henry Fayol, 'General and Industrial Management' (New York, 1949), p.107

6. Summary and conclusions:

There are three fundamental objectives to be attained in the control of public enterprises. One is to measure and to compare results, to see that the targets are adhered to. The second is to introduce corrective action with a minimum of delay once deviation is observed. The third is to search out possibilities for potential improvement.

No matter what form or structure it may take, an effective control system should be one which can ensure that these objectives are being pursued with reasonable degree of success.

As seen in the foregoing analysis, the actual control system in South Vietnam is undoubtedly far from achieving these ends. Various factors cause this failure, but the two most obvious ones are indubitably the over-complexity of the system, which makes the control unrealistic in practice, and the Controller's lack of managerial knowledge, which fades out the dynamic aspect of the controlling purpose.

The structure of the actual financial control system had been modelled on the old French system. It has been primarily designed for fraud detection in governmental administrative machineries, i.e. to catch errors, often after the fact. The system's lack of an instantaneous feedback, therefore, makes it unsuitable to the concept of management control unless a more proper role is given to the Financial Controller.

Theoretically speaking, the concept of technique tutelage and financial tutelage can be compared favourably with the concept of ministerial control in any other country, but the use of the 'Minister-cum-Chairman' pattern has made it lose most of its original value and real sense. It upsets the whole control process. Hence steps must be taken to rectify this state of affairs.

No one who is at all acquainted with the Vietnamese State enterprises can ignore a serious shortcoming of the actual control system, viz., the complete absence of control of management efficiency. There are no performance standards, neither is there assessment of managerial effectiveness. Controls aim solely to ensure regularity and honesty in the utilization of funds. The current control practice makes no difference whether it is an enterprise or an administration body. Consequently, the unduly restrictive financial controls and the lack of understanding of managerial needs not only undermine the morale of the managers, but also gravely hamper the initiative and freedom of action which are of particular importance for the working of an enterprise.

In order to serve its purpose, the existing control system in South Vietnam must be revised and the two following steps must be considered as urgent necessities. One is to establish a well-trained control unit. This cannot be done without a well-conceived and continuous training programme. The second is to rationalise the actual system to avoid the state of too much detailed control at too many levels. In this aspect, the experiences of European countries might be of great help in the development of conventions whereby



control is made overall and general rather than detailed and technical as at present.

It is worth concluding the chapter by drawing attention to the following piece of wisdom : the most direct form of control is to assure the quality of managers and the best method of control is to prevent errors rather than to catch them after the fact.

CHAPTER FOUR : THE ASSESSMENT OF PERFORMANCE

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1	.....	Factors influencing the appraisal
	1.1	The ends pursued by the enterprise
	1.2	The administrative and managerial mechanism
	1.3	The criteria of efficiency
	1.4	The competence of the appraiser
2	.....	Some major criteria used in the assessment of performance
	2.1	Commercial profitability
	2.2	Production efficiency
	2.3	Financial analysis
	2.4	National profitability
3	.....	The problem of performance assessment in developing countries
	3.1	Varieties of difficulties
	3.2	A suggested approach to efficiency and performance appraisal
4	.....	Conclusion

The problem of judging the performance of public enterprises has long proved to be a most baffling one. While it is easy to lay down a vague provision that a public enterprise should be operated efficiently and to the best advantage of national interest, it is difficult to formulate an objective test for assessing the accomplishment.

One frequently hears criticisms made about the inefficiency of public enterprises. How far do these criticisms have serious meaning? On what criteria are they based? And from what standpoint and by what procedure should one approach to judge the performance of a State-owned industry?

To answer these questions we shall examine in this chapter some of the most important aspects of the problem of performance assessment in public enterprises.

1. Factors influencing the appraisal of performance :

The measurement of performance is a matter of close concern of many governments, not only because it connects with the economical use of resources invested in the public sector but also because it directly affects the morale of those who have to take responsibility for the performance. Even in the sphere of private enterprise the appraisal of performance is not an easy task. That of public enterprise would unquestionably be much more difficult due to its special purpose and its administrative peculiarities.

There are a number of factors which might affect the appraisal of performance. The four most relevant and worthy of mentioning are : the ends pursued by the enterprise, the way it is administered, the criteria used for efficiency assessment and the competence of the appraiser.

1.1 The ends pursued by the enterprise :

The primary aim of performance assessment is to see if the concern has been conducted in a proper and efficient manner. Efficiency, in the private sector, is supposed to mean achieving the maximum output with the minimum input. In the case of public enterprise, it is doubtful that such a notion of efficiency can be readily accepted. The fact is that efficiency is not an entity, it must be related to the ends which the undertaking pursues. These ends might not only involve producing the desired output of goods or services, but also such non-material outputs as the welfare of the community. The assessment of performance is therefore a matter of intuition and deductive reasoning rather than a pure and simple quantitative measurement.

1.2 The administrative and managerial mechanism:

It is universally admitted that public enterprises should be administered so as to promote productive efficiency on the one hand and social or political purposes on the other. There are, however, three partners involved directly and indirectly in the administration of a public undertaking : the legislators, the Ministers and the managers. How far will each partner be responsible for its part in the achievement of an enterprise ? There is no simple answer because the responsibility depends largely upon the process of policy making. If most decisions rest with Parliament or the Government, the appraisal of managerial performance will be difficult and complicated.

### 1.3 The criteria of efficiency :

In the present state of knowledge it seems that there are no simple criteria of efficiency in public enterprises. There are obviously two points of view under which the effectiveness of management can be considered :

- (a) that of an outside controlling authority
- (b) that of the higher management of the enterprise.

Therefore, some of the criteria devised may happen to be commonly useful for both types, and some useful exclusively for one or the other only. In general, the criteria can be broadly divided into two categories :

- general indices which are based on a money measure and provide some over-all index of efficiency ; and
- particular indices which would indicate efficiency in regard to a particular part of the enterprise or the use of a particular input. <sup>1/</sup>

Although many aspects of a public enterprise can be measured statistically and the efficiency of the undertaking can in part be assessed by assembling a large number of these relevant measurements, it is however admitted that no single over-all measurement is available at the moment.

### 1.4 The competence of the appraiser :

The assessment of performance is a necessary thing but not an easy task. Its difficult and sophisticated procedures demand advanced skills on the part of the appraiser. Unfortunately, a well known characteristic of developing countries

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<sup>1/</sup> See New Delhi Seminar Report, op.cit., p.30.

is the extreme shortage of qualified personnel; 'the people who understand industrial administration ought not to be inspecting enterprises, they ought to be running them.'<sup>1/</sup> Thus, the lack of fully-trained auditors appears to be a cause of many failures in performance auditing; it should be given serious consideration if one wishes to avoid undesirable consequences.

2. Some major criteria used in the assessment of performance :

As mentioned earlier, the problem of performance assessment can be approached from two points of view and the applied criteria can be based either on money measure or physical improvements. The search for efficiency within the enterprise through cost reduction, reduced accident rates, productivity per worker, and so forth is mainly of interest to the management of the unit concerned. These indices, although quite valuable in their own context, do not however provide an over-all picture of the efficiency of the enterprise. The overall efficiency of a public enterprise must be conceived 'in terms of its ability to satisfy certain complex conditions'.<sup>2/</sup> In other words, this means that the criteria for performance assessment need to be formulated from a set of complex factors.

Following are some criteria widely adopted for the assessment of efficiency of public enterprise. Although

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<sup>1/</sup> Hanson A.H. op.cit., page 386

<sup>2/</sup> See the Herbert Committee Report, Cmd.9672/1958, HMSO, part II, Ch.2

they do not dispose of the problem finally, they do throw some light on it.

## 2.1 Commercial profitability :

This is a conventional and simple criterion; it is easy to calculate and understand. In the sphere of private business this criterion is almost the only one used by shareholders to judge the efficiency of the enterprise. It seems also important in public enterprises because public judgment is frequently based upon this measure of success. The information required does not go beyond statements of actual cost and revenue, and the standard of measurement is expressed as profit or loss. Comparability with private enterprise in the same system thereby appears to be possible.

Yet the application of this criterion has many deficiencies, for it reflects the impact of numerous factors which are not within the control of the enterprise. As profitability is the proportion of net profit to capital invested, it depends obviously upon (a) the method used for the valuation of capital and (b) the governmental price policy.

As regards the former, it is possible that the paid-up capital may have no exact relationship to the present actual value of the capital due to the price fluctuations. Furthermore, the provision for depreciation and the unproductive expenditures for social welfare may vary from one public enterprise to another. Such variations are bound to make the simple commercial profitability a misleading criterion.

On the other hand, it is also true that the profit made by an enterprise depends largely on the price policy

it pursues. 'Under a system of administered prices, or when other imperfections in the factor or product markets are present, its reliability as an indicator of performance may be highly questionable.'<sup>1/</sup>

It can be further argued that profit-making, in the last analysis, is not the main purpose of any form of public enterprise. Though there is no inherent objection to public enterprise making a surplus, the surplus must however be made in the context of over-all public policy, i.e. only when certain obligations are fulfilled could commercial return be used as a test of efficiency.

## 2.2 Production efficiency :

A useful, and perhaps also very powerful, instrument for checking the efficiency of the management is to assess its ability to economize the scarce factors of production. Alternatively, efforts to bring about cost reduction and to raise the productivity might serve as guides for judging managerial efficiency.

An important advantage of the cost analysis is the fact that it enables the enterprise to discover its hidden weak points - as certain ineffective activities may be lumped together with effective ones. If cost norms are laid down for each product, the managerial efficiency could be judged by the management's capability in keeping actual costs within these limits. Indubitably, the extent to which the cost criterion will be a useful measure will depend upon the care with which the norms are set up.

As regards the productivity, attempts should be made to raise the output ratio of such scarce factors as capital

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<sup>1/</sup> United Nations document no. ST/TAO/M/49, para.47, (New York, 1970)



and skilled labour. Therefore the success of the management in increasing the productivity per worker or per machine value could be used as a useful guide for the assessment purpose.

### 2.3 Financial analysis :

The shortcomings of the commercial profitability criterion mentioned above can be partly overcome by considering the present financial position of the enterprise. Financial ratio analysis, which relates balance sheet and income statement items to one another, permits the controlling authority to gauge the progress of the concern and to judge how it appears to others.

Besides profitability ratios, which measure management's over-all effectiveness as shown by the returns generated on sales and investment, three other additional types can be useful for the purpose of assessing the operational efficiency. These are :

- Liquidity ratios, which show the management's ability to meet its maturing short-term obligations.
- Leverage ratios, which measure the extent to which the enterprise has been financed by debt.
- Activity ratios, which reveal how effectively the firm is using its resources.

Thus, each type of analysis has a purpose and is very useful to both the management and the outside controlling authority to understand the enterprise's strengths and weaknesses. If financial norms or objectives have been set up, these indices could be used to judge the efficiency of management.

#### 2.4 National profitability :

Public enterprises can be considered in a broader perspective by judging their contribution to national income and the role they play in the process of national development. Therefore such aspects as the contribution in terms of value added to the GNP, the saving of foreign exchange, the promotion of exports, the achievement of regional development, and the impact on other sectors might be used as useful indications for assessing the performance of a public undertaking.

Obviously the concept of national profitability is an important and valid one, but there is still controversy over the relative weight to be given to each of the relevant aspects. Consequently one must use it with care, otherwise it can be easily adopted as an excuse for unsatisfactory performance.

#### 3. The problem of performance assessment in developing countries :

Factors affecting the assessment, and some major criteria of performance have been briefly reviewed in previous sections. We must now inquire how far the problem has been solved in developing countries and what relevance the western experience may have for them.

Different aspects of public enterprises have been studied in recent years, but it seems that the problem of performance assessment is the least known of all. Information on the formulation of criteria, the procedures of assessment, and the corrective measures adopted by developing countries

are in most cases not available at the present time. Even in recent U.N. seminars on public industrial management the problem has only been touched by some sweeping generalisations. A full consideration of the problem is therefore necessary and helpful.

### 3.1 Varieties of difficulties :

To understand the problem properly, it is important to consider first the difficulties encountered by developing countries in this connection. The numerous factors affecting the assessment in these countries can be grouped into three familiar and fundamental categories : those connected with the concept of good performance; those connected with the available data and those connected with the men concerned.

- (a) The concept of good performance : One often hears criticisms of the performance of a public enterprise. Most statements have however no serious meaning because they overlook the conceptual background of the enterprise. To judge the performance of a public undertaking, one needs therefore to be equipped not only with verifiable indicators, but also a clear understanding of the concept upon which criteria of performance have been based. Otherwise the statement will be of little value, or ill-intentioned.

Performance of an enterprise, as already mentioned, can be judged either on a quantitative basis or on a qualitative basis. Doubtless it is easier to judge the performance by measuring the enterprise's yields in terms of money or physical output than to assess

its achievement in discharging certain social obligations. In practice, however, no single criterion is sufficient due to the multi-purposes responsibility of a public enterprise. Thus, it is critical that a weight should be given to each criterion, because it is the only way to avoid unfair judgements and malevolent criticisms. As a result there might be no uniform set of criteria for all public enterprises; each concern's performance must be assessed or measured against norms set up for its own context.

At the present time it seems that the concept of performance control has not yet been properly developed in many developing countries. In some, the control bases simply on the commercial profitability as indicator. In others, more advanced criteria have been set up, but the assessment appears to be far from satisfactory due to the lack of suitably-qualified auditors.

(b) The availability of data:

For a long time management was taken to be an art and it still appears to be so in many developing countries. Managers in these countries have fulfilled their roles by personal knowledge and intuition rather than by scientific methods: the success of a public enterprise therefore depended entirely upon the inherent capacity of the person who was entrusted with the job. Furthermore, as no definite objectives have been laid down by the controlling authority for the management to pursue it was really difficult to assess the enterprise's accomplishment and the manager's skill.

A direct consequence of this phenomenon is the fact

that there is almost no control of managerial performance in most developing countries, and thereby no obligation to disclose information about the working of State enterprises. There are, of course, annual reports submitted to the Government each year, but the reporting about the organisation, operation and management are generally meagre. The actual tendency is to gloss over difficulties or to merely state problems without adequate explanations.

The lack of relevant information may stem from two following reasons: either it is due to the sheer ignorance of the management in regard to the what and how of reporting, or it is due to the reluctance of the chief executive of the enterprise to disclose more detailed and informative data to avoid public and Parliamentary criticisms. In any case, however, the lack of information does not only impede the assessment task, but also breeds suspicion and encourages rumours.

(c) The human factors :

As noted in an earlier section, shortage of trained people presents a developing country with one of its most difficult handicaps to overcome. The assessment of managerial performance has accordingly not been properly carried out in most developing countries. The reports, generally speaking, 'are of low quality'. <sup>1/</sup> The task of assessment tends to be a mere verification of balance sheet items or of the enforcement of administrative regulations rather than the judgement of the weaknesses and the achievements of the

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<sup>1/</sup> Hanson, A.H., op.cit., page 385.

management.

In addition to the lack of competence on the part of the appraisers, it is also worthwhile to note the lack of cooperation from the management side. To carry out the appraisal, the controllers sometimes need to have further explanations from the directors of the enterprise concerned. It is however reported that such collaboration is not always available. Some managers display a strong bias towards secrecy, on the ground that further disclosures will harm the interests of the enterprise. The managers' preference for secrecy is understandable : it is generally easier to cover errors or to defend themselves when the controlling authority is not fully informed. But it is also true that the tendency may be the result of over-control. Some managers alleged that they had to spend a considerable amount of their time answering the questions, and performance investigations were really an unmitigated nuisance. Mutual understanding, therefore, is a vital need; without it the assessment of performance may easily turn out to be a waste of time and effort.

### 3.2 A suggested approach to efficiency and performance appraisal

State participation in industrial activities is a new experience in developing countries. The shortage of capital, technical know-how and qualified personnel makes it one of the most difficult and challenging tasks in the process of economic development.

In many countries there is no central controlling authority to coordinate the activities or to judge the performance of public enterprises. The long-term objectives and general policies designed for an undertaking are normally laid down in the Act or decree which establishes the enterprise, but it is the duty of the relevant Ministry to assess the efficiency and achievements of the unit concerned. However, Government controllers are not experts in management, the control is usually a mere verification of financial and accounting items. Practically speaking, it appears that there is no assessment of managerial performance in the real sense in most developing countries.

To be sure that a public undertaking is working well, it is necessary to measure its performance and to correct negative deviations. A common weakness of developing countries is to pay too much attention to the planning and too little to the operation of the established project. Planning must precede control, but plans are not self-achieving. Achievements, therefore, must be assessed to determine whether they conform to planned targets.

There are several ways to approach the problem of assessment, - each uses a special set of measurement techniques and performance criteria. There is however only one guiding principle to proceed with if one wishes to discharge the task properly. The quality of a report on performance depends, as already discussed, upon a number of factors, namely the clarity of the enterprise's assigned objectives, the logic of the assessment criteria, and the availability

of qualified controllers and related data. In the light of experience it is found that the failure or low quality of performance appraisal in developing countries was mainly due to the shortcoming in understanding the close inter-relation of these factors. The appraisal has, in most cases, had only its form but not its intention. The remaining of this chapter will explore the relationship between these factors. The understanding is not only vital to the setting of an appropriate procedure for the assessment task, but also very useful to the improvement of the enterprise's efficiency.

(a) Target setting: No measurement of performance can be satisfactorily carried out in the absence of the enterprise's immediate targets. This condition still seems to be neglected by many developing countries. The actual practice is to compare the current results to the past achievements rather than to any present targets. This type of comparison tells little because most of the public enterprises are newly-established undertakings, their outputs have not yet attained the maximum capacity. Therefore, a production equal or better than the one of a previous year does not automatically imply that the concern has been conducted with an expected or better efficiency. On the contrary, if targets are fixed as a basis for achieving greater effectiveness, they can be used as a yardstick against which managerial performance can be easily and correctly assessed.

Target setting is important because clear and



realistic targets are not only in themselves an incentive, but also of great help to the management in identifying the factors which might impede the attainment of these objectives. There are different types of targets: some concern the output capacity, either in terms of money or physical units; others relate to social welfare or public interests. We propose to discuss here one type only, the one concerned with the financial performance of an enterprise.

Financial targets are receiving increasing attention in developing countries today because they touch directly the policy of public investment and the working of public enterprises. Broadly speaking, the setting of financial targets aims to achieve three things. Firstly, it aims to avoid the provision of 'cheap money' to public enterprises, for such a way of financing 'was regarded as incompatible with economic rationality and inimical to enterprise moral'.<sup>1/</sup> The second purpose is to ensure a certain degree of self-financing for the concern and thus to reduce the excessive dependence on the Treasury. Finally, it spells out in precise terms to the Boards what is expected of them by the Government and thereby to exert a tighter financial discipline on management. As public enterprises might be required to discharge different goals, the target setting for each industry must therefore be carried out in the light of its own circumstances

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<sup>1/</sup> Geneva Seminar Report, op. cit., para. 81, p.25

and capabilities.

In the United Kingdom the government decided to fix financial objectives for nationalised industries since 1961. The use of target setting as a tool of financial administration is, however, not yet popular in many developing countries. It seems unlikely that any serious attempt has been made to work out specific financial objectives for public enterprises. A reason for not specifying the targets was perhaps the 'infancy' of the public sector. Nevertheless, target setting has already been used in India since the 1960's. 'It was in the Third Plan (1961-66) that, for the first time, surpluses from public enterprises other than the Railways were clearly specified and included in as a separate category in the estimates of financial resources for the Plan.' <sup>1/</sup>

Financial targets may be expressed in different ways. For some, it is the progress towards an appropriate level of self-financing of their capital expenditure concurrently with the provision of suitable contributions to reserves. For others, it is in terms of a specified rate of return on capital employed. The following were some typical targets of the British nationalised industries: <sup>2/</sup>

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<sup>1/</sup> Bhalla G.S., 'Financial administration of nationalised industries in U.K. and India', (Meerut, 1968), p.301.

<sup>2/</sup> See 'A Review of economic and financial objectives', Cmnd 3437/1967, HMSO, table 1, p. 16.

<u>Industry</u>	<u>Objective</u>	<u>Period covered</u>
Post Office.....	8% net (before interest but after depreciation at historic cost.)	..... 1963-1968
National Coal Board ...	To break even (after interest and depreciation including £10 million a year to cover the difference between depreciation at historic cost and replacement cost.)	
B.O.A.C. ....	12½% net	..... 1966-1970
British Railways .....	Reducing deficit and breaking even as soon as possible.	.....
Gas Boards .....	Average 10.2% gross (before interest and depreciation, expressed as percentage of average net assets.)	1962-1967

Two interesting points can be drawn from these few examples. In the first place, targets need not be identical, i.e. they should be set up in the light of each industry's own circumstances and capabilities. Secondly, the target setting interprets in real terms what is meant by efficiency, as implied in the statutory Acts. It also points out clearly what is the minimum standard of financial performance expected over a period of years from each undertaking.

The setting of financial objectives for public enterprises consequently concerns a number of basic concepts, namely the notions about surplus, profitability and efficiency. These concepts also form the background for the setting up of criteria for performance judgment.

(b) The appropriateness of performance criteria:

Another weakness in the process of performance appraisal in developing countries is the lack of a coherent system of assessment criteria. This shortcoming is due partly to the confusion of the government policy towards the public sector, and

partly to the lack of clarity in the duties assigned to each enterprise. It is then up to the appraisers to use any set of criteria which appears to be the most appropriate. Unfortunately, experience shows rather clearly that the appropriateness has too often been misunderstood in this case as the need to criticize every weakness and shortcoming of the enterprise, while taking for granted any favourable achievement. The misunderstanding of the real intention of the assessment causes more harm to the concern than help in overcoming the difficulties. The purpose of the assessment is without doubt to understand both the strengths and weaknesses of the enterprise, in order to use the strengths to proper advantage and to correct the weaknesses in time.

Two steps must therefore be taken to avoid this situation. The first is, of course, to make clear the government policy. Does the Government pursue the same policy throughout the sector or does it adopt a special policy towards a certain type of industry? Does the Government consider State-owned enterprises as permanent tools to carry out its social and economic development plans or does it intend to transfer them to the private sector as soon as possible? Does the Government consider a public enterprise first and foremost as an economic unit, -- its products to be sold at cost-plus-profit -- or merely a non-profitmaking institution? Only

after having the answers to these questions can the appraisers have a basis to select appropriate criteria.

The second step is to clarify the enterprise's obligations. There are, of course, statutory duties set out in the Act establishing the concern; but the statutes in general prescribe only long-term objectives and usually give no guidance on what was meant by efficiency in economic terms. It is therefore necessary to make statutory provisions more specific and practicable. Consequently the second step consists in the main of communicating to all those concerned a clear picture of the short-term targets the management is expected to attain and the criteria by which the efficiency will be judged. Without such information the management will naturally run the undertaking according to its own sense of good working and administration. The performance judgment will then be extremely difficult, if not impossible, because no assessment can be made in the vagueness or total absence of targets and of reference norms.

The administration of the public sector in South Vietnam during the 1960's might well illustrate this state of confusion. The Management Centre for Public Enterprises has described the situation as follows : 'Frankly speaking, the national economic policies as well as the enterprise's obligations existed only on paper or at the moment of establishing the concern. Afterwards its working depends

almost solely on the policy of its responsible Ministry. There is no organ with sufficient power and means to coordinate the activities of the whole sector as well as to follow up and to report the achievements.....<sup>1/</sup> and 'The targets set up for public enterprises were not clear and not given in a continuous manner. Therefore, when a Board took measures reflecting the Government's political policy, the controlling authorities judged its performance by basing simply and purely on profitability criteria. On the other hand, when an undertaking got some profit and developed itself rather rapidly, the Board was criticized for not toeing the Government's policy line.'<sup>2/</sup> If it is agreed that performance assessment can have negative as well as positive motivational consequences, it will then be easy to understand why in most developing countries the appraisal led usually to discouragement and cynicism rather than motivating high-performance units to do even better and low-performance ones to improve. The appropriateness of the appraisal criteria has virtually played an important part in producing either good or undesirable consequences.

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1/ 'The 1970 Management Centre Report', op.cit., p.A30

2/ Ibid, para.e , p.A33

(c) Competent controllers and meaningful data :

The setting of targets and performance criteria lays a foundation for the task of assessment; it alone cannot, however, assure totally the quality of the appraisal. Much still depends undoubtedly on the value of the appraisers and the information afforded to them. The lack of competent personnel and the unavailability of good information, as have been discussed in section 3.1, are typical difficulties encountered by developing countries. It is now pertinent to see what could be done to cope with this situation.

The shortage of qualified personnel and the low quality of the enterprise's annual reports have been stressed, perhaps ad nauseam, by Western experts for years. Surprisingly, little has been done in most developing countries to overcome this obstacle. The excuse from the governmental side is rather simple : 'An effectively staffed organisation for checking the efficiency of public enterprises is a 'western' luxury which an under-developed country simply cannot afford -- not because it costs too much money, but because it represents a misapplication of scarce and valuable manpower.'<sup>1/</sup> The excuse

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<sup>1/</sup> Hanson, A.H., op.cit., p.387

from the management side is also not less realistic : only information that does not harm the enterprise's interest can be disclosed; moreover efficiency investigations are entirely a function of internal management and should not be performed by an outside body.

These two attitudes create a vacuum in the administration of public enterprises. They make the management loop, -- planning, organisation, staffing, direction and control -- incomplete due to the absence of the last function.

- (\*) - The first excuse proclaims the true situation in the early years of independence in developing countries. It is understandable and acceptable as a temporary shortcoming. But if the weakness becomes a characteristic of a nation after decades of independence, the Government must admit that something has gone wrong in its programme of personnel training. Most governments are well aware of the shortage of qualified personnel and have taken appropriate measures to cope with the situation. For the short run a familiar stop-gap measure is to employ foreign experts, for the long run the solution is to train personnel in a friendly developed country. The latter is worth exploring, for the two following reasons. In the first place, the solution is not self-achieving, i.e. it does not automatically yield the expected answer if not well planned. Secondly, if the programme is



not continuously executed, the result might cause an adverse effect which lowers the already low efficiency of the administration.

So far as the problem of controlling public enterprises in South Vietnam is concerned, the situation is deplorable. As already mentioned, there is no control of managerial performance, owing to the shortage of competent controllers. This is really an intolerable situation when one realizes that since 1956 the Government has sent abroad hundreds of students and civil servants each year to be trained in different branches. More than a decade later, when an inspectorate has been established, it has still not succeeded in recruiting the qualified controllers needed for its operation. The cause of this type of shortcoming is the complete lack of a distinction between the needs. Priority given to every type of study means priority for nothing and consequently solves nothing. It is useless, at least in the short run, for a developing country to have hundreds of students studying abroad in nuclear physics and other pure sciences while the urgent need is a few scores of well-trained managerial accountants and auditors. Surprisingly, no projection and no measures to cope with the short-term needs of qualified personnel have been clearly laid down in any of the previous Five Year Plans. Definitely, a more realistic programme for training personnel abroad is of paramount importance, because it is

the shortest and only way out of the dilemma.

Another shortcoming in the effort to eliminate the shortage in South Vietnam was the lack of continuity in carrying out the training programme. Apart from the absence of a pre-set programme of training in most ministries, it is also well known that the chance to realize such a programme, if any, is likewise slender. The political unrest and the amateurish behaviour of high administrators are among the causes. As there are no firm programmes and schedules to train needed personnel, even when a certain training project has got the chance to have its first phase implemented, it does not automatically follow that the remaining phases will be fulfilled as scheduled. If a new Minister or a new Director is not interested in the project, it may lose every chance of being accomplished.

To train a human being or to mould him to a new pattern is a long process. To have a consistent and clear long-term policy of personnel training is therefore still a matter of vital importance in South Vietnam, and perhaps in most other developing countries.

(\*\*) - The low quality of the annual reports of public enterprises is another weakness worthy of attention. As mentioned previously, the simplicity of the reports has caused much concern to the controlling authority. If a report had been presented more properly with sufficient details and explanations, it would have

saved much valuable time of both the appraisers and the enterprise. Of course, what constitutes provision of sufficient and adequate information defies any precise definition; at best one could expect that the report would provide not only a full account of financial operations, but also explanations of difficulties faced by the enterprise. It is also important that the report should not simply mention a perspective for the future, it must also correlate current achievements with those of the past. In brief, the annual report must be able to provide a clear picture of the enterprise's working and the management's policies.

At present, few reports meet with the requirements. No specific attempt has been made by the controlling authority to improve the situation. For joint-ownership companies and government companies, the information to be revealed in the reports is prescribed by the Companies Act. But for public enterprises established under other legal forms, the statutory provisions do not indicate clearly how extensive the disclosure will be. Normally, only some basic information is required to be contained in the annual report, viz. :

- 1/ Balance sheet (with sufficient details on current liabilities and current assets)
- 2/ Profit and loss accounts
- 3/ List of works accomplished during the year
- 4/ Proposed projects for future operations; and
- 5/ Administrative and managerial aspects of the undertaking during the accounting year.

Even with this minimum requirement, it appears that the implementation of the provisions is, in most cases, not very satisfactory. The reports are usually short and general. It is therefore very difficult to form a correct idea about the performance of an enterprise from these documents. A thorough study to see whether the reports contain the necessary information and that they comply with the statutory requirements needs to be carried out if one wishes to rectify the actual state of reporting. Otherwise, there is no chance of producing constructive criticisms and good recommendations.

To provide a correct, comprehensive and coherent picture of a public enterprise is not an easy exercise to perform, for it would call for the sincerity of the managers and a knowledge of reporting techniques. The present state of reporting has still a long way to go. Following are some suggestions for improvement, contrasting with the characteristics of the actual practice.

Present state of reporting	Suggestions for improvement
<p><u>Financial matters:</u> Results of the accounting year, and main factors affecting them, are given. Comparative figures are provided, but usually for the last year only. Changes in the capital structure are mentioned; information on loans is often missing.</p>	<p>As financial results alone are not a test of efficiency, more detailed explanations of profits or losses will be appreciated. Financial information and performance analysis over a period of years would be included to bring out long-term trends.</p>
<p><u>Production:</u> Annual outputs are given either in physical or financial terms...Very few enterprises state the bases of their target fixing. The reasons for the shortfall in production are usually not explained.</p> <p>Information relating to the cost of production, the utilisation of principal ingredients and the efficiency of production is generally not disclosed.</p>	<p>Production targets must be set up and should be mentioned in the annual report. Reasons for not achieving them should not be explained away summarily.</p> <p>Details of the utilisation of labour, materials and installed capacity should be given. Steps planned to reduce costs must be indicated in the report.</p>
<p><u>Personnel matters:</u> Staff strength and its category-wise distribution are generally disclosed, but no information on the Directors' and employee emoluments is provided. Factors affecting labour relations and efforts made to improve them are usually not reported. Welfare activities are sometimes stated.</p>	<p>Recruitment policies and training programmes should be clearly stated. Efforts to improve labour productivity and industrial relations should be reported.</p>

<p><u>Organisation and Management:</u></p> <p>Information about the names and affiliations of Board Members are given, but virtually no mention is made of their qualifications and number of their meetings in a year. The administrative organisation and the activities of various divisions of the enterprise are not disclosed. Managerial problems and the relationship with the Government are generally not disclosed.</p>	<p>Greater details of the membership and the working of the Board should be helpful in the study of administrative reform.</p> <p>Directives issues by the Government, the manner in which they were carried out and their effects on the working of the enterprise should be set out in the annual report.</p> <p>Otherwise the responsibility of the enterprise and its impending difficulties cannot be assessed properly.</p>
<p><u>Marketing:</u> Figures of current sales are reported, but there is no mention of sales targets and other aspects of the sales problem. Information relating to the pricing policy and the price trends is not disclosed.</p>	<p>Features of price fixing and reasons for price rises need to be indicated in the report.</p>
<p><u>Accounting and Auditing:</u> Business accounting is adopted, but no mention is made of costing and budgetary control systems. Audits tend to focus on the legality of expenditures rather than full and accurate disclosures of the financial condition. There is no independent audit of State-owned enterprises.</p>	<p>Results of each of the enterprise's main activities and reasons for a unit operating uneconomically should be disclosed.</p> <p>Analysis of the effectiveness of internal systems of financial control is needed. Audit conducted by independent auditors would be beneficial.</p>

<p><u>Miscellaneous items</u> : Reporting about research and development, and public relations is seldom provided.</p> <p>Statistical information and graphic presentation are generally not given.</p>	<p>The practice of issuing comprehensive annual reports should be instituted to provide a proper image of the enterprise's activities.</p>
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Main aspects and actual shortcomings of the annual reports, as given above, need further serious studies. Some thinking would be necessary to correct the concept of reporting. At present State-owned enterprises in South Vietnam do not issue reports for public use. Both the responsible Ministry and the management prefer, in most cases, to keep the enterprise's activities and performance as secret as possible. Consequently, public relations work is left to chance and is not considered as an important management function. Obviously, a new notion of accountability needs to be developed. Public accountability is, in the last analysis, not only an instrument of public control, but also a means to induce or enhance a sense of responsibility in the enterprise's managers. Annual reports, if carefully prepared, should throw light on the activities and policies of the public enterprises and exert at the same time a considerable effect on the behaviour of those who are called upon to give the accounting. This should indeed be beneficial to both the controlling authority and the enterprise.

### Conclusion

Some important aspects of the appraisal have just been discussed. The understanding of them is fundamental to control and to performance appraisal. It is now worth concluding the chapter by answering to the three questions posed at the beginning.

First, the question of criticism : 'How far do criticisms made about the inefficiency of public enterprises have serious meaning ?'

Criticism, by its very nature, is to point out the lapses and the shortcomings. However, to be fair and constructive, the critic ought to be as much appreciative of the enterprise's difficulties as he is critical of its failures. Hitherto most criticizers have not always been willing to do so. They prefer to make statements which are based on some sort of a priori reasoning and supported by any valuable criteria. They often overlook favourable achievements and take much interest in seizing on every weakness to discredit the management.<sup>1/</sup>

To ask for less malevolence means that those who criticize need to be well informed of the philosophy of public enterprise, its aims and its working. This can only be achieved when the Government and the management change their actual tendency of keeping secret all information about the enterprise's performance and managerial policies. Indeed, a large part of the criticism could be avoided if the people were adequately and accurately informed about the achievements, problems and policies of public enterprises.

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<sup>1/</sup> Professor Edwards and Mr. Townsend were presumably thinking of this when they protested that a public enterprise should not be required 'to operate in a glasshouse, subject to detailed day-to-day criticisms to which no private firm would be subject', because this conflicts with the pursuit of efficiency and economy. (See Business Enterprise. Its Growth and Organisation, p. 515; London, 1958).



The actual concept of public relations must be revised. The public relations department should not be considered as a mere service to receive and entertain visitors; it should cover a wider line of action and responsibility. Its duties should include a more difficult and important task : the maintenance of contact with the legislators, the Press and the general public. Only by maintaining and improving these relations can the management project a proper image which would command confidence and respect. To communicate information about the enterprise's activities, to interpret its policies and to explain the problems facing the management and efforts made to solve them is the only way to avoid the atmosphere of suspicion and hostility. This action will also help the appraiser to advance informed criticisms and constructive proposals, which should certainly be very helpful to the improvement of the enterprise's management itself.

Having sufficient and good information is only the first step in the process of performance appraisal. The second move, which is not less important, is how to formulate appropriate criteria from the available data, because the performance can be viewed from different standpoints. Major criteria which are commonly used in the private sector such as those relating to financial condition, commercial profitability and production efficiency can be applied to the public sector. Clearly these criteria can be readily adopted to judge the performance of those enterprises which will be transferred to the private sector rather than applied to undertakings which are considered as of national interest. To assess the performance of the latter, one must take into account the notion of

national profitability as well as all the factors which are relevant to the operation in itself. Undoubtedly it is always more difficult to form judgements about public enterprises than about private ones, for the administrative peculiarities of public enterprise make the assessment complicated.

At the present time an increasing number of governments, in both developed and developing countries, are giving particular attention to the question of economic performance. This tendency aims to ensure a more economic use of financial resource and a greater contribution by the enterprise towards its own capital requirements. To set up performance criteria in this context, one must study carefully the ends pursued by the enterprise under consideration. Since efficiency cannot be considered as an abstract entity, economy and efficiency need not be synonymous. In view of the monopolistic position in respect of goods or services, the annual surpluses of public enterprises tell the appraiser little about their efficiency. In some, satisfactory profits can mask inefficiency; while in others, a proper degree of efficiency may be achieved despite an absence of profits. Therefore, the crux of the problem is to find a correct answer to the question 'How accurately can the financial returns of a public undertaking reflect its performance?'. Obviously, no simple answer is possible unless detailed cost-benefit analyses are undertaken for the concern. This is a time-consuming task, but it is the only way to get reliable criteria for a serious appraisal.

The third critical point in the performance assessment is how to proceed with the task so that the controlling authority and the management can both benefit from it. The question to be answered

is then 'What is the best course of action to be taken to get a fair and correct judgement?'. A logical process, as discussed above, appears to consist of three main steps : the setting up of attainable targets, the formulation of appropriate criteria of efficiency and the appraisal of results. If properly carried out, this process will not only facilitate the task of the appraiser, but also improve the enterprise's managerial ability in many ways. As there is no basis for misunderstanding, the management knows clearly what it is expected to attain, how it will be judged, and thereby it can concentrate the effort to improve the performance of its weaker areas as well as to correct and avoid future deficiencies. On the other hand, the avoidance of vagueness and of subjective evaluations permits the controlling authority to approach the assessment on firm ground. It may be that neither the controllers nor the managers may like the results, but each is confident of their accuracy. Charges of arbitrariness, prejudice and unfriendliness will be reduced to a minimum and cease to be used as an excuse by both sides.

The importance of having a rational set of procedures to measure managerial performance has been realized recently in developing countries. This is an encouraging sign; but there is still a more serious difficulty to overcome, which is the scarcity of personnel with the requisite qualifications to interpret available information and to conduct the appraisal. Unless this problem can be solved to a certain satisfactory degree, there is no hope of having good judgments and constructive proposals. As Professor Hanson has put it 'Efficiency auditing is an excellent thing -- if you have the efficiency auditors.'<sup>1/</sup> the problem of personnel

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<sup>1/</sup> Hanson, A.H., op.cit., page 387

is therefore one of the most important limiting factors which impedes the measurement of performance in these countries.

To conclude this chapter, it is pertinent to note that appraising the performance of a public enterprise implies the evaluation of its management's strengths and weaknesses. Criticism of management is therefore a part of the assessment task. But to criticize must be distinct from trying to make managerial policy. The latter is the responsibility of the Board or the relevant Ministry, and not at all a duty of the auditors. The job of the auditors is simply to diagnose ills and prescribe possible remedies. Management alone has the responsibility of deciding whether and how to act on their recommendations. This principle needs to be clearly understood, otherwise the management's authority would inevitably be undermined; and that authority is one of the preconditions of efficiency and of the development of initiative.

CHAPTER FIVE : CONCLUSIONS

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Main problems confronting the public  
manufacturing sector:

- 1 ..... Organisation and management
- 2 ..... Development strategy and planning
- 3 ..... Professionalism and management
- 4 ..... Financial obligations and entrepreneurial  
responsibilities
- 5 ..... Control and assessment of performance

The use of public enterprise to lay essential foundations for economic development is no longer a subject of political controversy. Yet the limits of the public sector are still a matter of vigorous discussion. Plenty of good reasons have been advanced to support as well as to oppose the extension of public enterprises. Some people think that public enterprise, even with no coherent economic plan, can achieve something; while a plan without public enterprise is likely to remain on paper. Others, however, doubt the competence with which the government of a developing country, which is often inefficient and corrupt, copes with the entrepreneurial functions. The importance of the role played by the public sector therefore depends to a considerable extent on the skill with which the State discharges these functions.

In developing countries, as Professor Hanson put it, 'there is no difficulty in recognising the need for a particular public enterprise. The difficulty lies in establishing it, financing it, providing it with personnel, giving it a suitable organisational shape, ensuring that it attains the maximum possible efficiency, subjecting it to adequate -- but not excessive -- controls, etc.'<sup>1/</sup> During the course of the four previous chapters, mention has been made of some of these aspects as found in South Vietnam. No attempt has been made to describe fully all managerial problems and shortcomings in Vietnamese public enterprises, but only some salient aspects have been selected for the discussion.

We have critically examined the problems of legal form, control and performance assessment. The various criticisms made do not intend to discredit the present organisational patterns. On the contrary, the object has been to bring out certain weaknesses

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<sup>1/</sup> Hanson, A.H., op.cit., page 204

the understanding of which will be useful to the working and development of State enterprises. The study, in fact, reveals some fundamental factors which affect the achievements of public enterprises in this country.

Main problems confronting the public manufacturing sector :

The inadequate response of the private sector to the investing process obliges the Government to assume the entrepreneurial function. Upon the competence with which the Government discharges this function depends the whole economic future of the country. Hence there is an obvious need to identify factors impeding the working of State enterprises.

As has been discussed in the foregoing chapters, it seems that Vietnamese public enterprises have to solve five main problems, which are also commonly found in most developing countries. The first is to ensure a sound organisational arrangement. The second is to formulate an appropriate development strategy. Third, the principle of professionalising of management in public enterprise must be accepted and put into practice. Fourth, the financial and economic obligations of each public enterprise need to be clarified to make clear the management's responsibility towards the enterprise's financial performance. And finally, there is an urgent need to rationalize the control system and to assess the managerial ability.

1. Organisation and management :

Controversy about organisation has not been confined to the legal form. The roles and responsibilities of the supervising Minister, the Board of Directors, and the General Manager have been subjected to vigorous criticism.

a) So far as the nature of the laws is concerned, it seems that there is no hope of reconciling the two distinct concepts of public and private law. An appropriate way to

solve this dilemma is perhaps to accept the fact that the State and the private sector have the same responsibilities in some fields and that only one type of law should be devised and applied indiscriminately to both these sectors. This can be done either by changing the actual Companies Act or by promulgating a general statute for public enterprises.

As for the legal form, experience shows that it would be better left to be determined with reference to particular requirements of the case. The company form appears to suit those State enterprises which will be transferred to the private sector at a later date; while the form of autonomous public institution seems to fit in with concerns of national interest. Thus, there may be no standard form; each case should be determined in relation to its own needs. It is, however, worth remembering that while the juridical aspects of the organisation may be different, the need for a successful management remains unchanged: a necessary degree of freedom to exercise initiatives and to take risks. From the point of view of management, the legal form of a public enterprise is, in fact, not so important as the degree of autonomy the concern receives to fulfil the assigned duty. A good form in this sense is without doubt the one having a potentiality to create a favourable atmosphere for the operation and goal achievement of the enterprise.

b) The second line of extensive dispute is the roles and responsibilities of the supervising Minister, the governing board, and the General Manager. As has been discussed in Chapter 3, the formula 'Minister-cum-Chairman' gives rise to many abnormal problems.

The primary responsibility of the Minister is to



provide guidance and direction on national policies, to coordinate the enterprise activities with related ones within the Government, and to approve those enterprise actions which may involve significant issues. It is clear that the performance of these responsibilities does not necessarily require the Minister to serve as Chairman of the Board of Directors. His role, therefore, needs to be redefined to avoid the confusion between the concept of ministerial control and management.

It is implicit in the notion of public enterprise that there should be a board of some sort to run the affairs of the concern. The quality and composition of this body are crucial for the success of the whole enterprise.

There are usually two types of governing board : the functional board and the policy board. The functional board, composed entirely of full-time members, takes direct control of the affairs of the enterprise. In the policy board, which contains both part-time and full-time members, none of whom are responsible for specialised functions. The policy board determines the policy to be pursued, but it leaves its execution to senior managers. As presently practised, the governing boards of Vietnamese public enterprises, except those of joint-ownership enterprises, act as neither functional boards nor policy boards in the real sense. The Boards of Directors, in most cases, are little more than inter-ministerial committees composed of high ranking Government officials. As a rule, Board members do not have the management experience or time -- and even interest -- to discharge their duties effectively or to play any decisive role in establishing policies or reviewing the operations of the enterprise concerned.

The weakness is aggravated further by the rapid change in officials designated to serve the board and the accepted practice of sending delegates to Board meetings. The lack of professional knowledge, together with the amateurism of Board members, create a severe management vacuum in the running of Vietnamese public enterprises. Therefore, it is not surprising that the General Manager of each concern is left with almost a free hand to run the enterprise as he judges best. Under accepted practice, the General Manager is the servant, not the master, of the Board. In South Vietnam, the roles often appear to be reversed.

Obviously there is a critical need to rectify this situation. It is hoped that with the new organisational arrangement, which is with the Management Council for Public Enterprises at the top, these weaknesses ~~wild~~ be gradually eliminated. The system of management may then be simplified to a considerable extent.

The responsibilities of each level in the new structure might be shared as follows :

- (i) The Council will act as a policy board. Its main responsibility is to provide guidance and direction on national policies, and to approve those enterprise actions of national concern.
- (ii) The Management Centre, composed of experts of various disciplines, will assume the functional responsibilities. Its task is to provide technical advice to the Council and to exercise control over different aspects of the management. The Centre should be responsible for, among other things, the setting of annual targets for each public enterprise and the assessment of the enterprise's performance.

(iii) The General Manager of each enterprise is responsible for the day-to-day operations and should act within the basic policies established by the Management Centre. He will be held to account by the Centre for the results of operations.

Such a structure would change radically the method of running public enterprises in South Vietnam. There will be no more supervising Ministers and separate governing boards. The whole public sector will be run by a unified body. This system appears to have two substantial advantages. In the first place, the existence of a central authority with full powers will not only strengthen the line of command but also make easier the coordination of economic development plans. Secondly, in view of the shortage of specialist skills in the country, talent should be most economically used if located with the central authority. However, this pattern also has its drawbacks. If there is no clear allocation of duties, the creation of the Management Centre will inevitably lead to over-concentration. This is to go from one extreme to the other and would solve nothing, for over-concentration will eventually create new types of defects and weaknesses. Thus the future of Vietnamese public enterprises appears to depend more on a sound and clear allocation of powers and responsibilities between the three levels, viz., the Management Council, the Management Centre and the operating unit, than on any other single factor.

## 2. Development strategy and planning :

The second visible weakness in the running of the public manufacturing sector in South Vietnam is the lack of co-ordination. Investment projects have been planned and implemented in isolation, and in most cases without reference to any long range development strategy. The Government has engaged in different industrial activities ranging from the manufacturing of glass bottles, paper, cement,....to the production of agricultural machines. Some of these enterprises were set up by the Ministry of Economy or the Ministry of Finance, while others were promoted by the Credit Bank of Vietnam. It appears on the whole that they have been established on an opportunistic basis -- e.g. to use a casual foreign loan or foreign financial aid -- rather than following any clearly defined development plans.

The absence of a comprehensive development strategy has led to some noted disadvantages :

1. In the absence of strategy, there are no rules to guide the search for new investments. The Directorate of Planning has no guidelines to rank the priority of different development projects. As a result ministries are left with a free hand to seize any opportunity which is available to them to initiate new investments. The consequence is that resources might be allocated to projects which are unlikely to have a multiplying effect and contribute significantly to economic growth.
2. Without development strategy, the Government lacks a focus for its efforts, which is undoubtedly the attempt to encourage private investment as much as possible. The

continuation of keeping in the Government hands some enterprises which are not at all of strategic importance makes the private sector hesitate to invest in any reasonable risk project for fear of potential State competition. As no investment resolution is available to help the entrepreneurs to judge whether a particular opportunity is a rare one, they tend therefore to play safe by waiting for more attractive ones. Consequently the contribution of the private sector to the mobilising and investing process is inadequate, and the projected speed of economic development fails to be reached.

3. Without strategy criteria, the Government lacks tools for evaluating opportunities. Thus project decisions might easily be misled by the commercial attractiveness. There might also be a danger of premature commitment of resources. The An-hoa project is a typical example : its failure is due to the lack of an ability to anticipate real demands, potential costs and dangers.

To avoid the risk of making bad decisions as well as the lack of control over the allocation of scarce resources, the Government needs to take immediate steps to identify long-range development goals and to formulate a comprehensive development strategy. In this connection it is suggested that Government investment should be limited to those projects which are essential to the development of the national economy. The policy of 'filling the gap' needs to be revised, otherwise it will unwittingly discourage private investors rather than stimulate their participation.

3. Professionalism and management:

Broadly speaking, management in many State-owned enterprises is weak. This is partly due to the unsound organisational arrangement and partly due to the lack of managerial knowledge of the General Manager himself. In theory, the statutes establishing public enterprises always call for the observance of sound management principles and accounting practices, but it is acknowledged that operating practices rarely if ever accord with these standards.

To correct the situation two steps need to be taken. The first is to rationalise the structure, and the second is to practice the principle of professionalism. The problem of re-organising the structure has been already discussed. The interesting point to remember is that when a managerial system is not working well, it is commonly thought that defective organisation is the trouble. This is not always true, because the fault does not always come from the organisational deficiency but also from man. Thus, changing the structure without taking necessary measures to improve the quality of the managers will rarely produce expected results. Consequently, a well-conceived training programme is of vital need. The absence of a systematic training programme for top-level managers is perhaps the obvious weakest point in the conduct of public enterprises in South Vietnam. The deficiencies, whether they be the failure to maintain sound accounting practices or to conduct business operations efficiently, are in major degree attributable to the lack of management policy and insufficient emphasis on the need to develop managerial skill.

Obviously what is needed is to put into practice as early as possible the principle of professionalising of management in public enterprises; a principle which is universally accepted but practised very little. When professional competence is honoured in the selections for top management, there should be two virtual advantages : The first is to enhance the quality of management, that is to increase the chance to fulfil the assigned objectives; and the second is to lighten the burden of control due to the fact that qualified managers make less errors than pseudo-professionals.

The problem of meeting the growing demand of professional managers requires an urgent solution. In this connection it is suggested that the following steps should be taken:

1. Sending executives on training courses abroad to enable them to keep up-to-date with current management techniques.
2. Establishing a 'model enterprise' to be used as a training centre for junior managers.
3. Generous salaries should be paid to qualified people to keep them from the attractions of private industry. However, adequate differentials between management levels need to be maintained, so that appreciable material rewards can be used as a means of encouraging managers to improve their abilities.

As the quality and professional competence of managers is of vital importance to the working of public enterprise; it is preferable that the selection of personnel for top positions should not be made on political grounds. Admittedly, the appointments to important posts always have political significance, but that does not imply that they should

be mainly made on the criterion of political acceptability. Experience shows that when professional competence is outweighed by it, the enterprise usually fails to achieve the objectives. Therefore, the selections for top management should be made on ability, knowledge and experience of the candidate rather than on any other single factor.

A great advantage in the recruitment to top positions of professionals is the fact that only the competent have, and have the capacity to exercise, the necessary initiatives in conducting enterprises with resolution. From the managerial point of view this is fundamental, and is a key condition for successful operations.

4. Financial obligations and entrepreneurial responsibilities :

An important factor in the industrial development of developing countries is the accumulation of capital. Given that public enterprises utilise a large proportion of the national scarce resources, it is essential that they should be run efficiently and be able to raise new capital. This implies that the financial administration of public enterprises must be sound and therefore merits special attention.

So far as the public manufacturing sector is concerned, urgent considerations must be paid to the two following aspects: the financial purpose of public enterprise and the technique of financial management.

What financial purpose should a particular public enterprise pursue, and how much freedom of choice does it possess in determining its financial policy? The question needs to be answered clearly at the outset to avoid confusion



at a later stage. As mentioned in chapter 4, no financial obligations are stipulated in the statute establishing a public concern. No one, therefore, knows precisely what its financial aim is. The current practice is to leave it to be decided by the responsible Board of Directors. Obviously this practice makes a nonsense of the use of targets as a means of controlling the financial performance of the enterprise, because the target has not been set up objectively by the controlling authority. Furthermore, the lack of financial obligations also confuses the Board itself, for no guideline is available to assist the setting up of objectives.

The Government, therefore, needs to clarify the financial purpose of each public enterprise. This will bring out three major advantages. In the first place, the clarification makes the handling of financial matters easier, in the sense that the Board knows exactly what is expected of it by the Government. Second, financial objectives can be used in this context as an effective tool in controlling the enterprise's performance. And finally, the fulfilment of given objectives creates a favourable atmosphere for the disposal of the concern, should this be desired.

Indubitably the achievement of financial targets/largely depends on the ability with which the enterprise manages its financial matters. Generally speaking, the financial management in wholly publicly-owned enterprises is inadequate. The inadequacies stem from the lack of competence in top management rather than from the soundness of the accounting system. In theory, public enterprises are always required 'to adopt business

accounting which is in current use by private sector'. In practice, however, this has not been fulfilled in many cases. In some concerns the value of corporate assets is unknown; in others financial statements have not been prepared for two or three years. The consequence is that in these cases selling prices must be arbitrarily established and accounts maintained entirely on a cash basis. The situation needs to be rectified. It is thought that the following steps should be taken to upgrade the quality of financial management:

- developing accounting talent to install a sound accounting management. It is noteworthy that the current accounting system is not the cause of the trouble; the actual inadequacies stem, in fact, from the lack of a proper understanding and effective utilisation of the system.
- revising the subsidizing policy : subsidies should be granted only at the initial stage or when required to cover losses resulting from Government directives. The amount of subsidy should be determined by valid criteria, and not on arbitrary bargains as actually practised.
- reviewing the financial condition of each public enterprise : the review should focus on (1) analysing the actual capital structure; and (2) evaluating the total capital assets of the concern.

These few measures will provide a sound basis for the financial administration. A good financial management is of particular importance not only because it is one of the crucial elements that contribute to efficiency, but also because of its role in the raising of new funds for future development of the

enterprise. From the managerial point of view, self-sustenance is an objective but growth must be the long term goal of the enterprise, whether it is a public or a private one.

5. Control and assessment of performance :

Control is the evaluation of decisions after they have been implemented. The process normally involves four steps : (a) setting up the objectives against which the performance should be measured; (b) collecting information on actual performance; (c) comparing actual with predicted performance; and (d) taking corrective action where the match is poor.

Thus a management system is essentially made up of three sub-systems, viz., decision-making system, control system, and management-information system.

There are three questions to be answered as far as the problem of control is concerned. The first one is undoubtedly the question of authority : who will exercise the controlling power ? As has been discussed at length in chapter 3, it is agreed that the existing system of control in South Vietnam is too complex and ineffective. A simplification of the structure and the establishment of a well trained auditing unit is therefore an urgent necessity. The second question which is closely related to the simplification of structure is 'what to control?'. It depends, in fact, upon the answer to this question whether an appropriate system could be designed, i.e. it will serve the needs of both controllers and controlled. Conceptually speaking, a public manufacturing enterprise is an economic unit. The abolition of a pre-audit and the rationalization of the post-audit are obvious necessities. Governmental control should

shift the emphasis to control of over-all performance and management quality, rather than concentrate on detecting petty errors which are largely unavoidable in business organisations. The third question to be answered is 'how the control process should be carried out?' In view of the shortage of qualified auditors and the time necessary to assess the over-all performance of a public enterprise, it is thought that the assessment should be applied periodically rather than annually, and largely confined to enterprises which are experiencing difficulties with which they are failing to deal effectively. Such assessment should be intended to offer help as much as to exercise control. The actual practice of superficial controls at regular intervals needs to be revised.

The control of performance is usually redundant for a successful enterprise, but this does not imply automatically that it is free from reporting its activities to the controlling authority. One of the weakest points in the management of public enterprise in South Vietnam during the 1960s was the lack of feed-back information. Hardly any of the responsible Ministries can be said to know precisely the real condition of those enterprises under their control. The redesign of the management-information system is therefore one of the most vital requirements. Without good information, proper and effective control cannot be expected and rational decision-making is almost impossible. In this respect a greater emphasis should be placed on the quality of the annual reports and on the advantages afforded by modern techniques of data processing.

Although good information does not automatically yield good decisions, it does increase the chance to get a good one. Thus the availability of valuable information is a key factor in making fair judgements and wise decisions. From the standpoint of management, this is a necessary condition not only for the improvement of performance of the concern, but also for the co-ordination and integration between the activities of the whole public sector.

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The efficiency of a public enterprise is a function of several organisational, technical and human factors. To improve the efficiency one needs therefore to analyse this interrelationship and to understand various influences.

Some aspects of the problem of organisation and control of public manufacturing industries in South Vietnam have been selected for the discussion, in the belief that the understanding of their nature and effects will greatly help the improvement of performance, and lay a sound foundation for the operation of public enterprises.

It is worth concluding the essay by drawing attention to the fact that managerial functions are strongly interrelated. Consequently, they should not be designed, or re-organised, separately; for they act like a link : the strength of a management chain is that of its weakest functional link.

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