Survey methodology and sample profile

CHAPTER 2

1. A brief profile of Vietnam's corporate community

Before describing the methodological approach and sample profile in detail, this section first provides a brief profile of Vietnam's corporate sector. This is intended to provide some background context to the study's findings, and support the rationale behind the sampling method selected.

1.1 State-owned enterprises and equitization

The development of the corporate community in any country is an ongoing process. But this is particularly true in Vietnam, where an economic reform and business liberalization process, broadly underway since the mid-1980s, has caused a major change in the country's corporate sector profile. Once largely dominated by SOEs, since the mid-1990s, the corporate community has seen a burgeoning in the aggregate number and diversity of private firms. This has not only resulted from the equitization campaign, which has seen numerous former SOEs partially divested from state ownership, but also from the establishment of many private start-up ventures. A major milestone in this regard was the Enterprise Law of 1999, which significantly simplified the formal registration process for household enterprises and wholly new business entities. Since January 2000, when the Enterprise Law actually came into force, the number of new firm registrations has accelerated considerably.

As of 2003, Vietnam had around 4,800 SOEs; down from around 6,000 in the mid-1990s and around 12,000 or more in the mid-1980s. Official figures would lead us to believe that around 75% of existing SOEs are registering a profit. By no means are all SOEs large companies. Around 60% have equity valued at VND5bn or less. From 1992 through mid-2004, just over 1,400 SOEs had been equitized, with a further 800 or so either leased, sold, merged, changed in legal status, deemed bankrupt, or liquidated. In 2003, a revised State Enterprise Law aimed at clarifying the state's management of SOEs was passed, heralding the establishment of a state investment corporation to hold and represent the government's stakes in enterprises.

As of late 2002, SOEs accounted for less than 9% of total company registrations in Vietnam, compared with 4% for foreign-invested firms and 87% for domestic non-state firms. However, SOEs accounted for slightly over 63% of total corporate capital, compared to 15% for domestic non-state firms and 22% for foreign-invested firms. Their relative under-performance is reflected in the fact that SOEs only generated about 51% of Vietnam's total net turnover, compared with 30% of turnover emanating from domestic non-state firms and 19% from foreign-invested projects. At the end of 2002, the average number of employees in a central SOE was just over 700, and just under 250 for a provincial SOE. The average fixed assets per employee of a central SOE was reported to be VND173m, and VND72m for a provincial SOE. The average turnover per employee was VND328m for a central SOE, and VND180m for a provincial SOE.

1.2 The private sector

Private and limited liability companies make up the large majority (around 86%) of domestic non-state companies, as measured by company registrations; the remainder are collectives and joint stock companies. In terms of capital, limited liability firms lead, followed by joint stock firms. Given their relative youth, it is perhaps not surprising to find that most domestic private firms are small, by whatever yardstick one chooses to use. In late 2002, there was less than 125 firms with more than 1,000 employees; compared with around 30,000 (54% of all non-state firms) with less than 10 employees. Similarly, there was less than 90 non-state firms with capital resources of more than VND200bn, according to official figures; compared with over 48,000 firms (87% of all non-state firms) with VND5bn or less in capital resources. The average number of employees in a non-state enterprise was just 31 at the end of 2002, ranging from 258 in equitized firms to 62 in joint stock companies, 39 in limited liability companies, and a mere 14 in private firms. The average assets, per single employee, in non-state firms was VND43m (less than a quarter of that for central SOEs), ranging from VND69m in equitized firms to VND59m in joint stock companies, VND41m in limited liability companies, and VND35m in private firms. The average net turnover per employee was VND214m, ranging from VND271m for private firms to VND59m for joint stock companies.

2. Methodological approach

As mentioned earlier, to our knowledge, no empirical survey of corporate governance practices across Vietnam's domestic business community has previously been conducted. In this respect, this survey was an exploratory piece of research. However, we were able to draw upon the experience of similar studies conducted in other transitional economies, and the design of the questionnaire used in the interviews benefited greatly from lessons learnt in previous studies. Given the subject matter, and our desire to gain a broad overview of actual practices in companies, we felt that interviews lent themselves best to extracting useful information and insights.

2.1 Interview questionnaire

A lengthy questionnaire spanning the main elements of corporate governance was designed to ensure that the interviews were as consistent as possible across the full sample. However, given the relative diversity of firms interviewed, not all of the questions were relevant for every company in the sample. For example, some questions on shareholder rights were irrelevant for SOEs that are wholly-owned by the state and therefore subject to a different set of corporate governance laws, regulations and practices than private firms. Similarly, other questions regarding the direct relationship between enterprises and state agencies applied only to SOEs.

2.2 Survey sample

We deliberately sought to include large companies, as measured by size of assets, turnover, and the number of employees, in the survey sample. We did not seek to include firms that have the legal status of household enterprise, regardless of their size. In composing the sample, we also deliberately sought companies that were working in different business sectors from each other, so as to capture a broad picture and to avoid any bias that might stem from corporate governance practices in specific business sectors. (We did not include banks or finance firms in the sample, and included just one trading company.) As most of the companies surveyed are large, relative to most firms in Vietnam, we might expect their corporate governance practices to be more advanced than most, if only because of the need to better manage these larger entities.

2.3 Quantitative and qualitative data

Much of the next chapter contains simple frequency results which depict the proportion of firms in the sample that responded one way or another to a series of closed questions. These are supplemented, and given added color and depth, by some more qualitative results that principally stem from comments made by interviewees. With a sample size of only 85 firms, one could argue that the frequency results are not statistically significant and cannot accurately represent - or be extrapolated to portray - the entire corporate sector in Vietnam.[10] But as an exploratory piece of empirical research, we do believe that this survey provides an insightful, and initial, snapshot of corporate governance practices in Vietnam. As a result, the percentage frequencies cited are useful in getting a sense of broad trends and differences across the sample.

2.4 Interviewees and potential biases

In terms of the specific people interviewed at each of the 85 firms, 55% were general directors or managing directors of the company, 28% were chairs of the Board of Management, 15% were deputy directors, 11% were members of the Board of Management, and 5% were heads of the accounting or finance department. It should be noted that some interviewees held more than one senior position in the company, such as general director and chair of the Board of Management. Among the non-SOE sub-sample, 56% were general directors or managing directors, 15% were deputy directors, and 44% were chairs of the Board of Management. Within the SOE sub-sample, 55% of interviewees were general directors or managing directors, and 16% were deputy directors. It is recognized that there is likely to be some degree of bias in the views of specific individuals on their respective firms' corporate governance practices. However, despite seeking a more balanced and nuanced perspective, the survey team lacked the time and resources to interview multiple individuals in each firm.

Clearly, another area of potential bias stems from the kinds of questions we posed in the survey. Even though we assured interviewees that all responses would be aggregated, and no specific individuals or company names would be cited in this report, it is unlikely that interviewees would openly provide responses that, in effect, showed they were knowingly breaking laws and regulations pertaining to corporate governance. Apart from being cognizant of this potential bias, there was little we could do to control for it in the survey work.

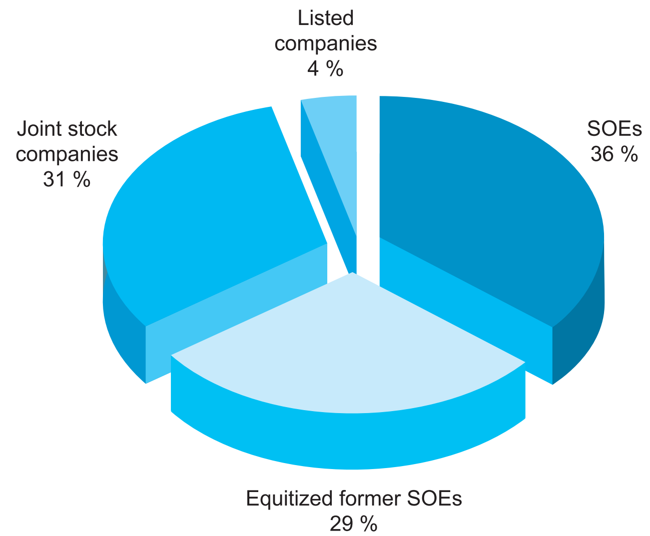
10 This is even more true for the sub-samples of SOEs (consisting of 31 enterprises) and non-SOEs (54 firms), with the latter comprising of: 25 equitized firms; 26 joint stock firms (unlisted); and three listed companies.

3. Profile of the 85 firms surveyed

3.1 Location and ownership status

Of the 85 firms surveyed, 59% were located in and around Hanoi, and 41% were located in and around Ho Chi Minh City. A broadly similar north-south division was apparent within both the SOE sub-sample, and the non-SOE sub-sample. Thirty-six percent of the companies interviewed were SOEs under total state ownership, while the remaining 64% of firms were non-SOEs. These non-SOEs spanned: i) 25 equitized former SOEs (including some where the state retains some ownership share) that are now joint stock entities; ii) 26 firms that had always been private joint stock companies; and iii) three companies currently listed on the fledgling Ho Chi Minh City stock market. Figure 1 below provides a detailed breakdown of the sample, by ownership status. Of the 31 enterprises in the SOE sub-sample, 25 were owned by central government and 6 were owned by provincial or municipal government. Within just the SOE sub-sample, 42% of enterprises were classified as Corporation 91 (or 91-corporation) and 13% were classified as Corporation 90 (or 90-corporation).[11]

Figure 1: Breakdown of sample by ownership status



11 In 1994, the Prime Minister issued Decisions 90/TTg and 91/TTg, creating general state-owned corporations that brought together previously separate SOEs in particular sectors - e.g. separate state-owned companies in the garment sector were brought under the umbrella of Vinatex (Vietnam Textile and Garment Corporation). Corporations established by these two Decisions are commonly referred to as "Corporation 90" or "Corporation 91."

3.2 Size (employees, equity, revenues, and profits)

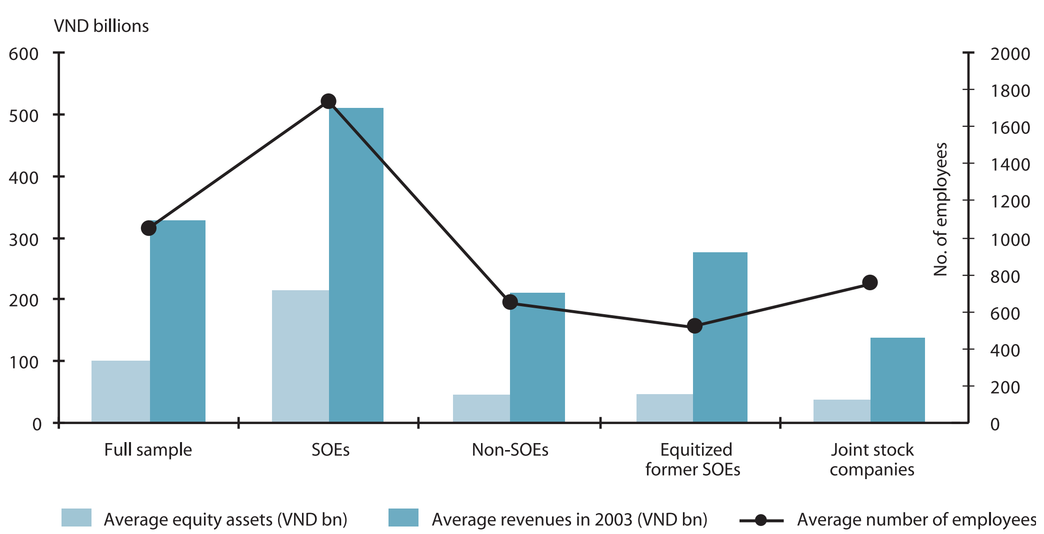
Across the whole sample, the average number of employees in each company surveyed was 1,055. When broken down by ownership status, the average number of employees was: i) 1,740 in the SOE sub-sample; ii) 647 in the non-SOE sub-sample; iii) 516 in the sub-sample of equitized firms; and iv) 752 in the sub-sample of joint stock firms.

The average size of equity assets (excluding loans) held by firms across the full sample was VND99.98bn (around US$6.4m), ranging from: i) VND215.67bn in the SOE sub-sample, to ii) VND44.45bn in the non-SOE sub-sample as a whole; and iii) VND35.34bn in the joint stock company sub-sample.

The average revenues (in 2003) for the full sample was VND328.22bn (around US$21m), ranging from i) VND510.43bn for the SOE sub-sample, to ii) VND210.79bn for the non-SOE sub-sample; and ii) VND136.29 for the sub-sample of joint stock firms. Just six of the 85 firms surveyed claimed to have made a loss in 2003, of which just one was an SOE, one was an equitized firm, and four were joint stock firms. The bulk of firms surveyed claimed to be profitable businesses.

Not surprisingly, most SOEs tended to be larger corporate entities than private firms, and even equitized former SOEs, whether measured by equity size, revenues or employee numbers (please see Figure 2 below). The reasons for this are principally: i) a legacy of the centrally-planned economic system, which resulted in the creation of large state-owned firms; ii) the relative youth of the private sector in Vietnam, which has yet to develop many large-scale firms; and iii) the bulk of equitizations to date, which have been partial divestments of smaller SOEs (very few large-scale SOEs have undergone partial privatization).

Figure 2: Average size of sample, by assets, revenues and number of employees



3.3 Business sectors and sources of finance

The kinds of business activity pursued by the 85 firms were diverse, with no single business sector accounting for more than 12% of the total sample. Firms in the construction or construction materials sector accounted for just under 12% of the surveyed companies, and mechanical engineering or metal processing firms accounting for just over 8%. Other business sectors represented in the sample included: garments and textiles; fuels, power and energy; food and food processing; and transport, among various others. Some of the larger companies in the survey sample were active in multiple business sectors. The two figures below shows the sampled firms' differing proportion of sales to overseas customers,[12] and their principal sources of financing.

Figure 3: Proportion of sales to overseas customers, by type of company

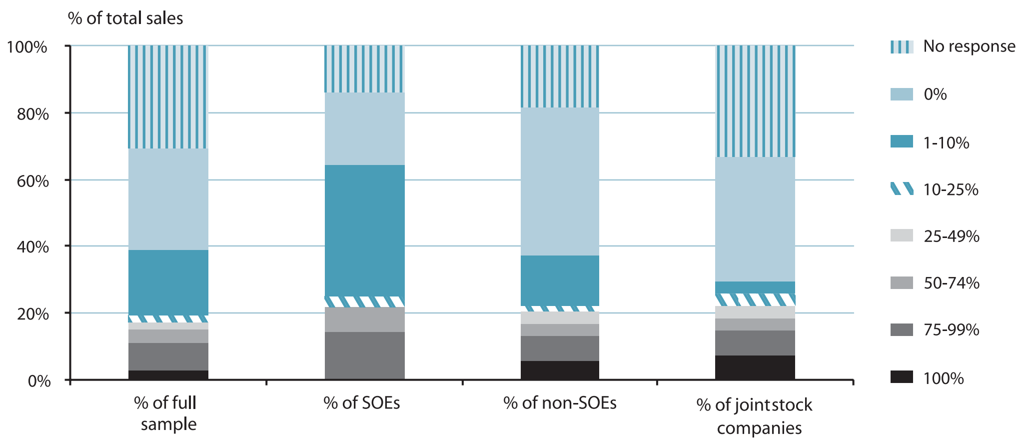
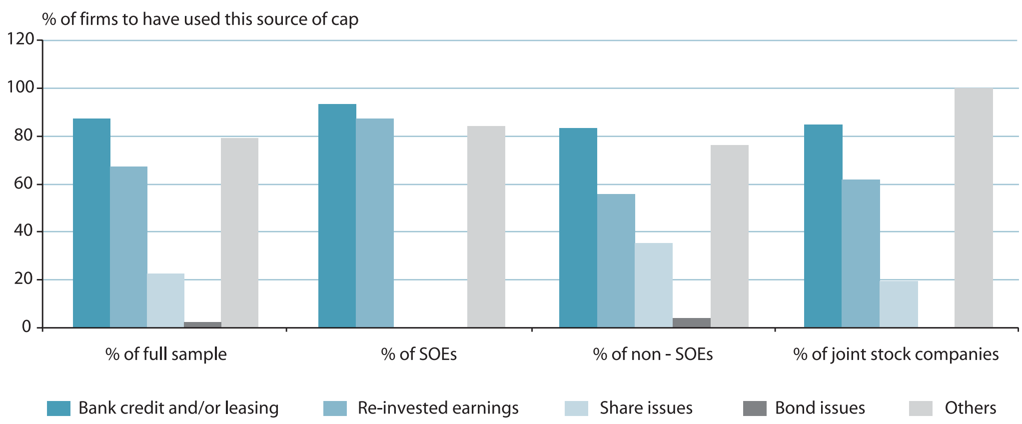


Figure 4: Sources of finance



12 This included both exports and sales to foreign firms with a permanent presence in Vietnam.

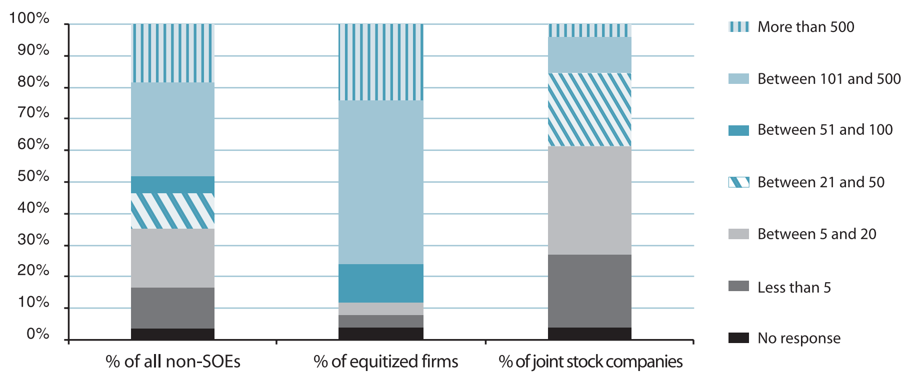
Corporate Governance in Vietnam

The beginning of a long journey

3.4 Diversity and number of shareholders

In the case of the 54 non-SOEs in the sample, there was a fairly wide number of shareholder profiles, as indicated in the figure below. Roughly 40% of firms surveyed had one or more subsidiary companies, and 60% had no subsidiaries. (This breakdown was also broadly consistent across the different ownership forms.)

Figure 5: Number of shareholders in surveyed firms



On average, equitized enterprises in our sample have more shareholders than joint stock firms. As shown in Figure 5, the majority of equitized enterprises have more than 100 shareholders, whereas most joint stock firms have no more than 20. This trend is not surprising, as equitization has placed a particular emphasis on share sales to employees at the time of partial divestment. As a result, many employees of equitized firms hold shares in their own company. Conversely, shares of joint stock firms, in many cases, are quite closely held by friends and family members. Six joint stock enterprises (i.e., roughly a quarter of all joint stock firms interviewed) have only three or four shareholders, and one joint stock firm had only one 'real' shareholder (see the case study below).

Profile: a joint stock company

Box 1: A one-man joint stock business

Company A is a joint stock company, operating in the highly competitive garment industry. It has nearly 1,000 employees, and equity capital of more than VND 20 billion. The director is also the sole owner of the firm. He established the firm in 2001 as a joint stock enterprise because he thought a joint stock firm, as compared to other legal forms of private firms, would have better opportunities to raise capital and expand. However, the 1999 Enterprise Law requires that a joint stock company must have at least two shareholders. He got around this by 'assigning' a small number of shares to two of his friends. Consequently, he does not perceive most of the legal requirements of a joint stock firm - such as an annual general meeting of shareholders, the establishment of an Inspection Committee, and even the charter - as relevant to his company.