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Strengthening Corporate Governance of Vietnamese SOEs: with reference to Chinese and Korean experience

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Abstract

State-owned enterprises (SOEs), particularly large corporations and economic groups, play a core role in the Vietnamese economy. Thus, their corporate governance is likely to exert a substantial impact on the efficiency and competitiveness of the whole economy. In this paper, we review the past reform efforts and current state of corporate governance at Vietnamese SOEs and identify key challenges they face. In doing so, we make a reference to the OECD Guidelines on Corporate Governance of SOEs, and make a comparison with the evolution of corporate governance at Chinese and Korean SOEs. We note that Vietnamese SOEs have a long way to go for improving their corporate governance. Line ministries are advised to phase out their role of exercising state ownership rights by dominating the SOE boards of directors. Separate accounting is needed for socio-politically motivated services provided by SOEs, which is a prerequisite for better evaluation of CEO performance and holding them more accountable. Recent push for better transparency and disclosure at SOEs should be kept on. And, high priority should be given to strengthening board independence and professionalism at both SOEs and equitized, exchange-listed enterprises.

Keywords: State-owned enterprises (SOEs), corporate governance, SOE equitization

Introduction

With continued efforts to restructure state-owned enterprises (SOEs) since the early 1990s, Vietnamese SOEs still contribute 26-28 percent to the country’s Gross Domestic Product (GDP) in 2018. They are comprised of 490 wholly state-owned enterprises including six state economic groups and 55 state general corporations (Hanoitimes, 2019). These figures are likely to underestimate the roles played by the state in industrial activities, as SOEs are currently defined as only those fully owned by the state. This definition is also misleading as long as the corporations with partial state ownership are actually run just like those wholly owned by the state.

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Equitisation means the conversion of an SOE into a joint stock company, an essential element of SOE restructuring in Vietnam. Even though the number of SOEs has substantially shrunken over the last 25 years or so, SOE equitisation has generally been slow and cautious in Vietnam. And, usually there was much delay until the equitized enterprises were listed on the stock exchange. In more recent years, efforts have been made to invite foreign strategic investors with a view to enhancing operational efficiencies of major state corporations. However, the results so far seem to have fallen short of expectation partly due to technical difficulties in evaluating the corporate assets and legal constraints on maximum foreign ownership. But, a more fundamental concern of potential foreign investors seems to be poor corporate governance of these enterprises: inadequate information disclosure, lack of transparency, and low confidence in honouring minority shareholder rights.

The establishment of the State Capital Investment Corporation (SCIC) in 2005 and the Commission for the Management of State Capital at Enterprises (CMSC) in 2018 was a move in the right direction for Vietnam, concentrating the exercise of state capital ownership rights under these specialised entities. It would help avoid conflicts of interests arising from the dual roles of the state as both regulator and owner, and professionalise state asset management for the maximisation of their values. However, ensuring good corporate governance at the group or corporation level must be a rather challenging task as evidenced by the bankruptcy of VINASHIN, a shipbuilding state economic group. It was the result of failure in corporate governance. The lesson we may draw from this experience is that corporate governance reform should be an integral part of the whole process of SOE restructuring.

In this paper, we try to provide some suggestions for the improvement of corporate governance of Vietnamese SOEs and equitized exchange-listed corporations. In doing so, we review corporate governance reform efforts and the current state of SOE governance in China and Korea. Vietnam and China share similarities in political ideology and system, the roles played by SOEs, and their importance in the whole economy. In transition from a centrally planned economy to a socialist market economy, the two countries have been going through similar processes in roughly the same directions. However, there might be some differences in the role of the Communist Party in the governance of SOEs and the degree the state expects SOEs to support its socio-political objectives and major policies. In Korea, without the legacy of a centrally planned economy and several rounds of major SOE privatisation since the late 1960s, the contribution of SOEs to the whole economy is much smaller than in Vietnam or China. Actually, the number of SOEs subject to the Act on the Management of Public Institutions remains at 36 in 2019. Korea is certainly not a model country for practicing good corporate governance neither for state-owned nor for private enterprises. However, the evolution of SOE governance in Korea may serve as a good reference for Vietnam, which envisages to reduce the number of SOEs substantially in the near future.

**Corporate Governance of Vietnamese SOEs**

The reform of Vietnamese SOEs, as a part of the “Doi moi” (Renovation), started in 1992. The reform has mainly focused on two tasks: SOEs equitisation and institutional reform.
Corporate governance reform in relation to SOE is currently one of the most important tasks in which the government aims to balance between the adequate and effective exercise of state ownership rights and managerial autonomy. Although a lot of efforts have been made in reforming the corporate governance of SOEs, the reform has not brought much success. For the enhanced efficiency and accountability of SOE management, it is critical to improve their internal corporate together with operational transparency and information disclosure.

**Brief Review of SOE Corporate Governance Reform**

In Vietnam, SOEs include relatively small independent SOEs and larger State-owned General Corporations (SGCs) established in strategically important sectors either under the Prime Minister or under other line ministries or provincial people's committees. Even larger and strategically important state business conglomerates are called State-owned Economic Groups (SEGs). Improving corporate governance of SOEs is a high priority given their important role in the economy. The Vietnamese government initiated SOE corporate governance reform by legislating the Law on SOEs in 1995. The reform efforts since the 1990s can be divided into the following three phases.

- **Phase 1 (1992-2004):** The Vietnamese government started the SOE equitisation program in 1992 with the aim of improving their governance and performance. And, the Law on SOEs of 1995 clearly specified the objectives of the Law, one of which was enhancing “state supervision over enterprises.” However, detailed guidelines on how to exercise the state ownership rights were missing in the Law resulting in poor Law enforcement in this regard (Nguyen Dinh Cung, 2008, p.13). The Law on SOEs 2003 stipulated a corporate governance framework more adequately and clearly. There, the state ownership rights were to be exercised by different state authorities including the Prime Minister, line ministries and the people’s committee. However, in this decentralised system, an effective mechanism for coordination among the state authorities was not specified in the Law. Additionally, the government established the Debt and Asset Trading Corporation (DATC) in 2003, whose main function was SOEs’ debt resolution and restructuring, thereby helping the government undertake the equitisation of SOEs.

- **Phase 2 (2005-2013):** The equitisation process accelerated after the promulgation of the Revised Enterprise Law, the Competition Law, and the Investment Law in 2005. Enterprise Law 2005 stipulates a clear and comprehensive corporate governance framework for all types of enterprises, which is similar to the corporate governance model adopted by most advanced countries. This Law made a significant contribution to improving corporate governance in Vietnam (Nguyen Dinh Cung, 2018). In 2005, the State Capital Investment Corporation (SCIC) was established to serve as the government’s strategic investor. Taking over state shareholdings and exercising the ownership rights in SOEs, it is also tasked to promote best corporate governance practices at SOEs in order to enhance the efficiency of state capital utilisation. In 2012, the government set out an overall plan for the restructuring of SGCs and SEGs detailing some commitments to improve their operational transparency. In the same year, the Ministry of Finance issued a Circular focused on regulating corporate management and governance of publicly listed companies.
Phase 3 (2014-Now): With the Law on Enterprises 2014, the definition of an SOE was changed. SOEs are now defined as those ‘100 percent owned by the state’, rather than ‘majority owned by the state’, as was the case previously. Thus, joint stock companies partly owned by the state are supposed to be treated equally with private companies. This also applies to rules and regulations on corporate governance. Also, in 2014, the Law No. 69/2014/QH13 (on the management and utilisation of state capital invested in the enterprise’s manufacturing and business activities) was enacted with a view to improving the transparency and accountability of SOE operation holding them to be more accountable for their performance and making the management of state capital investment more efficient. In 2018, Decree 131/2018/ND-CP (on the functions, tasks, authority and organisational structure of the Commission for the Management of State Capital at Enterprises, "CMSC") was issued. As a ministry-level state agency, the CMSC is mandated to improve the performance of the nation’s largest core SOEs through better corporate governance, thus enhancing the competitiveness of the economy.

Roles of the SCIC and the CMSC

The State Capital Investment Corporation (SCIC) has a key role in representing the state capital interests in enterprises. As an “effective state capital manager and investor”, the SCIC is tasked to improve the performance of SOEs through enterprise restructuring and better corporate internal control and governance (SCIC brochure; www.scic.vn). The SCIC appoints nominee directors to the board of enterprises it manages to protect state capital interests at the board meetings, although they are mostly incumbent directors rather than SCIC employees. The SCIC provides hands-on support to the SOEs they manage when they are in trouble, and even transitional supports to those newly equitized (Jica, 2015).

The CMSC was launched taking over the rights of state capital representatives held by different line ministries in the nation’s 19 core SOEs including the SCIC, SEGs and selected SGCs in strategic industries. This transfer was a significant move towards establishing a single central entity mandated to exercise state capital ownership rights, and separating this right from the state regulation/policy function. Acting as the state shareholder at these strategically most important SOEs, the CMSC is expected to promote and practice good corporate governance at these enterprises, thereby enhancing the competitiveness of the whole economy. One of its main tasks is to appoint, assess and remove the chairman and other members of the boards of directors and supervisors of the SOEs. As for the appointment or dismissal of the CEOs and senior managers, the CMSC approves the final decision on the basis of the suggestions made by the boards of directors or board chairmen of the SOEs.

Roles of the Party

As SOEs have been playing a “leading role” in creating a momentum for Vietnam's economic development, the Vietnamese Communist Party (VCP) has been expected to play a “leadership role” in SOE governance. At each SOE, one or more Party committees are instituted, and they are significantly controlled by the Party through the following mechanisms:
• All Party members are required to comply with the Party line, while most top executives and many other employees at SOEs are Party members.

• The Party committees within SOEs make decisions on major corporate matters before they go to the boards of directors for final determination. It ensures that SOE operation is consistent with the Party line.

• The Party Committees within SOEs formally approve the appointment, assessment, promotion and dismissal of top executives and board members. For core central SOEs, this role is played by the Party central committee (PCC).

• The Party also takes the responsibility of investigating and punishing SOE executives who are accused of wrongdoing or mismanagement.

Key Corporate Governance Practices

In Vietnam, the CMSC, SCIC, ministries and people’s committees share the role of representing the state capital invested in SOEs. And, the key internal corporate governance actors include CEO, board of directors, and the shareholders meeting. The roles of these representatives on three key corporate governance actors are mainly specified by the Decree 97/2015/NDCP.

Selection of CEOs and senior executives and their compensation

The CEOs and senior executives of the 18 SOEs under the supervision of the CMSC are appointed, assessed, promoted, and removed by the boards of directors or board chairmen of the SOEs on the basis of the CMSC’s approval. However, the CMSC is obliged to report these actions to the PCC and the Government for final decision. In the case of the SCIC, the CEO is directly appointed and removed by the Prime Minister in consultation with the Minister of Finance (MOF), Minister of Home Affairs (MoHA) and the CMSC. For SOEs under the SCIC’s management, the SCIC approves the selection of the CEOs on the basis of the proposals by the boards of directors. For other SOEs, selection of the CEOs is made by the boards of directors or board chairmen, but requires the official agreement of the supervising authorities: the line ministries or the local people’s committees.

CEO and senior executive compensation is a potentially effective means of encouraging them to act in the best interests of shareholder(s). According to Article 117 of the Law on Enterprises, their compensation is to be based on business performance measured by such indicators as pre-tax profit and economic value added. CEO salary is determined by the board of management (BOM), and the annual bonus is based on their triennial performance evaluation.

Board of Directors, Supervisory Board, and Board of Management: its composition and effectiveness

As is the case with private companies, the SOE board of directors is to take full responsibility for the company’s performance. As for SOEs under the supervision of the
CMSC, chairmen and other members of board are appointed, assessed and removed by the CMSC. In the case of the SCIC, the appointment or dismissal of the chairman is made by the Prime Minister, while this role is played by the MOF for other members. These actions are to be reported to the PCC and the Government for final decision. For other SOEs, the members of the board of directors including the chairman are appointed, assessed and removed by the supervising authorities: the SCIC, line ministries or the local people’s committees.

In addition to the board of directors, SOEs in the form of joint stock company were required to have a supervisory board. However, the revised Law on Enterprises 2014 allows them not to have the supervisory board. In this case, the board of directors is required to have at least 20% of the members as independent directors, and to institute an Audit Committee under it (IFC, 2015, p1).

Exchange-listed companies partially owned by the state are no longer defined as SOEs. They have both the board of management (BOM) and the supervisory board (SB). This unique structure of the board might be called ‘the unitary board with the supervisory board supplemented’. Whilst the BOM performs enterprise management at the strategic level, the SB performs the governing role. Members of both BOM and SB are appointed at the shareholders meeting (Minh Tam Bui Thi, 2018, p. 33-36).

The BOM consists of executive directors and independent/non-executive directors (at least 30 percent of the total BOM members), while the SB consists exclusively of non-executive members. However, the independence of the ‘independent or non-executive directors’ is rather loosely defined and interpreted compared with the standards of the Anglo-Saxon model. The two positions of the CEO and BOM chairman are prohibited to be performed by the same person from August 2020 by the revised Law on Enterprises 2014. The SB is to consist of 3-5 members chosen by the BOM and formally elected by the shareholders meeting unless otherwise stipulated by company’s charter. The SB is mandated to check and approve company’s financial reports and inspect the company books if requested by the shareholders. It is also tasked to supervise the BOM and senior managers.

Rights of minority shareholders

Balancing of interests between controlling and minority shareholders is a key challenge in corporate governance of listed SOEs. Basic rights of minority shareholders are stipulated in the Law on Enterprises. Vietnam is poorly evaluated compared with neighbouring countries in key shareholder rights and equitable treatment of shareholders. For example, requests to convene an extraordinary shareholders meeting and to place items on the agenda of a shareholders meeting each requires a minimum shareholding of 10 percent for at least 6 months—which is a high threshold by international standards. And, the minimum advance notice required to request a shareholders meeting is only 10 days. Disclosure of profiles of directors seeking election and policy on dealing with related party transactions are also viewed inadequate (OECD, 2017, and Asian Development Bank, 2016).

Transparency and disclosure
Transparency and disclosure has been known to be notoriously weak at Vietnamese SOEs. That is considered one of the major reasons why foreign investors, particularly potential strategic investors, have not shown keen interest in the recent SOE equitisation drive. Disclosure requirements imposed by different authorities have often been overlapping and unsystematic. And, disclosed information was generally of poor quality, except for some large SOEs, being outdated, ambiguous, contradictory, inaccurate and unsubstantial (WB, 2014, pp. 22 & 31).

However, with the Decree 81/2015/NĐ-CP on information disclosure of SOEs, there seems to be a noticeable progress. The required information is to be disclosed on the websites of the SOE and the agency representing its state ownership. The Ministry of Planning and Investment (MPI) is mandated to centralise the information from all SOEs and discloses it on its Business Portal, www.business.gov.vn. The Decree also stipulates various disciplinary actions such as warning for those neglecting this duty of information disclosure. According to an MPI report, 383 SOEs disclosed the required information on the MPI Business Portal by the end of 2018. This number of SOEs accounts for 71.6 percent of the total, which represents a significant increase from 38 percent at the end of 2016. However, on average, the SOEs disclosed only about five items of information out of the total nine items required to disclose (VNExpress, 2019).

**Corporate Governance of Chinese SOEs**

Probably the most prominent feature of Chinese SOEs’ governance is the substantial role played by the Chinese Communist Party (CCP). The Party largely controls personnel appointments in large SOEs and is broadening its participation in the SOE decision-making process. However, the role of the Party in the governance of SOEs seems to be played without seriously colliding with the more formal rules on the corporate governance of SOEs. Obviously, this coexistence of the two separate structures is possible as the representatives in the two structures are substantially overlapped with each other. With the broader and leading roles called in recent years for the Party units at SOES, there is a concern that the formal corporate governance structure such as the corporate board of directors would become increasingly marginalised (Wang, 2014, p. 648).

**Brief Review of SOE Corporate Governance Reforms**

It was towards the end of the 1990s that the Chinese government officially recognised the importance of corporate governance as an essential part of SOE reform. In 2001, the Chinese Securities Regulatory Commission (CSRC) mandated all exchange-listed companies to have two or more independent directors constituting at least one third of the total board members. This was followed by the CSRC issuing a “Code of Corporate Governance for Listed Companies.” With the creation of the State-owned Assets Supervision and Administration Commission (SASAC) in 2003, boards of directors were newly established in many central SOEs’ group (holding) companies. However, these efforts have largely been stalled since 2009 as the powers of the SASAC and Party committee within an SOE undermined the effectiveness of the board. Until that time, power exercise of Party representatives had mainly been focused on personnel and political affairs and internal supervision and anti-corruption issues (Rosen, Leutert, &
Guo, 2018, pp.19-21). In 2017, the SASAC ordered SOEs to revise their articles of association and the CCP Constitution was also revised, to incorporate the leadership role of Party committees in corporate governance.

Roles of the Party and the SASAC

Each SOE has one or more Party committees, and SOEs are substantially controlled by the CCP through the following mechanisms: (Wang, 2014, p. 652)

- All Party members are required to comply with the Party line (while most top executives and many other employees at SOEs are Party members)

- Party committees within SOEs make important decisions to ensure the company's operation is consistent with the Party line; and

- The Party decides the appointment and promotion of the top executives of (core central) SOEs; SOE executives accused of wrongdoing are investigated by the CCP and punished under Party discipline.

With the recent institutionalisation of the Party’s “leadership role” in SOE governance under the Xi Administration, Party committees are formally discussing “major decisions” before they go to boards of directors for final decision. The Party leaders seem to believe that more expansive involvement of the Party committee will result in improvement, rather than deterioration, of SOE performance and valuation thanks to better supervision and accountability.

The SASAC has the mission of administering the central government’s portfolio of industrial SOEs. Acting as the state shareholder in central industrial SOEs, the SASAC:

- supervises these enterprises, evaluates their management performance and determines executive compensation,

- appoints/removes the CEOs and senior executives of wholly state-owned enterprises as well as the chairman and other members of the board and supervisors, and

- proposes candidates for directors and supervisors to the general shareholders meeting of a company in which the State has partial interest.

These legal rights of the SASAC are actually exercised subject to tight control by the Party, practically letting the SASAC perform its functions on behalf of the Party (Wang, 2014, pp. 653-654).

Key Corporate Governance Practices

SOEs in China consist of about 100 central SOEs and numerous local SOEs. A large-scale SOE is composed of a group (holding) company and many subsidiaries. Group company is typically wholly owned by SASAC (or a local SASAC) or government body, and holds controlling shares in listed subsidiaries. As is the case for private companies, SOEs have
three key corporate governance actors: the CEO, board of directors, and shareholders meeting.

**CEO selection and compensation**

Senior SOE executives, though mostly spent their careers in SOEs, are typically also government officials. That’s why they are likely to be more sensitive to state policies than devoting themselves to maximizing corporate profits and shareholder value. It is widely viewed that senior executives of exchange-listed SOEs tend to regard their positions as a stepping stone to a higher position in their political or administrative careers (Rosen, et al., 2018, pp. 31-32).

- At the group (holding) company level, CEOs (together with board chairmen and Party secretaries) are directly appointed, assessed, promoted, and removed by the Party and the government authorities.

- Top leaders of core central SOEs (subsidiaries) are appointed by the Central Organisation Department of the Party in consultation with higher Party authorities.

- Heads of non-core central SOEs (subsidiaries) and local SOEs are appointed by the SASAC and local governments, respectively.

Executive compensation, by motivating them to act in the best interest of shareholders, can serve as a corporate government device. Compensation for the cheap executives of Chinese SOEs consists of base salary and performance-based annual bonus. The annual bonus is based on the annual and triennial performance reviews. The performance is measured by pre-tax profit, economic value added (EVA; net profit less the enterprise’s total cost of capital), and other indicators. Stock options, which may be a powerful incentive for the CEOs to align their interest with that of shareholders, are not allowed for SOE executives (Lin, 2019).

**Board of directors: its composition and effectiveness**

Board chairman at the group (holding) company level typically also serves as Party secretary, and frequently serves as the chairman of the SOE’s main subsidiaries. Other board members are significantly represented by the Party committee. On paper, all directors are supposed to be selected at the general shareholders meeting. But, the realities are different (Rosen et al., 2018, pp. 28-30).

At the group (holding) company level, the SASAC selects the executive directors and external directors (representing the interests of the state). As they are mostly Party members, they share a common duty to represent the interests of the Party. For exchange-listed subsidiaries of SOEs, executive directors are usually pre-determined by

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62 The base salary, common for all the CEOs of the central SOEs under SASAC’s supervision, is fixed at twice the previous year’s average wage of all the workers, while the annual bonus is capped at eight times the average wage of all SOE workers (Song, 2017, endnote 2).
the Party, and the SASAC-proposed independent directors (who are to constitute at least a third of the total board membership) are rarely viewed as independent.

Boards of directors at Chinese SOEs are not fully performing their functions as specified in the law. This is largely because the board’s role is undermined by the SASAC and the Party’s Central Organisation Department, which exert their critical influence on such corporate issues as personnel selection, performance evaluation, and compensation. Setting the agendas of a board meeting by the Party committee and its discussion on major corporate affairs before they go to the board are also substantially weakening the roles of the board at Chinese SOEs.

There were welcome initiatives in 2017 towards enhancing the role of the board in SOE corporate governance. One was the SASAC relinquishing its function of performance evaluation of SOE management and determining their compensation to the board of directors. This was tried on an experimental basis at several central SOEs or their subsidiaries. Another was mandating all central SOEs which had not gone through a corporatisation process to corporatize by the end of 2017. It means these still numerous central SOEs have to put in place a board of directors, which is expected to give a positive impact on SOE performance (Song, 2017, p. 8).

Rights of minority shareholders

Key challenge in corporate governance of listed SOEs is how to effectively protect the interests of minority shareholders from abuses by the state owner or senior executives. It is argued that “many elements of rights for minority shareholders in China may be virtually impossible to exercise” (Osburn, 2018). The general shareholders meeting is usually not effective in protecting the interests of minority shareholders. It simply serves as a mechanism for the controlling owner (the state) to have its agendas formally approved (Allen, J., & Li, R., 2018, p. 98).

Mixed Ownership Reform under the Xi Administration

Another SOE policy the Xi administration is strongly promoting is the Mixed Ownership Reform. It aims at attracting private sector capital and efficiency into SOEs (often granting employees stock ownership as well). Though it is actually nothing new, this time, the reform is more formally pushed with strong political backing. How enthusiastically the private sector would respond to this state initiative will very much depend on the degree of confidence they have in their interests being adequately protected. Thus, enhancing corporate governance at the mixed-owned enterprises would be critical to the success of this initiative (Rosen et al., 2018, pp. 25-26). Since 2016, a total of 50 SOEs in three batches have gone through the pilot mixed-ownership reform with reportedly significant improvement in their business performance. In 2019,

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63 Actually, Chinese SOEs have a dual board system with a supervisory committee/board. As a part of SOE internal governance structure, the committee/board exercises independent supervisory power over the board of directors and executive officers. However, its role has largely been focused on preventing fraud without much contribution to enhancing SOE corporate governance. (Wang, 2014, p. 650, and Song, 2017, endnote 1).
it was reported that the fourth batch of SOEs to undergo the ownership reform would be as many as 160 SOEs (Xinhua Net, 2019).

Corporate Governance of SOEs in Korea

The current corporate governance system for SOEs in Korea is based on the Act on the Management of Public Institutions (AMPI) which went into effect in April 2007. The line ministries are allowed to intervene in the management of SOEs only on limited issues mainly related to its industrial policy functions. The ownership functions are mainly exercised by the Ministry of Strategy and Finance (MOSF) through the newly established Ownership Steering Committee (OSC). The AMPI also includes public disclosure of management information and the performance evaluation of SOEs as essential elements of corporate governance (Act on the Management of Public Institutions, 2019).

The Ownership Steering Committee (OSC)

This Committee is chaired by the Minister of MOSF and plays a central role in deliberation and resolution on the operation of public institutions. Other members of the Committee include vice-ministers or vice minister-level government officials, and 11 or less non-governmental members commissioned by the President on the recommendation of the Minister of MOSF from among persons in the fields of law, economy, academia, labour, etc. The total member of the Committee cannot exceed 20. Essential matters for deliberation and resolution by the Committee include (Act on the Management of Public Institutions, 2019, Article 8):

- Designation/cancellation of public institutions
- Selection of CEOs, (senior) non-executive directors, and auditors of SOEs
- Providing guidelines on remuneration
- Performance evaluation of SOEs, non-executive directors and auditors
- Matters related to the public disclosure of managerial information
- Dismissal (or request for dismissal) of CEOs, non-executive directors and auditors of SOEs who neglected their duties, and
- Checking whether the line ministries’ supervision over SOEs is appropriate and taking necessary measures to correct inappropriate supervision.

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64 In this pilot reform, the state has kept its majority ownership. At present, there seems to be little indication that the state would go as far as relinquishing its controlling ownership, or letting the board of directors play its proper role, in order to improve SOE profitability and valuation (Wang, 2018, pp. 5-6).
SOE Performance Report, Performance Evaluation, and Remuneration

By March 20 of every year, each SOE is required to submit its Performance Report to the Ministers of MOSF and relevant line ministry. The MOSF evaluates the performance of SOEs on the basis of this Report and other relevant materials. The MOSF Minister organises an evaluation team composed of professors, research fellows at government funded research institutes, experienced CPAs, lawyers, consultants, and other experts. The evaluation results are forwarded to the OSC for its deliberation/resolution before finalisation and being reported to the National Assembly and the President. The remuneration for the CEOs, other executives and employees of SOEs are linked to these evaluation results. Highly evaluated SOEs are given rewards such as additional budget allocation for the following year along with promotion or awards for the best-performed employees. The OSC can recommend or demand the firing of poorly-performed CEOs. Depending on the main causes of poor performance, the OSC can take measures to reduce the budget or put ceilings on employees' salaries and bonuses.

Board of Directors

The board of directors is the supreme decision-making body of SOEs with important tasks of setting management goals, preparing long-term financial management plans, determining remuneration for CEO, making decisions on major business matters, and overseeing the performance and compliance of CEO. The board consists of executive and non-executive directors, and the total number should not be more than 15. For 'large' SOEs (market-type SOEs and quasi-market-type SOEs with assets over 2 trillion won), non-executive directors (NEDs) should be the majority, while the minimum required NEDs are one third of the total for small SOEs. All SOEs are to have one senior NED, who has the authority to convene and preside over meetings attended by NEDs. In the case of large SOEs, the senior NED also serves as the chairman of the board of directors. He/she is appointed by the Minister of MOSF upon the deliberation of OSC, while the senior NED of small SOEs is selected by NEDs’ vote.

Appointment of the CEO, Board Members, and Auditor

The CEOs of large SOEs are appointed by the President on the recommendation of the Minister of line ministry. The appointment process starts with the Committee for Recommending Executive Officers selecting multiple candidates, and the OSC selecting one of them, and notifying the selection to the Minister of line ministry. The process is the same for small SOEs, but the final appointment of the CEO is made by the Minister of line ministry. Executive directors of an SOE are appointed by the CEO (except for the executive director who also serves as an audit committee member). NEDs are appointed by the MOSF after the OSC selects one of the multiple candidates recommended by the Committee for Recommending Executive Officers. The auditors of large SOEs are appointed by the President on the recommendation of the Minister of MOSF after being selected by the OSC among the multiple candidates recommended by the Committee for Recommending Executive Officers. The auditors of small SOEs are selected through the same process, but appointed by the Minister of MOSF.
Rights of Minority Shareholders

Minority shareholders of unlisted SOEs can exercise some of the rights allowed to minority shareholders of the listed companies by the Commercial Act. They include rights to call an extraordinary shareholders meeting, inspect affairs and status of company's assets, make proposals, request the court to remove the director, etc. (Commercial Act, 2019, Article 542-6). Also, in the case of SOEs instituted with the shareholders meeting, the selection of executive officers needs the resolution of the shareholders meeting, if so required by other laws.

Public Disclosure

Timely disclosure of accurate information to the public is an essential element of transparent and accountable management, and is expected to contribute to efficiency enhancement. In addition to the Official Information Disclosure Act which became effective in 1998, the AMPI mandates SOEs and public institutions to disclose important management information on their internet homepage. Also, the MOSF requires all public institutions to provide their management information in specific and standardised manner so that the information is consolidated to be disclosed on the integrated website ALIO (all public information in one, www.alio.go.kr). The common list of information to be disclosed is prepared by the MOSF, but is finalised by the OSC. The MOSF is in charge of checking and confirming the disclosed information. In case an SOE or public institution is found to have neglected the duty with failure to disclose, delayed or incorrect disclosure, they get a disciplinary warning with penalty points and the employees responsible for the negligence can be subject to disciplinary measures.

Overall Evaluation

In spite of the seemingly elaborate mechanisms instituted, corporate governance of SOEs in Korea has some serious weaknesses. First, SOEs which went public by exchange listing but are still subject to the Act on the Management of Public Institutions (AMPI) have shown little improvement in their corporate governance (Korea Institute of Public Finance, 2014, p.8). This is largely due to rigid rules of the AMPI lacking adequate attention to listed SOEs. Second, SOEs pursuing both profit and public interest, such as electricity, gas and district heating, have been unsuccessful in balancing the two objectives, resulting in strong rejection and legal actions by small shareholders. It indicates that these SOEs have failed in separate accounting of cost and revenue for commercial activities and services provided with socio-political considerations, and let the government bear the net loss accruing to the latter activities. Third, SOE boards of directors are generally lacking independence and professional expertise. This is mainly because the selection of non-executive directors is all too often made on the basis of connections, nepotism, and political favoritism. Fourth, CEO positions of SOEs are vulnerable to the change of government often threatening management stability. In Korea, the government changes every five years, and the new government tends to consider SOEs as their trophies and attempt to replace the CEOs. Finally, small shareholder rights are poorly protected at SOEs in situations just noted and other circumstances. It is not surprising given that corporate governance scores are rather low even in private enterprises.
Conclusion

A big obstacle to the improvement of the Vietnamese SOEs has been the dual role played by line ministries: the roles both as the owner and the regulator. Even though the SCIC and more recently established CMSC are playing the role of the owner of the SOEs, the line ministries still have strong influence in the selection of CEOs and members of the board of directors. When a ministry plays the dual role, the commercial objectives (of the owner) are likely to be compromised leading to poor performance and low efficiency of the SOEs. In order to mitigate this problem, the board of directors might be mandated to have a majority of non-executive independent directors. These directors should not have any ties with the management of the SOEs. This will also help professionalise the boards, bringing valuable expertise to board decision making.

Performance evaluation of SOEs and their CEOs is another mechanism of corporate governance. A problem is that Vietnamese SOEs are often required by the state to provide services and carry out other activities motivated by socio-political considerations. In these situations, the realised financial performance of the SOE would not be a reliable measure of the performance. To address this problem, SOEs are to do separate accounting for these activities with the incurred deficit borne by the state budget.

Transparency and disclosure of SOE operation is a powerful means of disciplining the managers of SOEs to be more accountable. Vietnamese SOEs seem to be doing poorly in disclosing relevant information to the general public, the ultimate owner of SOEs. However, SOEs have been subject to stronger disclosure requirements since 2014. They include penalties for the non-compliance of the disclosure regulations. The authorities are advised to put high priority on more timely and adequate information disclosure with stricter compliance measures.

The Vietnamese authorities are pushing for attracting strategic foreign investors as an effective way of enhancing the international competitiveness of domestic enterprises (with the similar policy intention to that of pilot mixed-ownership reform in China). However, these efforts have generally fallen short of expectations so far. There are issues of valuation of the company and ownership ceiling allowed to foreign investors that discourage potential strategic foreign investors to join. However, the most serious hindrance seems to be poor corporate governance including lack of transparency and inadequate information disclosure. It is imperative to significantly improve corporate governance of exchange-listed companies not only for the healthy growth of the capital market but also for strengthening the international competitiveness of Vietnamese industries.

The exchange-listed companies in Vietnam are mandated to have at least 30 percent of the total BOM members as independent/non-executive directors, and the SB consisting of exclusively non-executive members are tasked to supervise the BOM and senior managers. Nevertheless, board independence and effectiveness seems to remain rather poor. Even poorer might be the protection of minority shareholders. Even though basic rights of minority shareholders are mostly recognised in the relevant law and the Model Charter, there seems to be a large gap between the written rules and the reality. The
same appears to be true for information disclosure. Despite noticeable improvement in recent years, the rate of compliance with the disclosure requirements among the exchange-listed companies in Vietnam remains very low.

Korean and Vietnamese SOEs share some common weaknesses in their corporate governance. They include no clear separate accounting for socio-politically motivated activities of SOEs, ineffective boards of directors, and poor protection of minority shareholders. Still, Vietnamese SOEs may be able to improve their governance by adopting some of the practices employed by Korean SOEs. One thing to consider might be the role of the Committee for Recommending Executive Officers in the selection of CEO and non-executive directors. Another might be the system of SOE performance evaluation assisted by an independent evaluation team consisting of professionals with relevant expertise, and the remuneration system based on the evaluation results. Vietnamese SOEs might also take the Korean ALIO disclosure system as a reference.

Vietnam still has as many as 490 wholly SOEs at the central level (under the supervision of either SCIC or CMSC), while China has 96 central SOEs (supervised by the SASAC). In Korea, there are only 36 central SOEs in such limited sectors as power generation, gas, petroleum, district heating, mineral resources, seaports and airports. These SOEs include enterprises partially (basically minimum 50 percent, but as low as 30 percent for some enterprises) owned by the government and public institutions. The Vietnamese government is advised to accelerate the SOE equitisation process so as to reduce the number of SOEs substantially within a few years.

Both Vietnamese and Chinese SOEs have their origin from the centrally planned economy. They also have taken a similar course of transformation: corporatisation or equitisation, selective listing of their shares at the stock exchange, and adopting some features of the Anglo-Saxon corporate governance model. However, the process of divestiture of state ownership and corporate governance reform has been slow, cautious and sometimes stagnant. This might be understandable given that SOEs in the two countries are still expected to serve as the key forces of socio-economic stability. In the case of China, actually, corporate governance of SOEs seems to have been backtracking since around 2010 with the rising emphasis on the leading role of the Party. Also, in Vietnam, Party organ(s) is in place at every SOE, but it does not seem very intrusive in the governance of SOEs. Although there might be some positive roles played by the Party committees, it is likely to weaken the independence and professionalism of the board of directors and the protection of minority shareholders.

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