

# SUCCESS STORY

# STORIES OF PVFCCo

In 2000, the Government made a bold move when it pulled the Phu My fertilizer project out of the Nam Con Son Gas-Electricity-Urea Program and assigned the project to the Vietnam Oil and Gas Corporation, now the Vietnam National Oil and Gas Group (PVN), aiming to create a sustainable fertilizer supplying source for the domestic agricultural market. The move followed a decision by the foreign partners to withdraw from the program after five years of preparations as they were in doubt about the business efficiency of the project. On March 28, 2003, PVN established PetroVietnam Fertilizer and Chemicals Corporation (PVFCCo) which was tasked with managing, operating and trading products of Phu My Fertilizer Plant.

Through the stories of PVFCCo, this special publication expects to share with readers some practical experiences in corporate governance, the crucial element which has brought about success to this company over the past decade.

**By TAN DUC - HONG NGOC - HONG LAM**

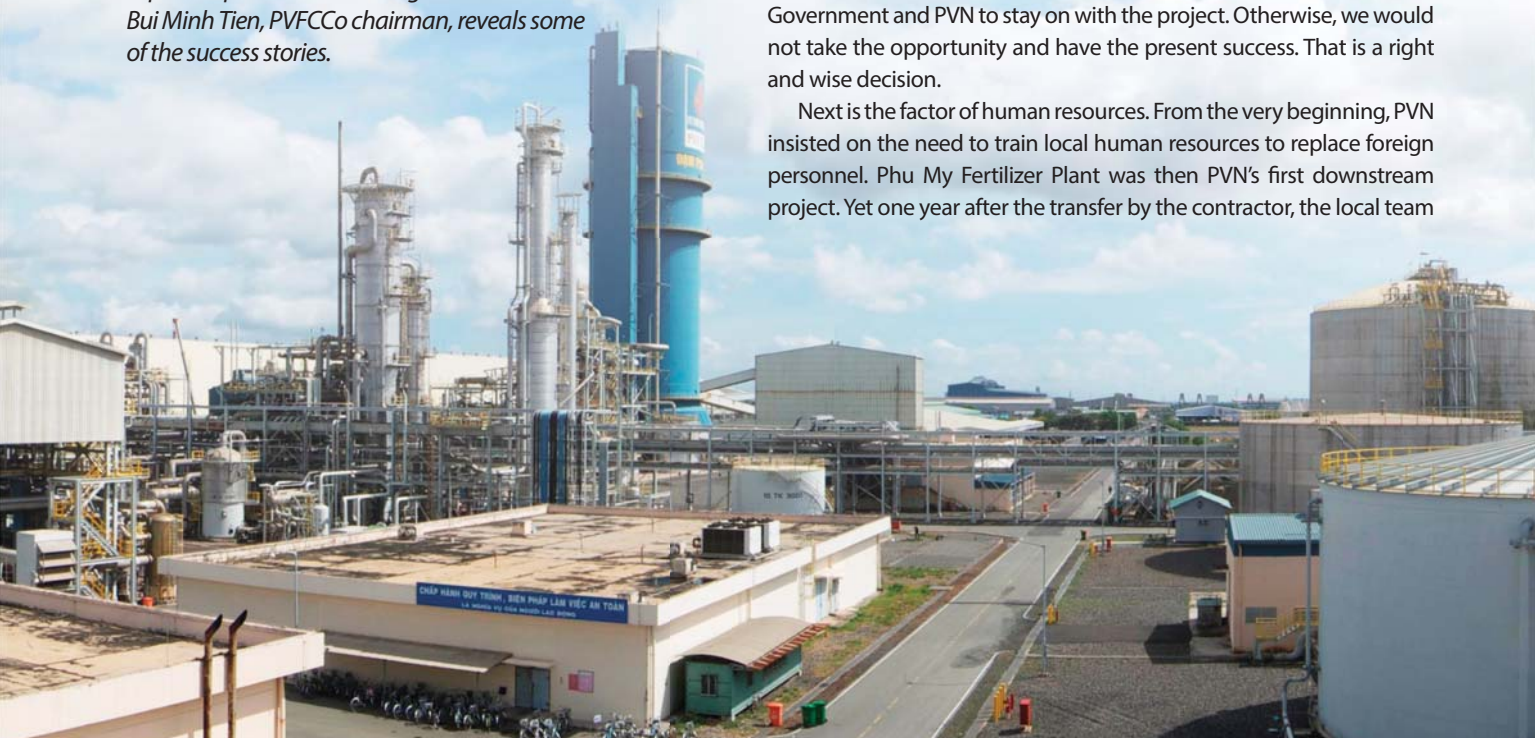




**Bui Minh Tien,**  
PVFCCo chairman

## SUCCESS SHOULD NOT TOLERATE COMPLACENCE

*PetroVietnam Fertilizer and Chemicals Corporation (PVFCCo, stock code: DPM) has equity worth about VND9 trillion. By the end of 2012, PVFCCo had produced and supplied almost 6 million tons of Dam Phu My-branded urea fertilizer, earning total sales of over VND48 trillion and VND14 trillion in pre-tax profit. The following interview with Bui Minh Tien, PVFCCo chairman, reveals some of the success stories.*



**Q: PVFCCo must have set strategic goals for each development phase. Now, in review of PVFCCo's strategic plans, what targets have been achieved?**

A: When transforming into a joint stock company in the end of 2007, PVFCCo charted out its development strategies for 2015 with a vision to 2025. A look back to the past years shows that PVFCCo has achieved multiple targets, with some being beyond expectations.

First, the project's efficiency. Since the very first year of operation, Phu My Fertilizer Plant has operated stably and for many years run at full capacity. Its turnover has posted stable growth and its return on equity (ROE) ratio has been more than 20% per year. Notably, during the past two years, the ROE has reached 35% per year.

Next, the plant's stable operation and the sustainable business system have enabled us to reach the initial goal, and also one of the reasons for the Government to proceed with the Phu My urea project, which was to have a stable supply and stabilize the domestic urea fertilizer market through which the national food security goal could be achieved. We have also reached this target now that the urea fertilizer fever on the market was reduced and then disappeared. PVFCCo has become one of the leading fertilizer companies.

As regards flotation and restructuring, PVFCCo has been regarded as a successful floated State-owned enterprise.

Moreover, PVFCCo expects to become an outstanding producer and supplier of chemicals. So far, projects in this field are in the development phase and will be materialized in the coming time.

***PVFCCo has enjoyed an advantage that on the domestic market, demand outpaces supply. As a corporate leader, do you think this is the key factor that makes PVFCCo's success?***

Whether a business makes or breaks depends largely on the market. However, it is only one of the many other decisive elements and remains an objective factor. What really happens also hinges on subjective efforts without which objective advantages will be opportunities that may never be materialized.

I want to place emphasis first on the determination of the Party, the Government and PVN to stay on with the project. Otherwise, we would not take the opportunity and have the present success. That is a right and wise decision.

Next is the factor of human resources. From the very beginning, PVN insisted on the need to train local human resources to replace foreign personnel. Phu My Fertilizer Plant was then PVN's first downstream project. Yet one year after the transfer by the contractor, the local team

of specialists and engineers was able to totally replace their foreign counterparts. The Vietnamese staff have played the key role in operating the plant safely and effectively. It has also become the incubator for training, instructing and know-how transferring for other plants in the oil and chemical industry in our group or other fertilizer plants.

I'd like also to draw the attention to the importance of corporate governance. After the flotation in line with the common trend, PVFCCo has initially adopted successfully state-of-the-art management models to create a solid modern management foundation which is transparent and professional. Of course, we will continue to raise our level of management.

***In every annual report analyzing business achievements, PVFCCo always highlights "stable, safe and efficient operation of the production lines" as the first priority. Why is it so important to your company?***

PVFCCo is a manufacturing and trading enterprise. In other words, we have to manufacture products to trade them. Needless to say, we also trade other products. Yet urea fertilizer is our mainstay.

Phu My Fertilizer Plant is run with state-of-the-art and complex technologies. Therefore, ensuring smooth and safe production is the first priority for stable operation of our company. We are now in the ninth year of operation and we still continue to improve our operational and maintenance skills to prolong the life span of machinery and equipment.

What's more, sharpening the operational and maintenance skills is the key to optimizing the efficacy of the production lines, which in turn minimizes costs and maximizes business efficiency. Our plant's stable operation ensures our stable product quality.

***During your annual shareholders' meetings, PVFCCo's development investment plans have often been supported by shareholders. How have these projects been implemented?***

PVFCCo's major viewpoint which has been supported by shareholders is that any approved project must be

carried out carefully. Every case must be regularly appraised to adjust in line with market development to minimize risks. In other words, PVFCCo is very flexible with its investment strategy. If the investment efficiency is uncertain, we will propose a revision or a halt or another option. The construction of the NPK plant is an example. While the project's technology and schedule were scrutinized, we placed orders with reliable contractors at home and abroad for products branded PVFCCo and carried out market development and product marketing campaigns. Our ultimate goal is to diversify products to offer the market quality goods with our brand. In addition, we have put several projects on hold although they were already approved after carefully considering investment efficiency. The DAP plant in Morocco is an example.

Other projects have been implemented on schedule.

***Success often leads to overconfidence. And that may start a decline. What about PVFCCo?***

We are fully aware of this dangerous situation and have warned our staff of overconfidence and complacency. We should not excessively pride ourselves on the past achievements.

Late last year, PVFCCo hosted two conferences for our key personnel to discuss human resources, auditing and internal control. One of the messages gotten across by the company's leadership is "knowing ourselves" because the real challenges are showing up now. The market has changed. So has the supply-demand relationship. As successful as a business may be for many years, it may go to hell without effective supervision.

Consecutive robust growth in many years may bring forth inertia and overconfidence. PVFCCo's leaders have realized that danger. We have tried to get across these thoughts to staff so that they stay vigilant. In 2013, the common message is: "Even when we fail to retain sales and profit as large as in the two previous years, we have to make radical changes to create breakthroughs in the future."

***What are the goals PVFCCo strives to achieve in the next 10 years?***

PVFCCo has clearly defined concrete goals. We have so many ambitions and we want to achieve more.

PVFCCo is a leading fertilizer business. We will try to retain this position in the next 10 years. At the same time, what PVFCCo wants to change swiftly is the second part of our name. That means we will become a leader in the chemical industry as well. PVFCCo has had several sizable chemical projects in the pipeline. We expect they will materialize and bear fruit in the next five or seven years.



# THE KEY IS IN LEADERS' HANDS

## MANAGEMENT, MANAGEMENT, MANAGEMENT

In 2012, PetroVietnam Fertilizer and Chemicals Corporation (PVFCCo) opened internal courses on debt management and recovery lectured by outside experts. This is an issue of prime importance prevalent among all enterprises. However, only a few have given systematic training on debt management to their staff members.

"In management, particularly risk management, we always try to have the foresight and fully assess risks," says Bui Minh Tien, PVFCCo chairman. "At the same time, we have to keep ourselves updated on market development to have contingency plans."

One of the reasons for the collapses of a series of enterprises in recent years relates to debt management. Failures to recoup debt will lead to insolvency and finally collapses. "In the fertilizer market, floating capital demand is enormous. Poor management of debt is a source of high risk," Tien emphasizes.

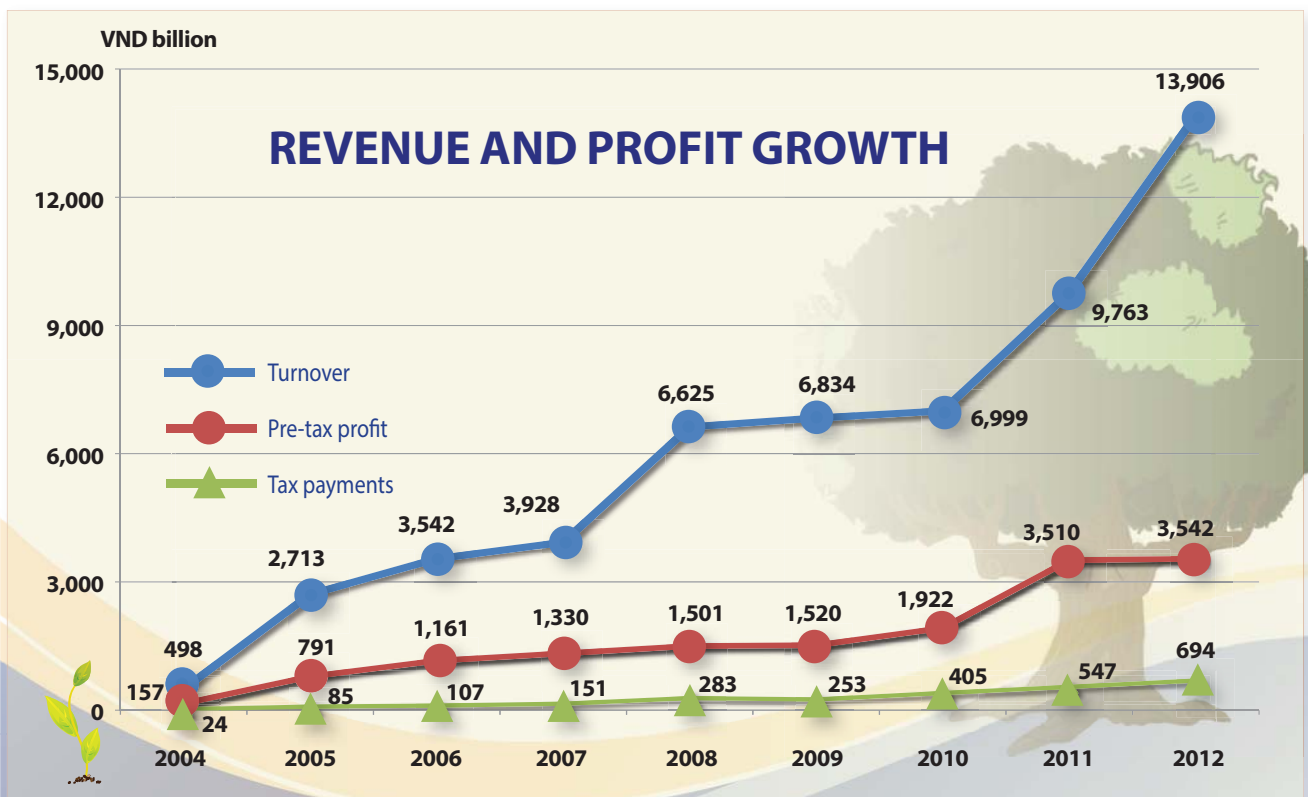
When it was born in 2003, PVFCCo enjoyed several advantages of opportunity. First, demand outstripped supply in the domestic urea fertilizer market. This situation lasted till the end of 2012. Secondly, prices of urea fertilizer, and machinery and equipment for urea fertilizer production were low. These were good

opportunities, of course. However, it is human resources that have played the decisive role in turning these chances into achievements reached by PVFCCo over the past 10 years. To put it differently, it is the management of a series of interrelated factors—such as supply management (production and import), distribution, financial management and investment strategies, to name just a few—that have really mattered.

In addition, maintaining stable production is among the key factors. As Phu My Fertilizer Plant uses modern technologies and equipment, malfunction is a real threat. Any malfunction resulting in a production halt may cause huge losses, about 2,300 tons per day. Losses are not only in sales or business efficiency but also in possible fevers in the market and damages to the company's prestige.

"Our staff members, both managers and workers, have made great strides in operating and maintaining the plant safely," says Cao Hoai Duong, president & CEO of PVFCCo. "We have shifted from carrying out unexpected repair work to periodic maintenance." This "prevention" approach requires not only professionalism and discipline of the staff that directly operate the plant but also their mastery of every part of the technologies in use in order to anticipate risks and fix them opportunely.

The fertilizer market is characterized by its seasonal cycle. This seasonal characteristic plus a reversal on the urea fertilizer market, from undersupply to oversupply, and the participation of newcomers, such as Ca Mau Fertilizer Plant and Ninh Binh Fertilizer Plant, has rendered



competition fiercer. Consequently, logistics, distribution and storage in regional markets to meet demand during peak times are decisive. "PVFCCo is the only fertilizer business to possess in its system a network of large-scale ports and warehouses which are logically located in different regions and are capable to store up to 250,000 tons at a time," Duong says. Furthermore, in support of this logistic service system is a network of more than 100 level-one agents and nearly 3,000 level-two agents that can deliver goods to farmers' doors.

PVFCCo's most solid foundation arguably lies with its professional and effective management system. Of this, money flow management—debt management and recovery—is pivotal.

"This is one of the top priorities of the board of directors and the management," says Bui Minh Tien. "Currently, many businesses are facing difficulties or even bankruptcy due to a poor management of money flow. We have managed this issue smoothly." Efficient financial management has enabled PVFCCo to not only secure its capital but also put back its money into circulation and thus increasing business efficacy.

## LEADERS HOLD THE KEY

Renovation of management is the main objective of the plan to float State-owned enterprises, through which business efficiency can be raised. PVFCCo is among the companies that have achieved this target. The secret of success may be summarized in a phrase, "leaders' determination."

In fact, modern economic management has developed robustly and been formulated in textbooks. What really matters is whether the leadership of a company wishes to embark on it and what management models it wants to adopt.

Management is in fact human resources. A change to management is a change to human habits. Such a change is never easy.

PVFCCo has invested remarkably in building its management framework which both encourages staff members and exerts pressure of renovation on them. "Leaders' determination is the essential prerequisite," says Tien. "However, we must be persistent and



consistent in fulfilling our targets to reach what we expect."

Apart from a highly workable management system, PVFCCo's experience shows that supervision is also a key factor. Leaders of the company do not consider supervision a form in which a division is supervised by another and vice versa. It must also involve criticism which may bring forth the best decisions.

"We are one," says Cao Hoai Duong. "However, we have always had criticism. Every member, from the top leaders to every division, has to listen to opinions attentively. We have tried to avoid the situation in which, only a leader says and others only listen. In PVFCCo, criticism is exchanged between board members, between the board of directors and the management, and between the board and the management, and divisions and member companies, so that the best solutions can come out."

Another experience involves openness to new modern management systems and effective use of independent consultants. For instance, a warning from the State Securities Commission has prompted PVFCCo to set up an internal auditing board under the board of directors. This division is tasked with helping the board of directors manage risk and is assisted by KPMG. PVFCCo has also sought consultancy from shareholders many of whom are foreigners commanding extensive expertise.

PVFCCo is a young business whose leaders and managers are relatively young. This may be a good start for the company to rapidly access modern and professional management, the major factor that has been behind PVFCCo's stable growth during the past 10 years.

Target production	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012
Produced urea	thousand tons	209	646	617	765	749	756	807	802	856
Sold urea	thousand tons	146	616	716	747	741	721	806	753	908
Total turnover	VND billion	498	2,713	3,542	3,928	6,625	6,834	6,999	9,763	13,906
Tax payments	VND billion	24	85	107	151	283	253	405	547	694
Pre-tax profit	VND billion	157	791	1,161	1,330	1,501	1,520	1,922	3,510	3,542
After-tax profit	VND billion	157	791	1,161	1,329	1,383	1,348	1,703	3,104	3,016

# BUYING FERTILIZER HELPS MAKE MORE FRIENDS

During this winter-spring rice crop, Nguyen Van Tam, a farmer of Vinh Thuan Commune in Chau Thanh District of An Giang Province, engaged for the first time the presentation point model on his one hectare of paddy. Tam used urea fertilizer produced by Phu My Fertilizer Plant under PetroVietnam Fertilizer and Chemicals Corporation (PVFCCo).

Like his peers, Tam used to add fertilizers to his fields in the traditional way. That means he watched the color of paddy blades to guess whether they needed more fertilizers. He normally needed 260-280kg of urea per hectare.

## SEEING IS BELIEVING

When participating in the presentation point model, Tam and his fellow farmers were helped by the technical staff of PVFCCo, whose brand name is Dam Phu My (Phu My Urea), with farming techniques. Tam says he is able to cut his expenses on fertilizers significantly, using now only 217kg of urea on one hectare. More importantly, Tam has saved hundreds of thousands of dong per hectare. And this involves only urea!

Agricultural engineers from Phu My Fertilizer Plant also instructed local farmers to use other fertilizers the right way, not only urea but also other fertilizers, such as phosphorus, potassium and NPK.

According to Nguyen Phuoc Thanh, head of the Cultivation and Plant Quarantine Division of An Giang Sub-Department of Plant Protection, farmers in An Giang and in the Mekong Delta tend to overuse fertilizers. For instance, on each hectare they use up to 260kg of urea, 80-90kg of phosphorus fertilizer, and 60-70kg of potassium fertilizer. Yet Phu My Fertilizer Plant's engineers have persuaded them to use only 195-217kg of urea, 40-60kg of phosphorus, and 30-40kg of potassium.

Both Tam, as a farmer, and Thanh, as an agriculturist, acknowledge that the traditional use of fertilizers, particularly urea, is excessive. This will do more harm than good as it will finally reduce productivity although rice paddy seems to be verdant at first. Aside from farmers' expenses, excessive use of fertilizers, especially urea, may boost spending on plant protection chemicals and harvesting, which finally boosts investment costs.

"Using the Dam Phu My formula, farmers can save up to VND2-3 million per hectare," Thanh says. Meanwhile, Tam agrees that the new way helps save costs. He adds however that it will take farmers some time to get accustomed to using smaller amounts of fertilizers. To persuade farmers, during this winter-spring rice crop, Phu My Fertilizer Plant has organized six fertilizer presentation points on over 12 hectares.

Dang Huu Thang, vice head of the fertilizer division of PVFCCo, says his staff have developed 40 rice presentation points with six in the Mekong Delta, nine in central Vietnam, 14 in the North, and six in Cambodia, an export market of Phu My Fertilizer Plant. Apart from rice paddy, Phu My Fertilizer Plant has organized presentation points on coffee, rubber, black pepper, and other crops. Since the very first days, the plant has organized thousands of presentation points which allow tens of thousands of farmers to be in touch with effective fertilizer using techniques which help cut costs.

To implement these models, Phu My Fertilizer Plant's technical staff has forged close ties with the Cultivation Department; local agricultural departments, agricultural extension centers, plant protection sub-department; leading scientists at the Rice Institute, Can Tho University, An Giang University and the Central Highlands Agricultural Science Institute; and farmers.

Nguyen Van Bo, rector of the Vietnam Agricultural Science





Institute, says farmers' habits of using fertilizers based on personal experience has led to ineffectiveness or even abuse, Bo believes the fertilizer loss may be up to 40-45% of the total. That means the agricultural sector losses about US\$2 billion a year. Aside from financial losses, wrong use of fertilizers has caused pollution to land, water and rice production.

### **SELLING FERTILIZERS, BUT NOT ONLY FERTILIZERS**

"The fertilizer presentation is an important part of our program for technical transfer to farmers," says Thang. In addition to presentation points, PVFCCo has engaged in the campaign "Big Acreage Field." Apart from technical instructions, participating farmers are also offered fertilizers at lower prices. In the 2011-2012 winter-spring crop, Phu My Fertilizer Plant carried out the "Big Acreage Field" model in Co Do District, Can Tho City on 429 hectares. This model enabled farmers to increase their profit by VND1.5-2 million per hectare.

Aside from the Mekong Delta, where the "Big Acreage Field" model can be carried out favorably, PVFCCo has promoted the model in the central

provinces, such as Binh Dinh and Khanh Hoa, where large fields are only exceptions. In mid-March, Phu My Fertilizer Plant and the agricultural authorities in Binh Dinh, Khanh Hoa and other localities reviewed the "Big Acreage Field" model in 2012-2013 winter-spring rice crop. In Binh Dinh, two models were executed, each on 30 hectares attracting 200 farming households. "In these central provinces, forming partnership with local agricultural authorities, we have been able to attract thousands of farmers who will act as role models for other farming households," says Thang when asked to comment on the Phu My plant-led model.

Another connection between Phu My Fertilizer Plant and farmers involves agricultural insurance. This pilot scheme in cooperation with PVI in six provinces indicates a different way to persuade farmers that Phu My Fertilizer Plant is a companion who will assist them in confronting risks.

PVFCCo has been also active in providing information on techniques and crops to farmers through creative programs, such as fact-finding trips for excellent farmers to the Philippines-based International Rice Research Institute (IRRI) and weather forecast.

To date, the Dam Phu My brand has been popular among Vietnamese farmers. That fact is synonymous with the credibility farmers have for the products offered by PVFCCo. It is also the desirable outcome of a 10-year effort in which PVFCCo has been an inseparable companion to farmers.



# HUMANS AND CULTURE

## HUMAN RESOURCES STRATEGY

At his retirement age in 2004, Dr. Le Canh Hoa decided to join Phu My Fertilizer Plant as a lab specialist. A highly-skilled expert, Hoa still felt perplexed by the modern machinery in front of him when he was first in the laboratory. At the time, the lab was under the supervision of an Italian specialist who briefed the local staff on uncomplicated operations. The really tough jobs were still waiting for experts from the foreign sellers of these machinery and equipment.

Yet his scientific passion urged Hoa to begin to study the modern machinery during his night shifts. During one of the instruction sessions hosted by foreign experts who had just arrived, Hoa suggested a trial operation by himself. His proposal was accepted. To the amazement of the foreign experts, Hoa was able to run the equipment as well as they were. As of that moment, Hoa was allowed to use any machines available in the laboratory.

By chance, Hoa's recollection of his first days in the lab of Phu My Fertilizer Plant faithfully mirrors the company's strategy which has been consistently implemented during the past 10 years. The strategy is to train a local technical work force capable of replacing foreign experts. From the very beginning, this has been systematically realized, resulting in today's achievements. The technical staff members on the first days now have become PVFCCo's specialists.

Operating Phu My Fertilizer Plant was our most important task when we received the facilities. This was of course a tough task as the plant is a high-tech entity. We were all determined to learn how to operate it smoothly and we have been successful.

With respect to the trading business, it's essential to do business in a transparent and efficient way. We have set up standard regulations and price-appraisal board to decide on specific prices.

I'm proud to have high quality products to serve the agricultural sector which is fundamental to our country. More importantly, however, efficacious investment in Phu My Fertilizer Plant has had a strong ripple effect evinced by the birth of similar projects.

**Dinh Huu Loc**  
the first CEO of PVFCCo



**PVFCCo Team Building 2012**



Human resources training has formed an integral part of PVFCCo's development strategy. Internal training courses are frequently organized for the company's almost 2,000-strong personnel. Retraining and training courses at home and abroad, both short and long terms, have earned PVFCCo a skilled work force capable of meeting the company's human resources demand and others', such as Ca Mau and Dung Quat projects.

PVFCCo chairman Bui Minh Tien says human resources development has been a key strategy which has the decisive voice on the success of a business. It is this reason that his company, Tien says, has invested extensively in personnel training—on the one hand enables managers to update new management know-how and on the other allows other members to improve their knowledge. PVFCCo has set up job titles based on which training will be more suitable. These efforts have brought about initial results, such as creating a professional working environment, retaining the best talents and recruiting new staff.

## CULTURAL CORNERSTONE

Why has PVFCCo been successful in keeping a stable work force? The answer lies with PVFCCo's corporate culture which highlights the following core values: professionalism-efficiency, dynamism-creativity, aspiration-longing for the better, and responsibility-sharing spirit.

Corporate culture is an oft-cited phrase. However, turning this perception into reality can be extremely demanding, even in foreign companies in Vietnam. Inheriting those from PVN, PVFCCo has built its own values. Its corporate culture manual clearly stipulates the core values and standard etiquette which should be observed by every member, from the top leaders to normal workers.

Another prominent point in PVFCCo's corporate culture is responsibility and sharing spirit among staff members and communities. Funds allocated for social welfare acts as a "social investment" where a business may reap its prestige and sustainable growth in the long run.

An intra-company poll conducted at PVFCCo shows that 80% of its staff graded the implementation of corporate culture as "fairly good" or "very good." Tien says the path to better corporate culture remains long. However, PVFCCo's culture has permeated down to every member. It only takes some time for these standards to turn into automatic reflects.