

How to Ensure Effective Management and Performance of SOEs with non-Commercial Objectives

—Viewpoints from Corporate Governance of SOEs in China

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1. Situations of Central SOEs with non-Commercial Objectives in China

- 126 central SOEs in 32 industries currently.
- SASAC has point out to adopt special measures for managing SOEs with special roles, but SOEs have not been classified according to their objectives, and non-commercial objectives have not been yet clearly listed.
- Because asset appreciation or capital return is a rather easy way to value, so most SOEs were assessed according their financial performance.
- In January of 2010, SASAC prescribed to carry out senior management performance assessment in a classification way.



Industries Attributes of Central SOEs

Industries Attributes	Typical Industries or Companies
<ul style="list-style-type: none"> ❑ Industries with National Safety 	<ul style="list-style-type: none"> - Aerospace Equipment Manufacture
<ul style="list-style-type: none"> ❑ Significant Infrastructure and Important Mineral Resource 	<ul style="list-style-type: none"> - Petroleum and Natural Gas Exploit Industries - China Three Gorges Corporation
<ul style="list-style-type: none"> ❑ Industries providing Important Public Goods and Services 	<ul style="list-style-type: none"> - Electricity Grid - Post and Telecommunications - Air Transport
<ul style="list-style-type: none"> ❑ Major Companies of Mainstay Industries and High-tech Industries 	<ul style="list-style-type: none"> - Bao Steel Group - FAW Group - Dongfang Electric Corporation
<ul style="list-style-type: none"> ❑ Competitive Industries 	<ul style="list-style-type: none"> - Agriculture, forestry, animal husbandry and fisheries - Civil engineering construction - Real estate - Textiles - Tourism



2. Discussion: Why should adopt special measures to manage SOEs with non-commercial objectives

2.1 Problems

- Unclear non-commercial objectives gives possibility of government intervention, which imposes bad impacts on pursuing long term value of SOEs.
- Assessment, which is mainly based on financial performance, will inevitably damage the realization of non-commercial objectives.



2.2 Better Results if each non-commercial objectives, as well as their priorities and weights be clearly listed

- will make performance assessment more systemic.
- will help to improve market mechanism to a truly level playing field,
- will stimulate SOEs with public objectives to provide better public goods.
- will induce government control actions into transparency, effectiveness and legality.
- will reduce or even avoid criticism on government control actions, such as “low transparency” and “arbitrary intervention” etc.



3. Experiences worthy for reference

Objectives and related laws of SOEs and CRIs in New Zealand

	Financial Objectives	Non-financial Objectives	Legislation
SOEs	<ul style="list-style-type: none">• Same profitability than comparable private firms	<ul style="list-style-type: none">• Good employer• Good society citizen	State-Owned Enterprises Act 1986
CRIs	<ul style="list-style-type: none">• Financial Responsibility during business operation• Get suitable return to ensure finance continuance	<p>Including those of SOEs, as well as followings:</p> <ul style="list-style-type: none">• Benefit of New Zealand;• Scientific excellence;• Research be in line with ethics• Promote research results utilize and technology development	Crown Research Institutes Act 1992

Classification management on SOEs in some countries

Countries	Classification	Objectives of SOEs and their management
France	<ul style="list-style-type: none"> Monopoly SOEs 	<ul style="list-style-type: none"> government tends to be a sole owner or at least a controlling shareholder
	<ul style="list-style-type: none"> Competitive SOEs 	<ul style="list-style-type: none"> government tends to be a minority shareholder, Pursuing both public return and financial return.
Sweden	<ul style="list-style-type: none"> SOEs with special social responsibility 	<ul style="list-style-type: none"> Both share value and social interest objectives
	<ul style="list-style-type: none"> Market oriented SOEs 	<ul style="list-style-type: none"> Share value objective
Austria	<ul style="list-style-type: none"> A few SOEs of Monopoly or with special social responsibility 	<ul style="list-style-type: none"> tends to be a sole owner or at least a controlling shareholder pursuing both share value and social interest objectives
	<ul style="list-style-type: none"> Competitive SOEs 	<ul style="list-style-type: none"> government tends to be a minority shareholder, pursuing firm value
Italy	<ul style="list-style-type: none"> Social welfare SOEs 	<ul style="list-style-type: none"> Assessing on the cost of realizing the social welfare objective
	<ul style="list-style-type: none"> Commercial SOEs 	<ul style="list-style-type: none"> Emphasizing on profit targets
Singapore	<ul style="list-style-type: none"> SOEs with Important resource or public policy 	<ul style="list-style-type: none"> Government acts as controlling shareholder and leading role.
	<ul style="list-style-type: none"> SOEs with potential international or regional development 	<ul style="list-style-type: none"> Government tends to dilute controlling shareholding, to support SOEs to fuse in to regional or international market.

- Government in some countries manages SOEs in classification ways according to SOEs' objectives.
- For those SOEs with special functions, government tends to be a sole owner or at least a controlling shareholder, and public objectives usually are priority comparing commercial ones.
- For those SOEs in competitive sector, government tends to be a minority shareholder, and require SOEs' main objective is capital return.



4. Some ideas on improving performance of SOEs with non-commercial objectives

4.1 to establish classification management system

According to enterprise's economic attributes, SOEs can be classified as three types:

■ **natural monopoly or oligopoly**

- ✓ capability of production control or market pricing by itself or conspiracy.
- ✓ Main measures of government should be market actions and price control
- ✓ For those with high profit, government should control employee income

■ **companies with special objectives or public interest**

- ✓ Clearly state the relationship between commercial objectives and non-commercial ones;
- ✓ clearly calculate the cost of realization those non-commercial objectives, disclose it, and

disclose in which way the cost will be covered.

■ **competitive companies**

- ✓ Main objective should be capital return.



SOEs classification	Management model		Laws	Typical enterprises or industries
	Performance goals	Special management ways		
<p>Natural monopoly or Oligopoly with low profit</p> <p>with high profit</p>	<p>Public goals Capital return</p> <p>Same as above</p>	<p>Market activity Price regulation</p> <p>Market activity Price regulation Income distribute control, wage amount management</p>	<p>Special law Company law</p>	<p>Communication industry, grid, oil and gas mining industry.</p>
<p>Entity with special objectives or public welfare Finance can't be independent</p> <p>Finance can be independent</p>	<p>Costs Public goals</p> <p>Capital return Public goals</p>	<p>Business report Finance transparence Special finance support</p> <p>Business report Finance report</p>	<p>Special law Company law</p>	<p>Aviation and aerospace equipment manufacture, grid, communication, aviation transport.</p>
<p>Competitive Company Finance can't be independent(such as those history leaved problems)</p> <p>Finance can be indepent</p>	<p>Capital return Solving history leaved problems</p> <p>Capital return</p>	<p>Certain finance support Split finance account</p> <p>Support mother company to be listed Performance contract for solely owned companies</p>	<p>Company law</p>	<p>Consumer good manufacture, metal smelt, transport vehicle manufacture, coal mining.</p>

4.2 Legislation

- All these questions could be set by a special law.
 - ✓ Which SOEs has special objectives?
 - ✓ Which SOEs merely has capital return objectives?
 - ✓ In what kinds of situation, the ownership entity can has rights surpassing other laws, such as the Company Law?
- With the special law, most un-predictable intervention by the government could be avoided.



Thank you!

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