

State owned enterprises and private corporations



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2. 1 Introduction

This chapter includes the review of previous literatures that introduced general situations of the two kinds of companies: state-owned enterprises and private corporations, and put particular emphasis on two typical companies: BP and CNPC. These formal research achievements formed the theory foundation for this study and also offered plenty of great ideas and precise research directions.

2. 2 State-Owned Enterprises

State-owned enterprises is a tool which can be used by government to involve and intervene in the economy, and one of a great number of policies taken by government on behalf of the public interest to solve emergence or potential problems caused by the invalid market (Yu and Huang, 2006).

Enterprises are a special group of business organizations served for economic goals. State-owned enterprises are a particular case of business organizations. Behind the state-owned enterprises, people can usually see two kinds of forces: one power of them is non-economic, political or ideological; the other force is economic and utilitarian. In the real economy, there is no a clear distinction boundary between the two forces (Ramanadham, V. V., 1991). Under the interaction of these two forces, state-owned enterprises become the particular business groups of organizations that hold not only non-economic objective but also economic target at the same time.

On the internet, there is a good number of information about state-owned enterprises. To illustrate, the famous website: WIKIPEDIA affords some

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translations about state-owned enterprises. According to its views, the proper noun state-owned enterprise has no a strict definition, state-owned enterprises are groups of legal organizations that are set up by governments on behalf of their interest to join in commercial markets, supervisory officials of the kind of corporations are from the government and the character of state-owned enterprises cover from as a composition of government to a normal stockholder of stock companies (Wikipedia, 2010). Especially, the website mentions a particular point that in the People's Republic of China all commercial corporations were set up and possessed of by Chinese Governments after 1949 (Wikipedia, 2010).

In one report of Organization for Economic Cooperation and Development (OECD), it claimed that state-owned enterprises play an important role for GDP, employment and market capitalization in some member states (OECD, 2005). At the same time, state-owned enterprises are often extremely popular in utilities and infrastructure industries, for example, energy, transport and financial sector (OECD, 2005). And the performance of these fields also has essential influence on wide scopes of the general public and other parts of the commercial area (OECD, 2005). Taking the situation of state-owned enterprises in China as example, in 1978, state-owned enterprises represented 77. 63% of total industrial production, and this number still was obviously significant as on-third in 2009 (OECD, 2009). State-owned enterprises offered 35. 8% of industrial value-added and the share of state-owned enterprises in GDP was 29. 7% in China in 2006 (OECD, 2009). In 1998 and in 2002, the figures of share of state-owned enterprises in GDP in China were even respectively as huge as 37. 6% and 34. 5%

(OECD, 2009). In the Shanghai stock exchange in 2006 and 2007, there were eight state-owned enterprises occupied the top 10 companies based upon their market capitalization value, and in 2007 50% of the overall market capitalization had been taken up by the eight state-owned enterprises (OECD, 2009).

There is a study that researched the differences between state-owned enterprises and private enterprises in operating mechanism in France affording several material views about state-owned enterprises. Although French state-owned enterprises introduced private enterprises' competition mechanism and management system into their domestic and international markets competitions, state-owned enterprises have remarkably different management mechanisms and forms compared with private enterprises not only in parts of formulation of development strategies and business policies, but also in aspects of personnel, finance, service orientation, production and management and so on (Dai, 1992). Especially in the basic management aims, state-owned enterprises have the fundamental difference with private enterprises. The management of state-owned enterprises should not only take into account the interests of enterprises, but also to the interests of countries, the primary purpose of state-owned enterprises is to serve for the general public and the society, state-owned enterprises have twofold targets of both profitable objective and service aim (Dai, 1992). There are a good number of examples can approve these views. In the research of Balanced Scorecard for State-Owned Enterprises by Johnson, Beiman and Thompson in 2007, they disclosed some mission statements of state-owned enterprises in

China that can approve the descriptions of state-owned enterprises above, Beiman et al (2007, p. 45) illustrated:

Ping An Insurance (HK)

- For customers: best service and reliable guarantee
- For employees: career development, devoted to the family and the enterprise
- For stockholders: stable returns, increased value
- For the society: create value for the society, and contribute to the development of the country

Legend Holdings, Ltd. 20

- For customers: To enrich our customers' life and enable them to work more effectively and efficiently by providing them with the latest and best in IT products and services
- For shareholders: To maximize our shareholders' long-term returns and benefits
- For staff: To provide a stimulating and challenging work environment in which employees have opportunities for innovation, as well as personal and professional advancement
- For the community: To contribute responsibly to the development of the society." (Beiman et al, 2007)

The two instances explained the complexity of the state-owned enterprises' targets.

Because the basic objective of state-owned enterprises is on behalf on the national interest and to serve for public career, state-owned enterprises

often have a couple of development targets (Dai, 1992). These targets were usually divided into two kinds: one of them is the targets which were set up for the enterprises themselves; the other is the external objectives that government required additional targets beyond the first kind of targets (Dai, 1992). Thus, the objectives of state-owned enterprises increased naturally and these objectives should be discussed and agreed by governments before they formed contractions. It is very conventional that enterprises usually can not fulfil those two kinds of targets at the same time, but corporations must ensure the objectives required by the government because the state-owned enterprises' basic task is to serve for public social interest (Dai, 1992). State-owned enterprises have many channels for their financial resources, such as company themselves' funds, debts from financial markets and subsidy of the state (Dai, 1992). The managers of state-owned enterprises are appointed by the government. And the most important standard to choose one person as a manager is to check whether the political attitude of the person is consistent with the political stand of the government (Dai, 1992). As a result, the executives of state-owned enterprises should serve for the government's political affairs and assume political responsibility. The labour costs of state-owned enterprises are usually low because the kind of costs is controlled by the state; especially the level of the salary of the managers is prevalent low. But all the employees of state-owned enterprises basically enjoy the treatment of governors (Dai, 1992).

Compared with general business companies, the corporate social responsibility of state-owned enterprises is more complex. As a special business organizational form, the corporate social responsibility of state-

owned enterprises is determined by the character of them. This is reflected concretely on the economic and non-economic targets of state-owned enterprises (Yu and Huang, 2006). The character of state-owned is the initiative point to understand the system connotation of state-owned enterprises, and also is the origin mark to define the economic and non-economic targets of state-owned enterprises (Yu and Huang, 2006). A country's socio-economic system determined state-owned enterprises' historic missions, existence meanings and social commitments should be taken. Consequently, the nature of state-owned enterprises is an integral part of the state finance. The corporate social responsibility of state-owned enterprises is existed as an effective means that the state participates in and intervene business activities on behalf of the general public interest (Yu and Huang, 2006). The corporate social responsibility of state-owned enterprises pays more attention to realisations of non-economic objectives, while the implements of economic purposes are used to serve for the realisations of non-economic objectives (Yu and Huang, 2006). But there is a very dangerous situation should cause people to pay attention to. In the imperfect market economy, pulled by the nature of capital to seek for profit, the impulsion of state-owned enterprises is so intense to pursue the economic targets whereas give up the non-economic objectives. If the nature and goals of state-owned enterprises are not clear enough, their enterprises systems are unsound, and the commercialism capacities are halfway, the corporate social responsibility of these kinds of state-owned enterprises will be only the empty slogan when they devote restricted social resources that should be served for non-economic goals to the business environment where

corporations and market compete with each other with freedom (Yu and Huang, 2006).

2. 2 Private corporations and the comparison between state-owned enterprises and private corporations

According to the introduction of WIKIPEDIA on its website, a private corporation is the one that is owned by private investors, shareholders and owners. Generally, these private investors, shareholders and owners are collective, but a private company may also be owned by a single individual (WEKIPEDIA, 2010). Private corporations are different from state institutions, for example, stat-owned enterprises and government departments. Private corporations form the private sector of an economy, and the objective of private corporations is different from other organizations, the most important target of private companies is only to produce interests for the private investors, shareholders and owners (WEKIPEDIA, 2010). Private business can be classified into three types: Sole proprietorship, Partnership and Corporation. The other classification is the private business can be divided into two subcategories: privately held companies and publicly traded companies (WEKIPEDIA, 2010). At the same time, the organization forms of private corporations also have many kinds, such as corporations, limited companies, limited liability companies, or other names, and these categories are classified by the location and business framework of private companies (WEKIPEDIA, 2010). Every category has its own particular requirements and restrictions that can influence the operation of private corporations.

Nevertheless, there are many criticisms of private corporations in many aspects, especially the corporate social responsibility of private corporations.

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Corporate social responsibility is in a special period the expectation the society looks forward to of economic organizations about economy, laws, ethics and charity (Huang and Yu, 2006). Generally speaking, enterprises are the organizations whose basic objective is to pursue economic profits. While, when the enterprise naturally developed as large as possible and its behaviours are in tight relations with many aspects of the society, the corporate social responsibility of private corporations will be prominent (Huang and Yu, 2006). In addition, the most significant standard to estimate whether an organization is legitimate or not, is that whether the activities of these organization is consistent with goals and values of the society system where the organization located in (Huang and Yu, 2006). The nature of private corporations is the organization to pursue of economic goals, the primary objective, even in most situations the single objective of private corporations is the economic objectives, the corporate social responsibility of private corporations is derived in the business process to achieve economic goals (Huang and Yu, 2006). Contents of corporate social responsibility of private corporations contain the pursuit of economic goals, economic goals are the main contents of corporate social responsibility of private companies, and any implementation of corporate social responsibility can not be accomplished without the implementation of economic goals (Huang and Yu, 2006).

In the previous research, there were a few of leading theoretical and empirical findings relating to comparison between state-owned enterprises and private corporations. In the first hand, according to the findings of Chang (2007, p. 7) mentioned:

“ there is no clear theoretical case either for or against SOEs. Pervasive informational asymmetries and “ bounded rationality” (Simon, 1983) necessitate “ hierarchical” arrangements (i. e., firms) rather than “ contractual” arrangements (i. e., markets). Furthermore, the Sappington-Stiglitz Fundamental Privatization Theorem shows that the performance of private -sector firms is superior to that of SOEs only under stringent and often unrealistic conditions.” (Chang, 2007)

In the second hand, the situation is so obvious that there are the same matters those state-owned enterprises and private corporations are facing in the modern business environment. Both state-owned enterprises and large-scale private corporations can be seen as intricate organizations that have various and overlapping layers of hierarchy, they all confront with complicated “ agency problems”, or “ principal-agent problems” (Chang, 2007). And there are more and more people estimate that private corporations can be managed by the owners of them wonderfully, so in their eyes the agency problems are not matters for private corporations (Chang, 2007). In the third hand, there is only one feasible solution for state-owned enterprises to deal with their troubles even at the logical level which is full-scale privatization and usually be advised by supporters of today’s economic orthodoxy (Chang, 2007). Taken the state-owned enterprise reform in Vietnam as example, from 1976 to 1998, state-owned enterprises in Vietnam reformed and acquired enormous success (Ngu, 2002). In the process of the reform, the average annual total factor productivity in Vietnam increased from 3. 05% to 5. 37% (Ngu, 2002). Although the result of this reform is so excellent, the infirm operation and management of stat-owned enterprises

still encroach on the public interest, and private corporations still are estimated by many business experts to be more effective and competitive than state-owned enterprises (Ngu, 2002).

A significant number of experts in economics, enterprises leaders and policy-makers believed in a long period that private corporations can be operated more efficiently than state-owned enterprises (Sueyoshi, 1998).

Consequently, there are increasingly number of governments reformed their state-owned enterprises to sectional or complete privatizations (Kang, 2009).

But there is a fact that everyone should notice about that the privatisations of state-owned enterprises have disadvantages and lessons yet. A research on the privatization process in UK concluded several points about the lessons and experiences. First, the UK reformed the state-owned enterprises in monopoly industries to privatizations (Yang, 2002). However, privatization has not fundamentally changed the market property for companies to run, monopoly industries, especially in the privatization of public utilities companies, these sectors still have monopoly characteristics, privatization only transfer monopoly characteristics from state-owned enterprises to private corporations (Yang, 2002). Second, privatization not only can reduce the government intervention in business, competition also can force private enterprises to improve their performances. Nevertheless, as far as state-owned enterprises, they can obtain the financial or fiscal allowances from the government without fear of closing down or bankruptcy, the market competition is not efficient as possible as enough for them (Yang, 2002).

Third, after the privatization of enterprises, corporations give more consideration to the interests of managers and shareholders and particular

emphasis on corporate profits, which reinforces motivation of corporation to pursue short-term interests, and ignores the long-term development of enterprises and technological progress (Yang, 2002).

Nobody could deny that there was an increasingly number of private corporations participated in the implementation of public targets in the last decades, especially in developing countries (Crane and Valente, 2010).

Private corporations face more matters that they can not deal with as easy as the operation of business. Even there are so many basic human needs which can not be fulfilled by the local government should be resolved by private corporations (Crane and Valente, 2010). Private companies even pay more attention to national security, the lack of education and hospital facilities, and so on (Crane and Valente, 2010).

2. 3 Information about BP

2. 4 Information about CNPC

2. 5 Corporate social responsibility?

2. 6 Conclusion