

Text 2

“The reform of state-owned enterprise and the effects of economic transition on the driving force of companies”

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Abstract:

### **I. The driving force of companies**

A company's results can be affected by a number of legal entities which are regulated by national- and company-level institutions and together form what are known as a company's "driving force". During the transition from a planned to a market economy these legal entities — that include shareholders, managers, employees, market competitors as well as the government — all play a role in a company's results by creating a shareholder dynamic, managerial and staff energy, market pressures and changes in the company respectively.

## **II. Economic transition and the driving forces of a company**

A state's view of human behaviour changes radically during a period of economic transition from a value system centred around a "social agent" to one centred around an "economic agent". The internal dynamics of a company, along with government-imposed external conditions both undergo considerable change. Major modifications occur in the public services the State provides to the company and in the interest that company holds for the State. The price of raw materials sold to businesses by the State also changes significantly. In other words, the dynamics of a company evolve considerably during periods of economic transition.

During the transitional period there is an imbalance in the elements that make up the driving force in a market economy and, moreover, these are subject to transitional pressures from the government. This leads to a two-tier pricing system, an unequal taxation system and highly unequal provision of public services. A so-called "invisible hand" exerts pressure on businesses. In a transitional economy, employees, managers, shareholders, market players and the government – regulated by State- and business-level institutions – create the energy, the initial driving force, and the transitional and market pressures that make up the driving force of companies. If this driving force is consistently stronger than transitional and market pressures, then that company will retain

its capacity for self-sufficiency. If not, financial loss and a lack of self-sufficiency will result. The purpose of the driving force of business in this case is to maximize shareholder profit, as can be seen in the rapidly rising cost of labour in state-owned enterprises (SOEs).

### **III. What may be learned from trends in the driving force of companies and economic transition**

1. In a period of economic transition, Chinese businesses, whether state-owned or otherwise, operate in a cultural and institutional environment that is quite different from that of a mature market economy. As a result, it is impossible for China to simply copy Western management structures and business systems. SOEs lose their capacity for self-sufficiency and diversify their development strategies because they are subjected to transitional pressures. These are primarily a result of the slow pace of state reform, which prevents the government from offering equal access to public services. Such pressures are a stumbling block to the reform of SOEs, since they are external forces with internal effects that the system cannot control.
2. Because the driving force of a company is shaped by shareholder power and the dynamism of managers and employees (who as individuals evolve according to their cultural and institutional environment), economic transition has a real impact on the driving force. While it is true that competition stimulates productivity, the public-private divide is by no means an indicator of a business's productivity.
3. If SOEs are an imposed feature of a market economy, the State will be the main driving force of those companies.
4. The initial force of shareholders drives managers, who, as representatives of the former, encourage and lead employees according to the system in place in that company, thus creating a positive dynamic among staff. Management drive is vital for the central role which managers play in a company's results. Forces affecting managers include their skills and contributions, the information they receive, and decision-based risk.
5. Because the cultural and institutional environment shapes the behaviour of personnel, managers and shareholders, and because behaviour evolves with time, the driving forces of

business therefore undergo similar changes.

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