

Research on the Control Force of State-Owned Enterprises Group

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Abstract Administration of the state-owned enterprise group has a widespread problem of insufficient control. The state-owned enterprise groups control the main source of their subsidiaries, which are mainly based on the property of strategic cooperative ties; Group control force mainly comes from authoritative headquarters, which have the ability of strategic planning, controlling finance and outputting human resource. According to the degree of centralization and decentralization the control force could be divided into three parts which include financial controlling mode, strategic controlling mode and operation controlling mode; In order to convert administrative management to value management, the decision maker of the state-owned enterprise group needs to convert their thinking modes, strengthen Group controlling system and then improve group control force.

Key words Control force; Strategic cooperative ties; Value management

1 Introduction

Most of enterprise groups were built up by the government during China's economy transition from planned economy to market economy. These enterprise groups, core firms of which are state-owned enterprises, to some extent, depend upon government so that management system and governance structure are in obvious the administrative character. Hence, there is common problem that principal-agent level is more and management chain is longer. In this multi-level management structure, if the group's control force is less, the synergetic effect would not show, even the group would take the risk of losing control in management.

2 The Resource of SOE Group's Control Force---Strategic Synergy on Basis of Property Right

SOE group's control force is a comprehensive response capability when implementing management and control system, which is framed based on business organizational model and structure. Due to historical reasons, the majorities of SOE groups in China followed administrative approaches in the term of subsidiary management, typically layers of approval. That management seems to work, but brings huge management cost and decision-making risks. On one hand, "decision-making body" in each subsidiary falls into "deliberative body" so that the efficiency reduces; on the other hand, at the end of decision-making process, individual approval takes place of collective approval so as to increase the decision-making risks.

In fact, the group management control is not one kind of management tolls, it is neither management nor control but to compare and choose between management control and max value creation capacity. The ultimate goal of management control is to enhance value creation ability. If the value creation ability can achieve to the maximization without management control, the group would not need control, while if not, the group should need it.

The resource of SOE group's control force, truly, is not the administrative right but the strategic synergy on basis of property bond. Firstly, property bond is the basic character of enterprise groups different from other economics commonwealths. Secondly, the group has strategic synergy advantage: firm group has both scale and organizational structural advantages, it also can retain single legal person to management using "visible hand" to allocate the resources. Hence, the nature of SOE group's control force is the right configuration on the basis of synergy, and this kind of right configuration can make subsidiary operate free and gain more support so that the subsidiary will actively adopt the management control, even the group will achieve value maximizing.

3 Foundation of SOE Group Control Force—Strong and Authority Headquarter

Many SOE group founded as a result of administrative allocation, this kind of group shows typical character "first son, after father". Due to late establishment of headquarter, the group often is short of control force. Firstly, the problem of multi-level legal person results front stretch, information failures, and increases the cost of organizational control. Secondly, among the group, the link bond is fragile, the

relationship between parent and subsidiary has not straightened, and centralization and decentralization are not in equilibrium, the operation and management functions are in confusion. Thirdly, multi-stage investment center within the group is easier to form a distorted pattern, weaken the group headquarters' authority and ability to allocate resources. Fourthly, to the group, it is difficult to control the subsidiary's operation and management state by human resource allocation and management. Fifthly, the group headquarter has not yet perfect finance management mechanism, especially capital centralized management and budget and final accounts management, what's more, the management and control on subsidiaries' investment scale, product and operating cost, profit margin and so on is just superficial form.

Actually, most of successful business groups' controlling experience shows that the group control is a process of building the headquarters' authority step by step, a large number of the groups experienced the cycle, "decentralization—centralization--decentralization". For example, the rise of one certain group is due to centralized management system. There were only 50 people at the end of 2003 in the headquarters, and the control of headquarter and board was weak, so the second subsidiaries went their own way, the resources scattered, the group was in inefficient. On the basis of such situation, the group carried out "five unifications" and "one devolution", which are, respectively, investment unification (the investment right unified to the group), brand unification (integrating the brand in 3-4 years), internal control unification (dealing with internal audit staff and cadres of discipline), capital unification (building internal bank gradually), human resource unification (the group is in charge of subsidiaries' important appointment and dismissals) and subsidiary decision-making right devolution (major project approval and professional operation rights are in devolution). Through these measures, this group focused the resources, streamlined the management system, which laid a solid foundation on the rapid expansion in the next a few years. In 2009, the group adjusted the management system, promote actively the diversification of equity, strengthen the operating autonomy, mobilize adequately resources by the approaches combined inside with outside in order to achieve greater development.

Therefore, the foundation of SOE group control force is the strong and authority headquarters, which is more important in the process of building SOE group. The group control force is made up of the headquarters' strategic planning capacity, finance regulation ability and human resource output ability.

4 Protection of SOE Groups' Control Force—Building Control Mechanism

The group control is a so complicated task. The parent-subsidiary control model among large-scale enterprise groups is vastly different, and even in the same enterprise group, there would be different control model to subsidiaries. From angle of the headquarters' centralization or decentralization level, there are commonly three basic management control model:

4.1 Financial targets control model

In this control model, the headquarters is only in charge of the group's financial plan, asset operation, investment decision-making and monitoring, and A&M. The group plans the annual financial goals, which subsidiaries should achieve. In this kind of the group, the correlations between subsidiary firms can be very small. GE and Hutchison Whampoa take this control pattern.

4.2 Strategic management and control model

In this model, the headquarters takes charge of the group's finance, asset operation and the whole strategic plan, while the subsidiary companies also should develop their own strategic plan and the corresponding budget. The headquarters approves the subsidiary firms' strategic planning, if it passes the approval, the subsidiary businesses would operate it. In this kind of the group, there are high correlations between the subsidiary enterprises, and the headquarters focuses on balance between affiliated enterprises' resource requirements, supervision on subsidiary firms' completing the goal in order to maximize the group's profit. British Petroleum, Shell and Philips take this control model. At present, most of enterprise groups have adopted or are turning to this control model.

4.3 Operating control model

In this model, the headquarters takes centralized management of affiliated firms, and also is in charge of subsidiaries' strategic planning and annual budget; the subsidiary companies only implement them, so the group carried out the strict process control. In this kind of business group, the affiliated enterprises' correlation is high, the scale of headquarters is large, and the number of department and staff is too many. IBM and the Formosa Plastics Group take this control model.

In the above three basic control modes, financial targets and operating control modes are

respectively in type of decentralization and centralization management, while strategic control mode is in the middle of those two extreme types. There are differences in these three control mode, such as control structure, type and objective, as follows:

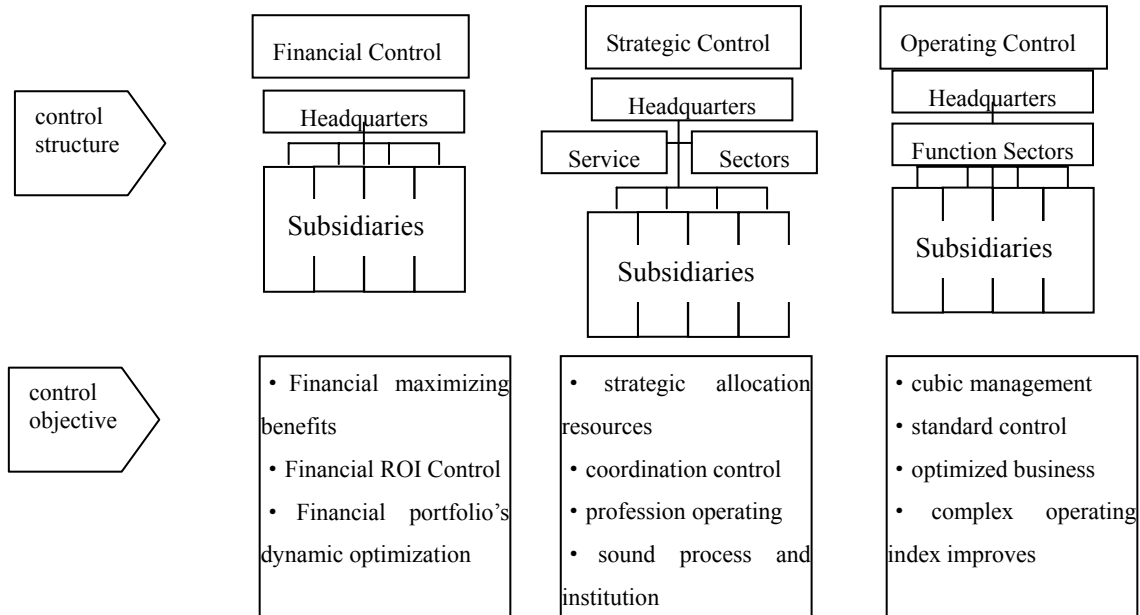


Figure 1 Control Structure and Control Objective

The different degree of centralization or decentralization, mainly in strategic planning, investment plans, operating plans and human resources management plans, shows the depth of the different management.

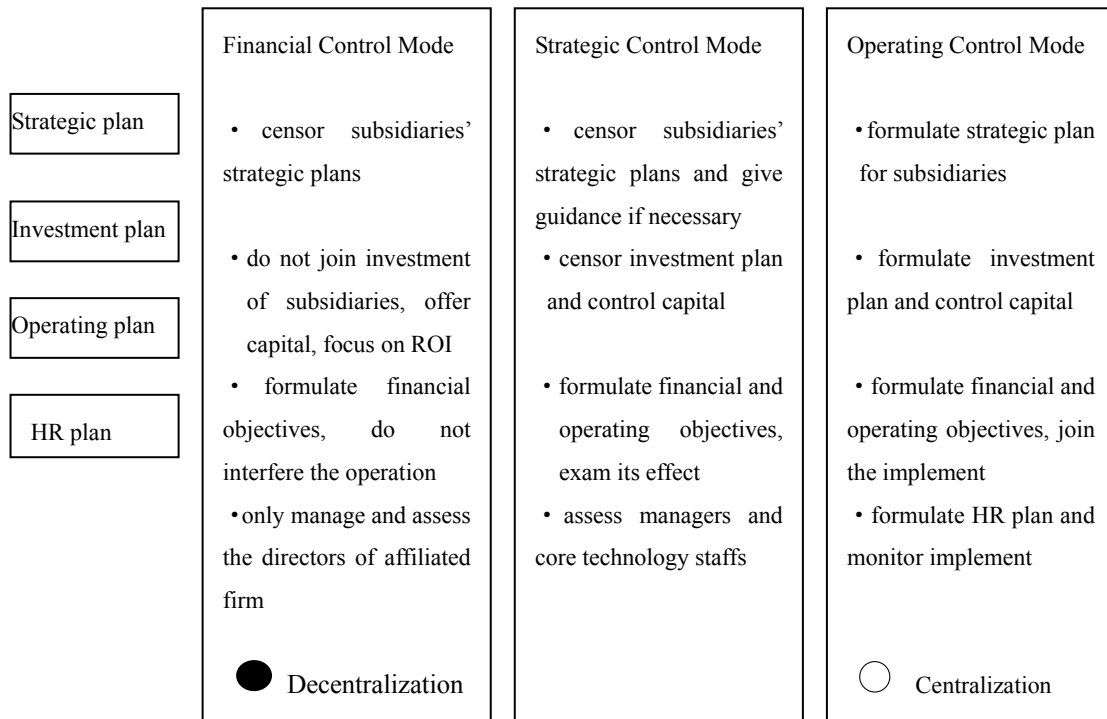


Figure 2 Centralization or Decentralization

Accordingly, due to different control point of the three models, there are different characters in

strategic management, risk control, operating management and other function supports.

Table 1 Strategic Management, Risk Control, Operating Management

Control Model	Finance & Risk Control	strategic management	Operating management	other function support
Financial Control Model	<ul style="list-style-type: none"> • Finance auditing • risk management and monitoring 	<ul style="list-style-type: none"> • guide finance goals • monitor financial index 	<ul style="list-style-type: none"> • capital management • management of raising money 	<ul style="list-style-type: none"> • logistics, information, purchasing, HR and other function supports
Strategic Control Model	<ul style="list-style-type: none"> • strategic financial management • strategic program investment risk control 	<ul style="list-style-type: none"> • guiding strategic plan • implement monitor • performance control 	<ul style="list-style-type: none"> • industry research, support to establish control model • background support 	<ul style="list-style-type: none"> • logistics, information, purchasing, HR and other function supports
Operating Control Model	<ul style="list-style-type: none"> • budget management • real time monitoring, deviation analysis 	<ul style="list-style-type: none"> • decide core text of the strategic plan • performance control 	<ul style="list-style-type: none"> • help expand business • help internal integration and internal control 	<ul style="list-style-type: none"> • logistics, information, purchasing, HR and other function supports
Major Sectors to the Group	<ul style="list-style-type: none"> • Operating Sector • Finance Sector • Audit Sector 	<ul style="list-style-type: none"> • Strategic plan sector • Operating Sector • Finance Sector 	<ul style="list-style-type: none"> • Operating Sector • Strategic plan Sector • PR Sector 	<ul style="list-style-type: none"> • HR Sector • Logistics Sector • Information Center

Collaborative basis and headquarters' authority can not ensure the group's control effectively, the group's control is an organic whole, so the centralized monitoring of rights, pooling of resources and allocating of information involve multi-level management such as strategy, organization and human resources and information management. Overall, according to the group's control, there are seven key factors, such as clear strategic planning and implementation, ability of ROI, the necessity of business and process, management maturity, risk control, information management capacity and mechanism of power and benefits. The success or failure of enterprise group's control, to large extent, depends on understanding of the above seven factors, achieving ability and control model selection. In all, the group's control system is divided into four major parts, such as strategic management mechanism, organizational structure mechanism, power and benefits management mechanism and performance evaluation mechanism. Hence, the above control mechanism is the protection of SOE groups' control force.

5 Suggestion on Improving SOE Groups' Control Force

5.1 Clear the group's strategy, crystallize headquarters' functions and strengthen authority

The decision-makers of SOE groups should treat with the control issues from another angle. Firstly, focus on subsidiary businesses' strategic synergy, which works from relying on the administrative power to the allocation of resources. Secondly, strengthen the ability of financial regulation and human resources output, enhance the headquarters' authority. Thirdly, formulate the unified strategy and clear position of headquarters and subsidiaries, which establishes strategic objectives for effective control.

5.2 Choose suitable control model according to subsidiaries' strategic position

Select appropriate control model according to affiliated firms' strategic position and function. The headquarters, to core subsidiaries, adopt strategic control model; to affiliated companies that will be future earning growth, take operating control mode; to subordinate enterprises that solely are used to return on investment, choose financial control model.

5.3 Establish effective corporate governance and organizational structure

Due to the problems, weak internal link, internalization of the executive management, virtual governance of enterprise groups and so on, to establish effective corporate governance and organizational structure is benefit to organizational protection of control force.

Structure of property rights determines corporate governance, while corporate governance determines internal organizational structure and control model. The more level of property rights, the more complicated statutory operating procedures, the longer management chain, the high management cost, the more serious the distortion of information, the worse management effect, so promote flat management, streamline management level, strengthen control force. Meanwhile, the group should make rules to the directors, supervisors and manager members, who are on the behalf of the headquarters in the subsidiaries. The enterprise group also can monitor affiliated firms through those staffs.

5.4 Strengthen the group's control system

The core of strengthening the group's control system is to establish clear system of responsibility and rights. As independent legal person, the subsidiaries can decide the whole production and operation

on its own way, while the group, as an investor or shareholder, can effect affiliated firms' operation indirectly only through director board, directors, general manager and other approaches. Hence, the clear system of responsibility and rights in enterprise group can ensure that the subsidiaries operate independently, effectively, and even the group manages right and effectively.

5.5 Focus on the construction of supporting system and monitoring corrective mechanism

In an effective control model, the strategic control model is in leading status, and financial control mode, human resource control mechanism and information system are the supporting systems, which are of help to effective control mode, and what's more, make the group achieve objectives. Monitoring corrective mechanism also is vital to realize the goals, so the enterprise group should strengthen internal auditing system and let legal personnel join the subsidiaries' operation.

6 Conclusion

In short, according to SOE groups, coming out of planned economy, featured with administrative, only through positioning accurate the strategy and headquarters' function, streamlining the process, adopting right control model to each subsidiary, taking sound corporate governance structure as the prerequisite, strategic control mode as basis, financial control, human resources control and information systems as support, the SOE group's management can turn from administration to strategic management, then to value management so as to enhance the group's control force.

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