

What's Next for Chinese Enterprises?

Terry Qin- Vice President, Beijing

On September 5, 2009, a list of China's Top 500 enterprises was published. The threshold for entering the top 500 increased from last year's 9.31 billion Yuan to 10.54 billion Yuan, for the first time exceeding 10 billion Yuan (\$1.46B USD). Moreover, China's top 500 enterprises accounted for a larger proportion of the world's top 500 enterprises, and the total profit of China's 500 enterprises exceeded those of the top 500 enterprises in the rest of world, including the US, for the first time.

"China's current top 500 enterprises are actually still the 500 largest enterprises. Enterprises not only should grow larger, but also should become stronger. If the enterprises are only strong but not large, they may lack of influences and still survive the global market. However, if the enterprises are only large but not strong, they will crash down sooner or later" commented Li Rongrong, Director of the State-owned Assets Supervision and Administration Commission (SASAC) under the State Council.

Over 60% of China's Top 500 enterprises are traditional industry-oriented state-owned enterprises, among which, the top ones have the obvious advantages of being monopolies. The enterprises have a strong brand of government policies and high velocity (massive investments over the years). However, some industries in China have been impacted by the global financial crisis, and created the situation of "loss in the entire industry." For example, six of China's civil aviation enterprises entered China's top 500 enterprises, but only two of them are profitable, and the total loss of the whole industry reached 14.5 billion Yuan. Ten electric power enterprises entered the top 500, but the top five all suffered losses, and the total loss of the industry reached 24 billion Yuan.

Obviously, there are still not many Chinese enterprises with risk management competencies and core strategic strengths. The huge profit from many Chinese enterprises comes from government policies instead of their own creativity, from monopoly instead of global competition, from low cost labor instead of high tech and management skills.

Fortunately, because Chinese enterprises are now completely exposed under spotlights on the world stage, they have begun to realize that they need a world-class, more complete performance measurement standard. The SASAC has asked the central state-owned enterprises to straighten out their investment projects, enforce prudent capital management, enhance their cost control and risk management capabilities, and develop their globalization strategies. From 2010, SASAC will also incorporate the EVA metric in the performance measurement system for key management of central State-owned Enterprises.

It is obvious that value based management has become the key strategic approach for Chinese enterprises to be stronger and larger. We expect to see that in the next several years, the Chinese enterprises are not only strong in term of revenues and profits, but also EVA improvement.