



Research on China's State-Owned Enterprise Capital Budgeting

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Abstract

Along with the deepening reform of socialist market economy, state-owned enterprises keep in pursuing for self values in the competitive market, in order to gain survival and development. Based on changeable market, state-owned enterprises seek for development by adjustment or adjustment by development. Quite a lot of managers focus on decreasing costs, but seldom on capital budgeting, long-term asset investment, or R&D. Even for the sake of certain needs, random capital expenditure is common. State-owned assets' maintenance and appreciation of values suffer serious threats. Therefore, to strengthen state-owned enterprises' capital budgeting management is an inevitable way for state-owned enterprises improving the economic operation quality.

Keywords: State-owned enterprise, Capital budgeting, Maintenance and appreciation of values

1. Problems for State-Owned Enterprises' Capital Budgeting in Building Modern Enterprise System

The reform of state-owned enterprises mainly faces two kinds of problems, namely the enterprise external economic environment and the enterprise internal economic management. The two issues directly restrict state-owned enterprises (especially some old state-owned enterprises) to participate in market competition, affecting enterprises' long-term development.

1.1 The enterprise external economic environment problem

China has stepped into the socialist market economy for a short while. Lots of problems need to be solved in exploration. To probe into the enterprise external economic environment can help us to be rational in decision-making and make up more practical strategic goals for enterprise development.

(1) Unfair market competition and imperfect market economic order weaken enterprises' external pressures and internal motives for strengthening capital budgeting management. In specific, it includes three aspects:

① For most enterprises, as they enter the market economy road and become competitive enterprises, they are characterized with planned economy and official nature. Due to the special status, they can gain high benefits and enlarge capitals merely by monopoly instead of decreasing costs. However, the advantages of state-owned enterprises are weakening gradually.

② The social security system is imperfect and enterprises have different burden. State-owned enterprises have heavy social burden, such as the medical fees for the retired. In special, the fast increasing medical fees for the retired account for second thirds of total medical fees. Under this circumstance, state-owned enterprises compete with other enterprises at a different starting line as they enter the market. In a sense, it lacks of basic precondition for fair competition. As a result, the market ratio of state-owned enterprises may be decreasing gradually. Their capital accumulation will be slow.

③ The legal system that maintains the operation of socialist economic system is imperfect. As a result, strikes on unfair competition, such as fake products, cheat, and slanders, are weak. Enterprises' business activities can not get strong and effective legal protection.

(2) Macro economy's industrial structure adjustment mechanism is imperfect and lack of monitoring. Repetitive construction affects enterprises' motives for perfecting the investment budget management mechanism.

① In the construction of modern enterprises system, it is impossible for the country performing direct management on enterprises' capital budgeting. However, a new tendency appears, in which the country is supposed to manage certain issues but not. In specific, the monitoring and controlling functions of macro economic structure layout are weakening. Local areas govern by themselves. Repetitive and low-level investments are increasing. Effective social supervision is an absence.

② In the financial accounting system, after the reform, the special funds are not listed in the reports. Capital income and expenditure are not necessarily asked to report for the top management level. Therefore, the country has no relevant information for adjusting enterprises' micro investment management. Even more, because it is not necessary for enterprises sending reports, some enterprises do not compile capital income and expenditure plan. Enterprises do not

pay attention to capital budgeting management. Sometimes, they only pursue for the size of assets, which may lead to a sharp rise of asset-debt ratio.

(3) In order to solve the business difficulties of state-owned enterprises, certain “surgical operation”, such as renting, auction, merger, and bankrupt, has been taken. They seldom focus on “internal surgery” to strengthen the scientific management, build and perfect the business operation mechanism. Due to this tendency, some state-owned enterprises refuse to search for market externally or decrease costs internally. They ask for policy supports, such as tax exemption, low-rate loans, etc. Once enterprise suffer serious loses, external policies will become powerless. Therefore, the two tendencies make state-owned enterprise lose amounts of talents, seriously affecting the construction of modern enterprise capital budgeting management mechanism.

1.2 Problems for enterprise internal business management

Due to the objective existence of enterprise external economic environment, state-owned enterprises should make exercises and strengthen scientific management to achieve survival and development. However, under the operation of long-term planning economic system, state-owned management mode has lots of defects. In detail:

(1) Weak market consciousness, poor cost competition consciousness, and weak environment adaptability. Before the middle and long-term business decision, the essential market survey is simple. Irrationally enlarging capital expenditure will cost a lot and waste resources.

(2) In production the extensive mode is still in action. In other words, it depends on capital investment to increase the output and decrease costs. As lots of products have to be promoted for sales, it may cause a bad circle “capital expenditure --- increase output --- increase sales --- capital stock --- increase loans --- reduce profits”. There is lack of consciousness of effectiveness for production efficiency, work quality, and business decision-making.

(3) Enterprises have not scientific program for technological reform. In execution, some reforms turn into building houses and buying facilities. It lacks of dynamic trace. The feasibility report becomes an “approval” report finally. Interests for enterprises’ capital expenditure are increasing significantly. Enterprises can not pay off loans from banks. Accordingly, the credits of enterprises are ruined. Furthermore, new facilities purchased by enterprises can not be used effectively. Some are even not be equipped till today. For example, a machine was bought eight years ago at a price of 190,000 Yuan but never put in use. If sell it, the enterprise’s interests will be hurt.

(4) The consciousness of capital budgeting management is weak. In enterprises, the performance evaluation focuses on “effects”, which mainly refers to production value and sales, but not cost decrease. For certain period, managers are confused by “high price, high cost, and high effect”. They merely focus on effects but not know where the effects are from. As a result, some enterprises have loose management, low labor efficiency, high production consumption, serious stock, poor quality and preciseness, which will finally lead to decreasing profits, and more loses.

2. Strengthen Capital Budgeting and Controlling, and Improve State-Owned Enterprises’ Economic Operation Quality

In economic operation, state-owned enterprises face a series of external environmental issues. Along with the perfection of reform, some progresses have been achieved. As for enterprises’ internal operations, we can make it perfect by strengthening scientific management.

2.1 Enhance the consciousness of budgeting management and improve the status of budgeting management

Overall capital budgeting management is involved by all members and all processes. Enterprises should pay more attention on overall budgeting management, make all employees, especially the managers, know and understand its importance, drive managers to reform their ideas. All managers should lay stresses on budgeting management in thoughts and behaviors. Re-recognize budgeting management in perspective of enterprise governance and enterprise management innovation. Support enterprises to popularize budgeting management in general. Take the overall budgeting management as the important issue for improving enterprises’ management level and economic benefits.

2.2 Build a state-owned assets operation budgeting reports system

It mainly includes state-owned assets budgeting tables, relevant appendix, and introduction. Thereinto, the state-owned assets budgeting table is mainly to reflect state-owned assets’ capital sources and uses by means of income and expenditure. For different subjects, the tables are different. Even for the same subjects, the contents are different at different time and places. It is a gradual perfect process. In the state-owned assets budgeting tables done by state-owned operation enterprises, the income includes business income, capital financing income, other income, and annual balance. The expenditure includes business expenses, capital investment, debts, and other expenditure. For different operation enterprises, the tables can be adjusted properly. The appendix mainly includes assets-debts tables, balance sheets, and cash flows. The introduction mainly includes the explanations for main indexes.

2.3 Build a equipped system for state-owned assets operation budgeting

① Establish assets managers' financial duties, including duties of financial sectors as investors in fields of assets and financial management and enterprises' duties for investment in state-owned assets and financial management. ② Establish relevant evaluation methods concerning financial duties. Combine rewards, punishments, incentives, and restraints together. Build a set of perfect system for examining and evaluating state-owned assets' maintenance and appreciation of values, and an incentive mechanism for managers, and risk responsibility system. ③ Set up an effective external financial monitoring mechanism. Arrange financial monitors for state-owned assets. Trust agencies to audit, supervise, and reflect enterprises business activities and financial conditions. ④ Standard enterprises' financing and investing activities, including the increase and decrease of state-owned assets, and the arrangement of state-owned stock rights. ⑤ Regulate enterprises' cost management expenses, including wages distribution, treatment fees, bad debts, losses of large fixed assets, and flowing assets, and losses of investments. Research and apply regulated management methods. ⑥ Supervise the property change and financial change in assets reengineering. Regulate enterprises' reengineering activities, including state-owned enterprises' combination, separation, exterior investment, transfer, mortgage, guaranty, and bankruptcy. Emphasize on state-owned assets' optimized allocation. Build an entrance-exit mechanism for state-owned assets. ⑦ Regulate enterprises' distribution policy, including the distribution of after-tax profits, the return from the transfer of property, and the principles of distributing and using profits.

2.4 Strict budgeting assessment and execute the reward-punishment system

Budgeting assessment is the way to supervise, to check, and monitor the budgeting subjects. Tracing, checking, and confirming the performance of managers can help them to execute the budget for a long period. The reward-punishment system must be in action. Only by this way, it can maintain the seriousness of budgeting management.

In a word, under the environment of fierce market competition and economic integration, to dig out enterprises' potentials and decrease costs is the essential guaranty for the effective internal management. Therefore, enterprises should form a long-term mechanism for budgeting management, and execute the mechanism in economic operation and production management.

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