

Party supervision can keep reputation of State enterprises intact abroad

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State companies exist everywhere in the world and they rarely raise eyebrows because we expect them to stay at home and be boring. They don't seem to inspire and they don't need to. Their major or single owner, the state, might pay attention to how its own citizens feel about these state giants for political purposes. We don't get excited by what service providers of the state really are, and these companies hardly ever care what foreigners think about them, being essentially domestic concerns.

Chinese State-owned companies (SOEs) have defied the traditional model of state companies by being the biggest ever seen and the most ubiquitous internationally. Not content with remaining within their borders, they have "gone out" to find resources, knowledge and opportunities to sustain the Chinese economic miracle back home. Some of them have capitalizations bigger than the GDP of small states.

Suddenly, how they behave abroad and how foreigners think about them became very important. This is even more important as they have been facing increasing scrutiny everywhere from Myanmar to Mexico. Chinese companies were caught short and unprepared. As state entities, they were very content dealing with equivalent state authorities in foreign countries but rarely ever had any systemic plans to deal with grassroots, NGOs and other stakeholders who would question whether they could ever be called "corporate citizens" at all.

As a result, their reputations, and their abilities to do business abroad, have suffered. Reputation is the biggest asset a company has, and Chinese SOEs have been finding this out the hard way.

What passes for corporate culture for many of these Chinese State corporate behemoths are often slogans, or long mantras of significance only to the Chinese. All SOEs love to say "win, win" which many opposed to China's SOEs increasingly see as China saying "China wins, and foreigners lose." To foreigners, SOEs are large, and mysterious. They see them as entities that they cannot or do not want to relate to.

Myanmar, a country where we have been working with Chinese SOEs, was a significant watershed for these SOEs because of social risk. Having bet everything on a pro-China government and not having expended enough effort to gain the local population's trust, they were in for a rude shock. When the government changed tack and signaled its desire to be less reliant on China, many major Chinese projects were either delayed or put on hold. A similar scenario can be seen in Sri Lanka after the latest elections. In Africa, communities are turning against large Chinese SOE projects.

Chinese companies do not pay enough attention to social risk. Without a social license to operate, China's SOEs are at severe risk of losing market share.

The government of China wants to reform these SOEs and is also subjecting them considerable anti-graft scrutiny. This is to be commended.

If reforms can make SOEs leaner and more competitive, they could make a better return on their investment for the government and people of China. Better governance and structure can help them save costs and focus on core businesses. But Chinese SOEs' biggest problems abroad won't be resolved by just becoming leaner. They also need to act more responsibly, and take a "prevention rather than cure" approach to social risk. Social risk is often their biggest enemy abroad.

The current anti-graft campaign shows that the CPC and the State are not shy about making a moral statement and brandishing their ethical credentials when needed. It's not only graft that loses money for the State, but the huge losses made by Chinese companies who made large investments without paying attention to social and political risks created by their behavior and the consequences to losing the favor of their hosts' populations.

Now, with anti-graft, the CPC has chosen once again through the Central Commission for Discipline Inspection to put its moral capital and ethics into practice. The CPC has always opted to do the right thing, and not the easy thing. I believe the situation of rejection and lack of rootedness facing Chinese SOEs abroad could in the medium term lead to severe strategic risks for China on par with those offered by financial crises and corruption. The proposed ethical supervision of SOEs abroad by the CPC is how China can help save itself and the world once more.

The author is CEO of China-i Ltd, a risk and communication advisory company based in Beijing and London. opinion@globaltimes.com.cn

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