The Necessity and Selecting Evaluation Model of Large State-owned Enterprises in Expanding New Business

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Abstract. Diversified development is an important feature and trend of development for large enterprises at home and abroad. In order to reduce the impact of the recession of individual industries on the operation of enterprises, make full use of internal resources and defend against "cross-border competitors", China's SOEs need to constantly expand new businesses. This paper chooses the three criteria, including maturity expectancy, development potential and the relationship with the main industry, to build a selection evaluation model for the large SOEs in China to expand their new businesses in order to scientifically select new business and cultivate the leading industry in the future of the enterprise.

The Necessity of Expanding New Business

Looking at large enterprises at home and abroad, especially multinational corporations, it is not hard to find that diversified development has become an important feature of large enterprises. In the 30 years after World War II, diversification has become the most important way for the company to expand dramatically. Chandler has made a classic study on the diversification mode of large corporations in America, and reached the conclusion that diversification shows an increasing trend (Xu Xiyan and Luo Yuze, 2006). In another example, Yang Renhui's (1998) study found that up to 94% of Fortune 500 companies are diversified. For instance, General Electric entered more than a dozen areas, such as aircraft engines, nuclear reactors, medical devices, finance, plastics, furniture, electrical appliances, and so on.

The Central enterprises in China are generally large SOEs. In 2017, among the world's top 500 enterprises, the number of enterprises in China occupies 115, most of which are SOEs. Moreover, among the listed SOEs, basically there is no phenomenon of single business operation, and the SOEs are widely involved in many industries and many businesses. For example, CNPC's business involves more than 10 fields, including oil exploration and production, oil refining and chemical industry, international trade, finance, petroleum equipment manufacturing, and so on. For China's large SOEs, in order to achieve "evergreen foundation", they should implement the diversified development strategies, and therefore there is the need to constantly expand new business.

The first, Utilizing the "unsynchronization" of the industrial life cycles of different businesses, it can redress the business impact generated by the recession of individual industries. According to the theory of industrial life cycle, the development of an industry will go through four phases in turn from time to time, namely "sprout→growth→maturity→recession" (Figure 1). If a company always runs a single business, the life cycle of the business will greatly limit the growth of the company. Once the industry begins to decline and disappears, the company will inevitably face a downturn until it finally dies out. At present, under the background of serious overcapacity in the heavy chemical industry in China, some SOEs have encountered operational problems. The important reason is that they are overly focused on a single area and their diversified development is inadequate. Therefore, using the "unsynchronized" of the different industries’ development stage and constantly adjust dynamically the diversified businesses, can significantly reduce the negative impact of the recession of a single industry.
The second, using the internal resources efficiently, enhance the market competitiveness of the large SOEs. A big motivator for most companies to implement diversification strategies is to take full advantage of existing production resources, such as branding, technology, capital, etc. There are many advantageous resources for the large SOEs in China, such as low-cost capital advantages and technological advantages. The SOEs can further extend their business chain or develop horizontal related industries to further utilize these advantageous resources more efficiently, and give full play to the business portfolio advantages of "1 + 1 > 2", so as to enhance the market competitiveness. In recent years, as the new technology of "Great Clouds Moving" has continuously infiltrated the society, it has brought many good opportunities for the traditional SOEs to expand their business.

The third, defending the cross-border competition from the internet companies. In recent decades, as the world economy entered the information age, the rapid iteration of information technology and its accelerated infiltration in various fields, led to more and more blurred business boundaries. The newly emerged large-scale Internet companies have strong market competitiveness and are continuously playing their roles as "cross-border competitors" through the use of advanced Internet technologies, Internet thinking and new business models, and having a greater impact on traditional businesses. In recent years, the well-known Internet companies such as BATJ in China have had a tremendous impact on the traditional industries such as communications, banking and retail (Figure 2). For example, the birth of Yuebao led to the relocation of deposits, and have a great competitive pressure for the traditional state-owned banks such as ICBC and CCB. Therefore, with the development of technology, the leading enterprises in any one industry need to have a sense of crisis. They may encounter "cross-border competitors" at any time. Therefore, it is especially necessary for enterprises to implement a dynamic and diversified strategy.
Selecting Evaluation Model in Expanding New Business

At present, many scholars have carried out relevant researches on the diversified business choices of enterprises, and have also formed more relevant theories and methods, such as Ansoff's product-market matrix, Boston matrix, and mother-to-child advantage theory. Porter (1985) argues that the choice of diversified businesses should follow the double guiding principle. First, there should be a correlation between the new industries and the original industries. Second, the new industries should be attractive enough. Wang et al. (2002) put forward a "matching evaluation matrix based on the theory of mother-to-child advantage" for selecting and evaluating diversified strategic businesses. Xu Xiyan and Luo Yuze (2006) put forward a selection and evaluation model of diversified businesses in enterprises. They think that judging the suitability of an enterprise for entering a new business or which’s exist business is mainly due to two factors. First, whether the business has good prospects for development, and secondly, how does the company's core competitiveness match the key success factors of the business? Overall, the above theories or studies have some value, but their applicability to new business choices of large SOEs in China is relatively weak. The main reason is that these theories or models generally ignore one of China's basic national conditions, that is, there is a strong policy constraints when the large SOEs in China implement the diversification strategy.

In China, the SOEs are strictly regulated by the government and their choice of business cannot be completely autonomous as that of non-state-owned enterprises. Generally speaking, SASAC has set specific functional orientation for SOEs, which is mainly manifested in the identification of main businesses. For example, the main business of CNPC is the oil and gas industry, while the main business of COFCO is in the field of food. This limitation of the main industry is the core mission that the state gives the SOEs. At least for a very long period of time, this is the business that the SOEs must stick to and develop vigorously in diversification. Therefore, the choice of new business by the SOEs also needs to be centered around their functional orientation, and ultimately demands the promotion of the development of the main business of the SOEs.

According to the limitation of this policy of SOEs in China, this paper constructs a selection evaluation model of large SOEs to develop new business. The model mainly consists of three core standards, which can be used to confirm which new business is most suitable for a large SOE.

**Standard 1: Mature expectations of the main technology**

Industrial development is based on technological development, that is, the commercial use of technology. Whether a new industry can emerge and develop requires a major breakthrough in its corresponding core technologies. Therefore, it is very risky to develop emerging industries. Because in the infancy, the core technology is still in a period of uncertainty and the risk of successful technology development is enormous. Only enterprises with abundant capital and risk preference often dare to invest. Once successful, the return on investment is generally very rich, companies can also take advantage of the first mover, a high probability will become the leader in this new industry, such as the famous enterprises AT&T, IBM, Microsoft in the information industry.

When deciding whether or not to enter a new business, the SOEs need to make a pre-judgment on the subject technology behind them. If the technology is relatively mature and the probability of realizing commercialization is greater, they can choose to enter. On the contrary, if they are not mature, Choose not to enter temporarily, just keep watching.

**Standard 2: The potential for development**

The development potential can also be described as the development prospect, that is, the market size that the new business can achieve in the future. The larger the market size and the greater the potential for development, the more likely it is that the company will generate more profits. Some new businesses may eventually grow, but due to their business characteristics, the market size may be relatively limited; and some new business, the products or services they provide may be very much in line with the needs of the development of production or consumer spending rules of escalation, so there are broad practical space and development potential, such as the automobile industry in early 21st century.

When deciding whether or not to develop a new business, SOEs generally do not make small profits, but rather hope that the business will grow into one of the company's leading industries in the future.
Therefore, it is necessary to make a judgment on the development potential of new business. If the potential is large enough, it can choose to enter. If it is only a certain segment and the market has relatively limited space for growth, it may choose to give up.

**Standard 3: The degree of synergy with the main industry**

The SOEs, especially the central SOEs, have basically shouldered certain tasks assigned by the state, which requires that they must take the development of a major industry as the core. So the SOEs also often have some monopoly power and resource advantages in this field. In choosing whether to enter a new business, SOEs will encounter many competitors, including other SOEs, private-owned enterprises and foreign-funded enterprises, and therefore they need to consider the issue of competitiveness. If the business is strongly related to the main business, entering into the new business will help the SOEs make full use of the existing advantages of technology, products, customer channels, capital, and so on, and their competitiveness in the market will also be stronger. On the contrary, if the correlation with the main industry is not strong, there is basically no competitive advantage. In the future, the SOEs will find it hard to truly gain a firm foothold and gain leading advantages. Moreover, such new businesses may undermine the ability of the enterprises to invest in the major businesses, and are not easily approved by the state-owned assets supervision authorities.

Based on the three measures of Standard 1, Standard 2 and Standard 3, those new businesses with high mature technology expectation, great potential for development and high synergies with the main businesses are well adapted to the new businesses of the large SOEs in China and are vigorously developed. The new business option is the orange section in Figure 3.

![Figure 3. The Selecting Evaluation Model of Large SOEs in Expanding New Business.](image)

**Conclusions and Recommendations**

Diversified development is a universal feature of large enterprises in the world and an important trend of development. Judging from the current situation, China's large SOEs are also generally diversified. In order to realize the sustainable development of large-scale SOEs in China, it still needs to implement a dynamic diversified development strategy. Therefore, it is necessary to continuously develop new businesses for three main reasons. The first, Utilizing the "unsynchronization" of the industrial life cycles of different businesses, it can redress the business impact generated by the recession of individual industries. The second, using the internal resources efficiently, enhance the market competitiveness of the large SOEs. The third, defending the cross-border competition from the internet companies.

At present, there are relatively many theories and models on how to choose new businesses, but their applicability to Chinese SOEs is not strong. They have not considered the special national conditions of China. This paper constructs a selection evaluation model for China's large SOEs to
expand their new businesses. The model mainly consists of three core standards to measure which new businesses are suitable for development. The three core standards are respectively the mature expectations of the main technology, the potential for development and the degree of synergy with the main industry. Only when the new technology satisfies the mature expectation of the main technology, has great potential for development and high synergy with the main business, is it more suitable for vigorously Support.

The development of new business is a complex system engineering, this paper has just completed the choice of this step. In order to cultivate new businesses into the leading industries in the future, SOEs still need to undertake a great deal of work in the follow-up work, including the design of incubation mechanisms for new businesses, the development of strategic plans, the design of assessment mechanisms, and so on, which require state-owned enterprises to attach great importance to science Finely designed this project.

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