7 The Structural Features of the CMRS

Part III attempts to interpret empirical findings from the case material described in chapters 5 and 6, referring to the theoretical framework formulated in chapter 3 and the institutional perspective described in chapter 2. Drawn on the theoretical framework, the government and the state-owned enterprise are two basic units of analysis which formulate role and institutional relationships. As institutional arrangements, the CMRS and the Enterprise Law formulate a basic framework, determining the nature of these relationships. They also provide opportunities for the two parties to further exploit them. In order to understand the dynamic of the two parties' interaction, the property rights structure is used as a tool to analyse the regularity which has evolved.

This chapter focuses on the basic role relationship between the government and the state-owned enterprise; the structural feature of the provisions of the CMRS and the Enterprise Law in terms of property rights structure.

7.1 THE COMPLICATED ROLE RELATIONSHIPS BETWEEN THE GOVERNMENT AND THE STATE-OWNED ENTERPRISE

7.1.1 The Dual Roles of the Government

Broadly speaking, under the central planned economy the government played two roles, acting as an owner of vast state assets and an administrator of a country. As an owner, the government was responsible for directly managing state assets. As an administrator, the government was in charge of general administration, national defence, and public order, responsible for regulating the economy and making economic policies. In this system, the economic activities were highly centralised and functionalised and there was no need to distinguish between the role of owner and of administrator.

Under the CMRS, the government still attempts to play both roles, that of owner and administrator, but delegates managerial jobs to the
managers. As the owner, the government attempts to set up a kind of contractual relationship with the managers instead of direct control; as the regulator, it is supposed to influence the enterprise indirectly through macroeconomic instruments. The two roles should function separately, but this leads to two questions: how is it actually functioning at each level and how could it be coordinated between two levels? The first question concerns a contractual relationship between the principal and the agent. The second question is about the coordination mechanism which is a more fundamental issue of the economic reform. The analysis starts with the first question and deals with the second one in chapter 9. On the company side, the change in the role of the manager is given in chapter 8.

7.1.2 The Contractual Relationship between the Principal and Agent

In terms of delegating managerial tasks to the manager, the CMRS has to build up a kind of principal and agent relationship between the government and the manager, based on contracts, in which contractors are in equal positions to negotiate a contract (Jensen and Meckling, 1976). It implies a change in the relationships between the government and the enterprise from administrative coercion, which was dominant in the previous hierarchical system, to equal partnership (in a broad sense) subject to contracts.

In the course of economic reform, however, such contractual rights are not automatically exerted, even if they are officially documented. Several questions arise from the empirical study during the period of formulating a contract:

- Who should be the contractor on the enterprise side, especially related to the role of the director and of the party secretary;
- Whether the government should offer opportunities to the public for applying for the position of the director;
- Whether both sides have equal power to negotiate a contract;
- Who should be contractors on the government side, in terms of the role of owner.

‘One centre and one core’ was an expression which occurred when the debate on the role of the director and of the party secretary was intensified in 1989 (see section 5.3.1). On the surface, it is the issue of who carries the most authority in companies; under the surface, it