

## ANALYSIS OF A MAJOR OFF-FARM ACTIVITY : WEIZHOU CEMENT FACTORY

Weizhou Cement Factory (WCF) has been chosen for the case study of a local enterprise, since it is the largest firm among the Type I businesses and is a leading local industry.

### Background

The WCF was founded in 1977 and started production in 1978 with an annual production capacity of 10,000 tons. WCF at present has a fixed capital of 190 thousand Rmb (50% from township government investments and another 50% from bank loans) and 100 workers recruited from villages in Weizhou. Between 1978 and 1985, it has produced 67 thousand tons of cement. The fixed assets and cashflow increased to 1 million Rmb and all debts had been repaid. It had 700 thousand Rmb as savings in addition to the subsidies provided to the cadres in the township and to village civil establishments. Until 1985 things were going well with WCF.

However, in 1986 the township administration decided to expand its production capability to 50,000 tons by updating its production line. This was done under pressure from a central policy which stated that all cement factories with production capacities under 20,000 tons per year were to be shut down. For the proposed expansion, the Weizhou administration put in an investment of 4.2 million Rmb. The WCF's own savings of 700 thousand Rmb, a bank loan of 3 million Rmb, and 0.5 million from other funding sources were also used.

Although the equipment was upgraded to medium level by Chinese standards, the efficiency of WCF began to decline. In 1990 they incurred a loss of 50,000 Rmb. In addition, a debt of 2.12 million Rmb remains unpaid. Further, there has been a backlog of unsold inventory and the WCF is currently trying desperately to find buyers.

A closer look at the organisation and management and other related issues highlights the reasons why WCF turned from a profitable enterprise to an enterprise running at loss.

### Organisation and Management

After the founding of the WCF in 1978, it was under the control of the "People's Commune" and its management was appointed by the leaders of the commune. Workers were recruited based on recommendations from all the brigades (villages) in the township. The remuneration of employees was paid according to "work points", as in the case of commune members. The management of the WCF was not changed after the introduction of the system of the CPRH system in Weizhou in 1981. Its director was appointed by the government of the township. The management has lagged behind and the organisational structure has not been able to cope with the needs of the contracting system.

WCF has been mechanised, automated, and standardised considerably. WCF, after its upgrading, required specifically qualified technicians and a professional management system. This required a completely different management approach than had been the case previously.

Before the upgrading of the plant, cement was produced according to indigenous methods and a proportion of the contents of different raw materials were monitored only roughly, based on experience. A couple of machines were used in the process of smashing, blending, and drying. Workers were able to handle these without specific professional qualifications. After the new production line was put into place, all the production processes, from raw material feeding to packing, were automated in an assembly line and hydraulic pressure, voltage, and chemical contents were all monitored by meters. In this case, every post on the production line required high technical qualifications. Nevertheless, the management sent only a couple of technicians to be trained. The quality of the product could not be guaranteed since the operational competence of the plant was lacking.

## Market

The produce of the WCF was mainly marketed in the home township and county. It rarely received orders from neighbouring counties. Between 1978 and 1985, farmers' cash income rose rapidly and most farmers desired to improve their housing first. The total 10,000 tons' annual output of the cement plant was almost all sold to farmers in the county for house construction. It then seemed as if there was no marketing problem for cement. After the production capacity was raised in 1986, the management neither set up a new marketing strategy nor sent any professional salesmen to open new markets for its cement, but rather waited for orders at home. It was far too late when they sent a couple of untrained workers to train in marketing development, as several competing cement factories were established in neighbouring counties. Hence, the loss was induced by under capacity production, which, in turn, was caused by inventory pile-up and finally by marketing problems. These reasons for loss are quite different from those commonly found in other rural enterprises, which usually face problems of power supply and so on.

Evidently, there are big problems in terms of management, technology, and marketing. In this case, the WCF is not able to raise its labour qualifications, and, therefore, the quality of its product, which in turn undermines its competitive ability even to maintain its existing market share.

The turning point of the WCF from profit to loss was due to the expansion of its production capacity under pressure from a higher policy-making level. There was no consideration for market potential, technical training, quality control, and management improvement. The WCF's case shows the result of inappropriate policy intervention on business operations. Economic policies should, therefore, be formulated from a regional perspective to suit the imperatives of different regions. Enough attention needs to be paid to pertinent regional issues prior to the implementation of policy instruments so that the effect of policies follows original intentions.

As a leading firm in Weizhou, the WCF used to be a "successful" pilot, rural enterprise providing incentives for the development of non-agricultural sectors in the region. It was the example of a village-based and run raw materials' business which absorbed quite a proportion of the local labour force. The present situation is problematical, and there is no other way but to improve factory management, raise labour qualification through training, and open new markets for its product.