

Analysis on Corporate Governance of State-owned Enterprises

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Abstract. Corporate system has become one of the most important forms of economic organization in the modern enterprise system under the condition of market economy. Whether the corporate governance structure is perfect or not plays a decisive role in the normal operation and development of the economy. So far, the reform of state-owned enterprises has lasted for nearly 40 years, and the reform has made great achievements, but there is still a certain distance from the reform goal. The corporate governance problems of state-owned enterprises lead to the rights of state-owned enterprises cannot be fully realized and guaranteed. The Realistic Dilemma of Corporate Governance in China appears. This paper discusses the market disadvantages in the operation of state-owned property rights, the governance structure of state-owned enterprises, and the existing problems of state-owned enterprises, and how to overcome these disadvantages.

Keywords: State-owned Enterprise; Corporate Governance; China; Agency -Problem; Property rights

1. Introduction

1.1 State-owned Enterprise

The ownership of state-owned enterprises belongs to the state, and the government is the representative of the owner's identity and status. However, because the government cannot be regarded as an ordinary civil subject, the relationship between government and state-owned enterprises cannot be regulated by commercial contracts. When the government exercises its rights to the owners of state-owned property, it needs certain political procedures to be realized, and political procedures often have to be operated through certain administrative procedures, that is, the specific realization of its political procedures by an administrative department of the government. Only in this way can the decision-making right from the owner be transformed into the actual operational management right of the enterprise. Therefore, the governance structure of state-owned enterprises must have some form and a certain degree of government-enterprise integration. The complete separation of government and enterprises is actually a violation of the rights of owners (government).

In our country, large state-owned enterprises are usually composed of many subsidiaries, brotherly enterprises, holding companies and many other branches or subsidiaries, these branches and subsidiaries are not with headquarters in a city or adjacent cities, often scattered in the great rivers and mountains of the motherland, the contact becomes very weak, the whole enterprise also lacks the system, perfect management mechanism, the division of labor between management repetition, leadership confusion, the interests between the company and the company, the debt relationship confusion, subsidiary or holding company debt is also borne by the head office. Some enterprises are in debt and eventually go bankrupt, which makes state-owned enterprises have to reform. In addition, the operational state-owned assets have not yet achieved centralized and unified supervision, there are still multiple management, unclear responsibilities. There are still many problems in the supervision of state-owned assets at all levels, such as excessive management, inaccurate supervision of investors, and many approvals and filing matters [1].

Due to the particularity of the government's identity and function, the supervision mechanism, incentive mechanism and operator selection mechanism generated by the corporate governance structure of government-enterprise integration will not only have a complete property rights, which may contain many super-economic factors and forces. For example, from the aspect of management rights, when the government controls all the management rights, enterprises will inevitably lead to

irresponsible operators because of no autonomy. At the same time, government officials have the opportunity to use the management rights to rent-seeking enterprises, and business operators may seek management rights through bribery of government officials, so that the spread of corruption. Especially in the era of economic monetization, this corruption will be more serious. If the government gives enterprises too much operating rights, it may cause the insider control of the enterprise, so that the rights of few owners are violated, leading to the conflict between the majority shareholders and minority shareholders.

1.2 Development Process of China's Stated-owned Enterprise

Before the reform and opening up, China has realized the planned economy system, and constructed the economic organization and economic operation mode based on the ownership of the whole people. This rigid system lacks vitality and creativity. After the Third Plenary Session of the Eleventh Central Committee in 1978, under the background of reform and opening up, promoting the reform of state-owned enterprises has become an important starting point for economic system reform. China's state-owned enterprise reform is roughly divided into three stages:

The first phase was 1978-1992. Because there is no experience for reference, the reform of state-owned enterprises is in the 'touch the stones across the river' in the continuous progress. During this period, the main idea of state-owned enterprise reform is to expand enterprise autonomy. The Central Working Conference held in April 1979 first proposed the policy of expanding enterprise autonomy. From 1979 to 1982, through the pilot of expanding enterprise autonomy in some enterprises, the right to appoint and remove cadres, the right to sell and the right to use funds were gradually decentralized to enterprises. The reform of state-owned enterprises in the first stage has achieved remarkable results. Government tax, enterprise income and employee income have been greatly increased. But at the same time, some enterprises failed to make full use of the contract responsibility system, resulting in the loss of state assets and other issues have occurred [2].

The second phase was 1992-2002. After Deng Xiaoping went south in 1992, the report of the 14th National Congress put forward the goal of establishing a socialist market economic system. In 1993, the Third Plenary Session of the 14th Central Committee adopted *Decision on Some Problems of Establishing Socialist Market Economy System*, which clearly stated that the establishment of a modern enterprise system is the inevitable requirement for the development of social production and market economy, and the direction of the reform of state-owned enterprises in China. China began to carry out corporate reform and strategic restructuring of enterprises and strived to establish a modern enterprise system to help state-owned enterprises out of business difficulties. The state-owned enterprise reform at this stage has solved the past development dilemma and has significantly improved the operating efficiency of enterprises. However, there are also problems such as the loss of state-owned assets, laid-off diversion, and evasion of bank debt.

The third phase is 2002-2013. In 2002, the 16th National Congress of the Communist Party of China put forward, 'to establish the central government and local government, respectively, on behalf of the state to perform investor duties, enjoy the rights and interests of owners. The management system of state-owned assets in which rights, obligations and responsibilities are unified and assets are managed in combination with persons and affairs. In 2003, marked by the establishment of the State-owned Assets Supervision and Administration Commission, China began to explore the establishment of the State-owned Assets Supervision and Administration System through the establishment of performance appraisal system, annual salary system for leaders and major accountability system. At this stage, China's state-owned enterprises ushered in a period of major development opportunities, the scale of state-owned enterprises expanded rapidly, asset quality significantly enhanced, enterprise competitiveness significantly improved, and successfully overcome the adverse effects of the international economic and financial crisis in 2008.

Over the past 30 years, China's SOE reform has made great achievements. However, some deep-seated problems are constantly emerging, which is reflected in unreasonable layout of state-owned enterprises, one-sided pursuit of large and comprehensive, leading to the focus of business is not

prominent. In major strategic areas layout is weak, enterprise innovation ability and R & D ability is not strong. Administrative power is strong, some enterprise management and employee income are different.

2. Pyramid Shareholding Structure

In addition to the frequent listing of all kinds of insurance funds, there are also capital crocodiles hidden behind the complex pyramid shareholding structure. These capital crocodiles acquire the controlling shares of Company B (with leverage) through Company A, which holds the controlling shares, and then acquire Company C through Company B, so as to achieve the control of Company C. Through the layer-by-layer equity control chain, the actual controller at the top of the pyramid thus constructed a huge financial empire. At the beginning, China's listed companies as holding subsidiaries or grandchildren formed a pyramid holding structure not only from the organizational system design needs to meet the financing needs of enterprises, but also related to some special policies launched by the government in the process of state-owned enterprise restructuring and industrial restructuring [3]. First, in the 1980s and 1990s, China's capital market is far from mature and effective. Pyramid holding structure at this time plays an important internal capital market, become not yet mature and effective external capital market supplement, or even alternative. This constitutes the most direct reason why pyramid holding structure first appeared in China's capital market. The second is from the actual needs of state-owned enterprise restructuring. In order to promote the restructuring of state-owned enterprises with serious losses and lack of funds, high-quality assets spun off from state-owned enterprises are preferred to list and raise funds. Third, in the process of state-owned enterprise management system reform, in order to avoid the SASAC is both a referee and athletes suspect, between listed companies and SASAC artificial set up to control the group company. Through group companies, the government achieves indirect control over listed companies. Fourthly, in the process of several rounds of mergers and acquisitions and industrial restructuring, some enterprises with poor efficiency were implanted into some relatively powerful enterprise groups by the government, in order to solve the problems faced by many state-owned enterprises at that time, such as poor efficiency, unable to guarantee the basic salary, and laid-off workers. Fifth, in view of the listed company listing audit queuing cost is long, backdoor listing has become a way for some enterprises to choose listing. A new chain of control is naturally formed between the new listed companies and the original companies formed after the asset injection of shell. Due to the above reasons, in many state-owned enterprises gradually formed a large pyramid holding structure (Enterprise group) composed of both some listed companies and a large number of non-listed companies. Negative Effect of Pyramid Controlling Structure exploded.

3. Results

On the current situation of corporate governance structure in China, it is necessary to believe that the biggest feature is the control of 'key people' [4]. Specific performance as follows: 1. The governance structure of listed companies mainly has two modes: insider control and controlling shareholders. 2. High concentration of equity means that state-owned shares occupy a controlling position and do not circulate. Commercial banks, as creditors, play a less important role in monitoring the company. 3. Enterprise decision-making, supervision mechanism is not perfect. 4. Asset restructuring based on internal transactions; control market is underdeveloped. 5. There are serious problems in information disclosure. It is believed that in order to improve and perfect the corporate governance structure of China's listed companies, we should not only do a good job in system construction, but also actively create and establish a good corporate governance culture that is compatible with China's corporate governance structure [5]. Due to the corporate governance problems of Chinese companies, although the implementation of the state-owned enterprise corporatization restructuring, but there is no real understanding of the corporate system and

successfully applied to Chinese enterprises. Most state-owned enterprises are still inefficient after the implementation of the so-called modern enterprise system. In general, the problems of Chinese scholars on corporate governance structure are concentrated in the following aspects: 1. The ownership structure is unreasonable, and the state-owned shares are dominant. 2. The absence of owners leads to the phenomenon of insider control. 3. The composition of board of directors is unreasonable, the mechanism of producing board members is not perfect, and the operation of board of directors is not standardized. 4. The supervisory board is difficult to play its due supervisory role. 5. Managers lack incentive and restraint mechanisms.

China's capital market has entered the era of decentralized equity. On the other hand, some listed companies have Chinese insider control problems. The so-called insider control refers to the use of the company executives actually enjoy more than the ability to bear the responsibility of control, make decisions to seek private benefits, but the consequences of decision-making by shareholders are forced to bear, resulting in the phenomenon of damage to the interests of shareholders. The reason why we call it Chinese style is that in some listed companies in China, the causes of insider control problems are not caused by the high degree of dispersion of equity and the implementation of equity incentive plan to the management of traditional insider control problems in Britain and the United States, but with the special political, social, historical, cultural and interest factors under the background of China's capital market system. We see that when China's capital market enters the era of decentralized equity, when the Chinese-style insider control based on political connection and social connection encounters barbarian invasion, the realistic dilemma of corporate governance in China appears. We can see that the threat of transfer and receivership of corporate control does not bring corporate governance improvement and performance improvement to Chinese listed companies as expected by traditional corporate governance theory. On the contrary, there is a new shareholder's blood washing board such a result that neither ordinary investors nor management team, or even mergers and acquisitions are unwilling to see.

In the existing corporate governance structure in China, there is a widespread phenomenon that large shareholders of enterprises control both the board of directors and the managers. In addition, some other unreasonable institutional and structural factors lead to the unscrupulous encroachment of the interests of small and medium-sized shareholders by large shareholders. That is to say, the controlling shareholders that we often talk about now use their functions and information advantages to encroach on the interests of small and medium-sized shareholders. Thus, the state draws on the experience of foreign corporate governance, the introduction of independent director system, as an extension of state power, with some exogenous power to change the direction of internal resource allocation, so that it can be better distributed to the production field.

It is generally believed that the motivation for independent directors to play a role stems from their efforts to maintain their reputations, as once independent directors show due independence and objectivity in listed companies, they will virtually greatly protect and enhance their reputations and expand their future markets, thereby avoiding to some extent the collusion between independent directors and executive directors [6]. However, it is pointed out that independent directors are also real economic man. In the case of insufficient incentives, independent external directors who have little relationship with the company's operation, management and even interests may lack incentives to play these roles, especially those non-shareholder external directors. They are not like internal directors as business team members can get the company's operating performance remuneration. Therefore, it is necessary to give external directors certain director fees. Although the independent director system is undoubtedly of great positive significance for improving the efficiency of the board of directors and protecting the interests of small and medium-sized investors, in many aspects are needed to make the independent directors play their due functions effectively and independently. For the incentive and restraint of independent directors, some scholars put forward that perfecting the incentive and restraint mechanism is the most important step to establish the independent director system. First of all, for the incentive mechanism, we can establish a salary system through 1. Specifically, it is divided into (1) fixed salary, (2) stock options, (3) delayed payment plan. 2.

Establishing an insurance security system, that is, a risk transfer mechanism is needed to disperse the risks that independent directors may bear. Otherwise, in order to avoid responsibility, independent directors will follow the trend and work negatively among directors.³ The establishment of personal reputation and social evaluation system, personal reputation is the life of the directors, once the independent directors in listed companies show due independence and objectivity, through active participation, improve the company's operating level, will greatly protect and enhance their reputation, reputation to some extent encourage independent directors to fulfill their oversight responsibilities. Secondly, for the supervision mechanism, we can: (1) establish a complete constraint mechanism of independent directors in the law, clear the obligations of independent directors should bear, and the responsibility to deal with their own behavior. (2) The establishment of independent director association for self-discipline. To improve the constraint mechanism of the independent director system, in addition to the basic principles formulated by law, an independent director association can also be established to strengthen the self-discipline of independent directors. (3) Equity constraints. Option plan is a "double-edged sword," and it is an incentive mechanism when equity appreciation and dividend. When equity depreciation and corporate bankruptcy, it is a constraint mechanism. This dual role of incentives and constraints can encourage independent directors to take each of the board's bills seriously, participate actively in the company's decision-making and supervision, and strive to improve the company's performance. (4) Establishing market constraints and cultivating independent director market. Market constraint is the fairest constraint mechanism. Independent directors with good performance can get higher reputation through social evaluation system and will usher in more buyers and get better compensation.

4. Conclusion

It is believed that it is necessary to realize the innovation of corporate governance structure. Its core is to discard the logic of shareholder supremacy and embody the principle of common governance. The logic of common governance meets the inherent requirements of modern market economy: First, the diversification of corporate governance structure is the logical extension of the connotation of modern property rights. Second, the common governance logic helps to maintain long-term cooperation among stakeholders. Third, the essence of an enterprise is that it is a collection of team production or long-term contracts, in order to protect dependent resources from damage, team members only conclude long-term contracts to ensure a predictable compensation. Fourth, the change in the relative position of human capital and physical capital enhances the bargaining power of human capital owners in enterprises. In order to obtain more investment income, physical capital owners must rely on human capital owners. Clearly, the common governance mechanism also helps to improve the governance structure efficiency of state-owned enterprises. It is difficult to monitor operators' behaviors under the condition of asymmetric information. To this end, he proposed the countermeasures to realize the innovation of corporate governance structure according to the principle of "common governance": (1) the common governance mechanism in the board of directors. Including: (1) Staff director system. (2) The system of bank directors. (3) The system of external directors. 2. Common governance mechanisms in the Board. 3. Building efficient incentive and restraint mechanisms. In addition to the construction of internal constraint mechanism, we can also improve the market competition mechanism to constrain managers' behaviors from the external, including: (1) improving the competition mechanism in the product market. (2) Improve the manager market competition mechanism. (3) Improve the competition mechanism in the market of corporate control.

First of all, the absence of owners of state-owned assets cannot be solved in a real sense due to its nature of public property rights, and cheap voting rights always exist. Therefore, the practical approach will not be to expect the owners of state-owned property rights to be in place to eliminate cheap voting rights, but to weaken the role of cheap voting rights in corporate governance and minimize the adverse effects of cheap voting rights through other flexible ways. Secondly, in

principle, the government behavior in the company's personnel arrangement can be regulated and corrected from the generation and appointment and removal procedures by strictly implementing the *Company law*. But under the premise of state-owned equity holding position, the complete elimination of government behavior will be difficult. It is concluded that the improvement of the corporate governance structure after the restructuring of state-owned enterprises and the elimination of the defects in the administration of cheap voting rights and personnel arrangements caused by the absence of equity owners in corporate governance in China can ultimately be attributed to the fact that the absolute holding position of state-owned shares in most enterprises can be changed through equity decentralization, and it cannot be expected that government departments at all levels and representatives of state-owned property rights with administrative authority, diversified objectives and without supervision by real owners will automatically give up their control and use their rights reasonably and effectively. To solve the problem of excessive concentration of equity in state-owned shares after the reform of state-owned enterprises, we can vigorously develop various forms of investors such as institutional investors, corporate legal person shares and public individual shares.

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