Research on the governance of parent-subsidiary company under the mixed ownership mode

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Abstract. As the core content of state-owned enterprises reform, Chinese state-owned enterprises have some problems in corporate governance for a long time, which restricts the process of the reform and development in these enterprises. As a breakthrough in deepening the reform of state-owned enterprises, the mixed-ownership reform has opened up a new theoretical research direction and reform practice space for state-owned enterprises to carry out and improve corporate governance. Under the framework of corporate governance and contemporary property rights theory and based on the analysis of the characteristics and existing problems of corporate governance in Chinese state-owned enterprise groups, this paper summarizes the framework and specific measures that can be taken by state-owned enterprises to improve corporate governance under mixed-ownership reform.

1. Introduction

1.1. Purpose of the Study

In September 2015, the CPC Central Committee and the State Council issued ‘the guiding opinions on deepening the reform of state-owned enterprises’, which points out the direction on how to improve the modern system, market management mechanism and state-owned assets management system. With the reform of state-owned enterprises entering a difficult period, the mixed-ownership reform (MOR) has become a significant breakthrough. The government aims to combine the advantages of state-owned enterprises and private enterprises through the MOR. Under the support of the national policy, some relative reform pilots are carrying out in a manner. However, after prompting the MOR, how to balance the interests of all shareholders and take advantages of asset and efficiency will be a crucial problem that enterprises will face when they change from a single shareholder to a diversified shareholder.
1.2. Research Content
The corporate governance in this paper is in a narrow sense. It is the institutional arrangement of functions and structures of the directorate, the rights of shareholders. This paper supposes that corporate governance should be established a set of static structure and dynamic mechanism about ownership and control rights for enterprises with independent corporate status, which mainly focuses on the following two aspects:

It is a problem with the ownership and distribution of control rights among shareholders. To be specific, it is also the power distribution and responsibility between controlling shareholders and small ones.

It is a problem with the ownership and distribution of the control right of the company between the shareholders and management, which is the power and responsibility relationship between the owners and the managers.

2. The general situation of corporate governance of state-owned enterprises in China
The corporate governance of state-owned enterprises in China has absorbed different characteristics of British, American, Japanese and German in the process of development, which forms a corporate governance model of state-owned enterprises with Chinese characteristics. As follows, there are three characteristics:

2.1. Establishing a modern enterprise system with independent legal personality
After many years of reform, the majority of the state-owned enterprises have formed self-employed legal persons with the nature of limited liability company and joint-stock limited company. At the same time, the management of managers in state-owned enterprises is also changing from administrative appointment to market-oriented employment.

2.2. Using the capital market to establish a diversified equity structure dominated by state-owned equity
In recent years, China has vigorously encouraged state-owned enterprises to raise funds by listing and other market-oriented ways and introduced private, personal and foreign capital into the equity structure, which significantly improves the operation efficiency and management level of the state-owned enterprises.

2.3. Coexistence of independent director system and board of supervisor system
In the process of the establishment of the board of directors, the state-owned enterprises in China use the experience of different corporate governance structures of the British, American, Japanese and German, which forms the coexistence of independent directors and the board of supervisors.

Although China has carried out much productive work in the field of state-owned enterprise reform, the governance level of state-owned enterprises has been significantly improved. However, the standard is restricted by historical reasons, market environment, industry characteristics, system background and other factors. There are still some problems in the corporate governance of state-owned enterprises, which are manifested explicitly in the following aspects:

2.3.1. Loss of owner
There are three links of principal-agent relationship between the ultimate owner and the operator in the state-owned enterprises in China: political principal-agent, administrative principal-agent and economic principal-agent. The long chain of principal-agent relationship not only increases the cost of the agency but also weakens the enthusiasm of the clients to supervise the agents. This is the problem of owner losing position.
2.3.2. Board of directors and managers with unclear rights and responsibilities
At present, the board of directors system of state-owned enterprises is not perfect. There are still some problems such as unclear responsibilities and distorted principal-agent relationship. In some state-owned enterprises, especially those directly controlled by the state-owned assets supervision department as the investor, the board of directors system only exists in the form, but never play a substantial role.

2.3.3. Lack of sufficient incentive and restraint mechanism
In terms of establishing an effective incentive and restraint mechanism, some Chinese state-owned enterprises have carried out much useful exploration, but there are still some obvious problems:

Firstly, the treatment level of managers in state-owned enterprises is embarrassed. On the one hand, the high salary of executives in some state-owned enterprises has caused the dissatisfaction of the public opinion; on the other hand, the average income level of managers in state-owned enterprises is still low, which has limited incentives to managers. Secondly, the salary structure of managers in state-owned enterprises is too single. Finally, it is the lack of effective restraint mechanism. Restricted by the underdeveloped manager labour market and the long-term concept of cadre management, managers in state-owned enterprises seldom feel the external pressure like managers in fully market-oriented enterprises.

3. Methodology
Corporate governance is a set of systematic organisational system design and implementation. Jensen (1993) divides the mechanism of corporate governance into decision-making mechanism, incentive mechanism and supervision mechanism [5].

In December 2015, the State-owned Assets Supervision and Administration Commission, the Ministry of Finance, and the Development and Reform Commission issued the Guiding Opinions on the Definition and Classification of the Functions of State-owned Enterprises, which defined state-owned enterprises as economic and public welfare. The primary purposes of commercial state-owned enterprises are to enhance the vitality of the state-owned economy, enlarge the functions of state-owned capital and realize the preservation and appreciation of state-owned assets. These enterprises implement commercial operations by market-oriented requirements. The main objectives of public welfare state-owned enterprises are to protect people's livelihood, serve the society, and provide public goods and services. The government can regulate the prices of necessary products or services.

According to the classification of state-owned enterprises in the guidance opinions and given the above discussion on the connotation of corporate governance and domestic and foreign governance experience, the following content summarizes the institutional arrangements and implementation rules of corporate governance from the three dimensions of decision-making, incentives and supervision mechanisms.

3.1. Decision Mechanism
The decision-making mechanism refers to the mechanism by which company power is distributed among and within corporate bodies such as shareholders' meeting, the board of directors, the board of supervisors, and the managerial level. It is the core of the incentive mechanism and the supervision mechanism. It is also the core of corporate governance.

The specific manifestations of the decision-making mechanism are as follows:
Firstly, it is reflected in the distribution of power among various organizations within the company. On the one hand, as a vital force of external governance, specific laws and rules have clearly defined the internal power levels of the company, but from the perspective of implementation, different objective conditions make the statutory power level and actual power implementation not always consistent. For example, when the ownership structure is highly decentralized, it will be difficult for shareholders to achieve absolute control over the management. Therefore, the establishment of an
equity structure that meets corporate governance objectives and the external conditions that can support such an equity structure is the basis of corporate governance.

Secondly, it is reflected in the distribution of power within various institutions. Within the shareholders’ meeting, these distributions can be the distributions of power between the controlling shareholder and minority shareholder; within the board of directors, they can be the distributions of power between independent directors and internal directors.

Thirdly, it is reflected in the decision-making procedure when exercising power. For example, shareholders' meetings are divided into different skills according to annual meetings, and temporary meetings; Voting methods are divided into direct voting, cumulative voting classified voting, etc. for different matters; there is the avoidance principle of connected shareholders and connected directors; there are right of ruling and veto which are set up for chairman.

3.2. Incentive and Restraint Mechanism
Incentive mechanism is a set of mechanisms and arrangements what the principals use to prompt the agents to take appropriate actions when the company's ownership and the rights of management are separated, to ensure the best interests of principals.

According to the specific form and function of the incentive, the incentive mechanism includes fixed salary, which is the primary labour return and income guarantee of the motivated person; performance bonuses related to short-term performance, which promote the motivated person to work hard to achieve the short-term income goal of the company; stock options or restricted stock related to long-term performance, which ensure that the behaviour of the motivated person can balance the short and long-term interests of shareholders; the retirement plan, which can cultivate the motivated person's long-standing loyalty to the company; promote the unification of ownership and control Management shareholding plan of the company; reputation incentives for professional managers, which can increase the value of the motivated person in the manager's market.
3.3. Supervision Mechanism

The supervision mechanism refers to the behaviours of stakeholders in reviewing, supervising and supervising the company's business operators in terms of business behaviour and business results. It is also the arrangement and action in the principal-agent relationship to ensure that the interests of principals are not harmed when the ownership and the rights of management are separated. Compared with the incentive mechanism, the supervision mechanism is more extensive and more rooted in corporate governance and is a direct reflection of the corporate governance mechanism.

The supervision mechanism of state-owned enterprises with mixed ownership can be designed from the perspective of internal and external aspects in combination with the setup of its governance structure. Internal supervision is mainly a supervision mechanism formed by shareholders, the board of directors, the board of supervisors and senior management. External supervision can be through a supervision mechanism formed by third-party auditing institutions and the public.
4. Conclusion
The supervision mechanism of state-owned enterprises with mixed ownership can be designed from the perspective of internal and external aspects in combination with the setup of its governance structure. Internal supervision is mainly a supervision mechanism formed by shareholders, the board of directors, the board of supervisors and senior management. This supervision mechanism includes shareholders’ vertical supervision and supervision of the board of directors and senior managers. It also provides for the supervision of the board of directors and managers of the company by the board of supervisors and employee representatives. External supervision can be through a supervision mechanism formed by third-party auditing institutions and the public.

Acknowledgements
This work was financially supported by the Applied Basic Research Programs of Science and Technology Commission Foundation of Jiangsu Province (BK20150256) and the National Natural Science Foundation of China (51505126).

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