Environmental Influencing Factors of Financial Governance of Mixed Ownership Listed Companies in China

Rongtang Lu

School of Economics and Management, Jiangsu University of Science and Technology, Zhengjiang, 212000, China

Email: 578lrt@sina.com

Keywords: Mixed ownership; Listed companies; Financial governance; Environmental influence

Abstract: In order to put forward constructive suggestions for the development of mixed ownership economy in China, firstly, the existing research on financial governance and its environmental influencing factors at home and abroad is reviewed. Then, starting from the concept of financial governance and the definition of mixed ownership enterprises, the basic theories of financial governance, principal-agent theory and information asymmetry theory are mainly introduced. The results show that the mixed ownership listed companies have better financial supervision and control. The main problems are the overall allocation of financial rights and the poor financial incentive effect of the mixed ownership listed companies. Therefore, the constructive suggestions put forward can help to improve the financial competitiveness of mixed ownership listed companies in China.

1. Introduction

Wu Zhongxin pointed out that because of the duality of finance (economic attributes and social attributes), the traditional financial management only analyzed the economic attributes of finance from the quantitative level, and did not involve the analysis of social attributes. It is precisely because of this defect that academic research on financial governance theory has risen [1]. Financial governance is a series of formal and informal institutional arrangements for the allocation of financial rights [2], financial supervision, financial control and financial incentives of enterprises, starting from the social attributes of finance and taking the flow of financial rights as the main logical clue. At present, the financial circles have made great achievements in the analysis of the financial economic attributes. In contrast, the research achievements on the social attributes of finance are few, and the domestic research on financial governance focuses on the normative research, so empirical research is insufficient. The objective of this paper is to study the factors affecting the financial governance impact of mixed ownership listed companies in China, so as to make up for the lack of research in this area [3].

In 2014, "the beginning year of China's comprehensive and deepening reform", in order to respond to the Party's proposal of "actively developing the mixed ownership economy of state-owned capital, collective capital and non-public capital with cross-shareholding and mutual integration and allowing more state-owned economy and other ownership economy to develop into mixed ownership economy", further promoting the reform of state-owned enterprises, developing the mixed ownership economy and improving the basic economic system has become one of the key tasks of China's economic system reform [4]. It can be seen that the mixed ownership enterprises will still have considerable vitality in the future, which is the main trend of the future development of enterprises. The research on the mixed ownership listed companies has important practical significance [5]. However, there is little research literature on the financial governance of mixed ownership listed companies in China. This paper expects to fill a certain gap in this area through certain research. The analysis and suggestions to the mixed ownership of agricultural listed companies are also described, which has a certain reference value for the future reform of mixed ownership of agricultural listed companies.

  DOI: 10.25236/ismeem.2019.127

2. Literature review

The germination of corporate governance theory is the paper *Modern Company and Private Property Rights* published by Berle and Mians in the 1930s. In the 1970s, Jensen and Meckling put forward the theory of capital structure contract, and established the agency cost model to explain the relationship between capital structure and operator's behavior. They also proposed that when the marginal agency cost of equity is equal to the marginal agency cost of debt, the capital structure of the company is optimal. Since then, the western theoretical circles have blown the wind of research on the integration of corporate governance and corporate finance - financial capital structure. Then, the emergence of signal transmission model, guarantee model, control model and so on has enriched the modern capital structure theory.

The Journal of Finance in the 1980s in America published Williamson's *Corporate Finance and Corporate Governance*. He pointed out that corporate governance and corporate finance should be comprehensively examined, compared with corporate debt financing and equity financing, which are both alternative financing tools and alternative governance structures. In the 1990s, the UK produced the world's first Cadbury report on corporate governance principles, titled The Financial Aspects of Corporate Governance, highlighting the financial position of corporate governance. The report focuses on the control and reporting functions of the board of directors, the role of auditors, internal financial control, risk management and other issues, which have a significant impact on the establishment of corporate financial governance theory.

3. Methodology

3.1 Financial governance characteristics of mixed ownership listed companies in China

In 2012, the average financial governance index of mixed ownership listed companies (excluding financial industry) in Shanghai Stock Exchange was 59.6229, the maximum value was 81.15, and the minimum value was 26.29. In order to see the specific distribution of financial governance level of mixed ownership listed companies, relevant statistics is made. Statistics show that the financial governance index of most listed companies distributes between 30-70, and very few listed companies have scores below 30 and above 80. It can be seen that the financial governance scores of listed companies in China are relatively concentrated, but because the score interval is concentrated around the qualified line, the overall level of financial governance is only in the middle, which needs to be improved in the future.

By comparing the financial governance level of mixed ownership listed companies with different state-owned shares, it is found that state-owned shareholding companies, state-owned weak relative holding companies (state-owned shareholders are the first shareholder, and the shareholding ratio is less than 30%), state-owned strong relative holding companies (state-owned shareholders are the first shareholder and 50% of the shareholding ratio are more than 30%) to state-owned absolute holding companies (state share ratio >50%), the financial governance index increases from 55.6322 to 60.8306. It can be seen that the level of financial governance of listed companies increases with the increase of the proportion of state-owned shares. Especially when the state-owned shareholders are the first shareholders, the overall level of financial governance is better. However, once the largest shareholder is non-state-owned shareholder, the level of financial governance of listed companies plummet.

3.2 Effectiveness of financial governance of mixed ownership listed companies in China

The financial governance of enterprises is mainly investigated from four aspects, namely, allocation of financial rights, financial control, financial supervision and financial incentives. Financial supervision is mainly used to examine the supervision of various functional departments and other stakeholders on the process of financial power implementation, including both internal supervision mechanism and external supervision mechanism. It is embodied in the results of internal and external audit, external disclosure and the punishment of relevant regulatory agencies.

Of the 674 listed companies with mixed ownership in Shanghai Stock Exchange in 2012, 646

companies received unqualified opinions, 25 companies received unqualified opinions with explanatory notes, 1 company has audit opinion of qualified opinions, and 2 companies have audit opinions of qualified opinions with explanatory notes. It can be seen that 99.55% of the mixed ownership companies received unqualified opinions, and the effectiveness of external audit supervision was better.

Subsequently, no one of the 674 listed companies has overdue disclosure of annual financial reports. The listed companies are mainly concentrated between March and April 2013. Some companies even disclosed their annual reports for 12 years in January 2013. Generally speaking, the timeliness of disclosing annual reports of mixed ownership listed companies is good. However, it is noteworthy that 25 mixed-ownership listed companies have been punished for information disclosure problems. The main problems are that the information disclosure is non-standardized, incomplete, untimely or there are differences in information disclosure. It can be seen that the quality of external disclosure information of individual mixed-ownership listed companies still needs to be improved.

Finally, from the perspective of penalties imposed by relevant regulators, about 65 mixed-ownership listed companies were punished by regulators in 2012, nine of which involved institutional or individual fines. After eliminating the defects of information disclosure and internal control, the main reasons are illegal capital occupation and internal capital transactions, accounting problems, inside information leakage, and violation of laws and regulations. These aspects also directly reflect the existing problems of mixed ownership listed companies, but the total number of penalized enterprises is less than 10%. On the whole, financial supervision of mixed ownership listed companies is better.

4. Results and discussion

4.1 An empirical study on the influencing factors of financial governance of mixed ownership listed companies in China

In order to further explore the influencing factors of financial governance in mixed ownership enterprises, the financial governance index (CCFI) is taken as a dependent variable, and Size, Board size, ownership concentration (Tops), Management stock ownership (Mane) and debt asset ratio (DAR) are taken as independent variables. Region (East), multi-capital market listing (Crosslist), company listing years (Age), institutional investor shareholding ratio (Ins-inves), audit of four international accounting firms (Big) and turnover of total capital (TAT) as control variables. The following regression models to be verified are established:

$$CCFI = \alpha_0 + \alpha_1 Size + \alpha_2 East + \alpha_3 Cro + \alpha_4 Age + \alpha_5 Board + \alpha_6 Top + \alpha_7 Ins + \alpha_8 Big + \alpha_9 TAT$$

α_i indicates the model regression coefficient, i=1,2,3...9; α_0 refers to intercept item.

The coefficient of total assets of mixed ownership listed companies is 1.834 and sig is 0. The total assets of mixed ownership listed companies have a significant positive correlation with their financial governance at the level of 1%. As a contrast term, the total assets of non-state-owned listed companies are also positively correlated with their financial governance. The financial governance level of these two types of listed companies will increase with the increase of the size of the company. It shows that under the existing environment, the enlargement and strengthening of the listed companies will help to improve the financial governance system of the company as a whole. It also suggests that moderate merger and reorganization will make the enterprise more international and standardized.

4.2 Policy suggestion

2015 is the year of great reorganization of state-owned enterprises. From the merger of China South Car and China North Car, China Electric Power Investment Corporation and National Nuclear Power Corporation, to the merger of China Unicom and Telecom, China Petroleum and Sinopec, rumors are frequent. Whether the rumors are finally confirmed or clarified, they all

represent the new idea of the integration of state-owned enterprises in 2015, which brings the wave of reorganization and merger of state-owned enterprises. There are many reasons behind the reorganization of state-owned enterprises, but the main reason is the demand for competition. Especially for the internationalization-oriented industries, they use a strong joint approach to against the outside world, in order to compete with foreign competitors. The development mode of state-owned enterprises will also change from incremental development to stock combination and from blindly becoming bigger to stronger and better.

Combining the above conclusions, it can be seen that the larger the scale of the mixed ownership listed companies is, the better the level of financial governance is. The large-scale reorganization of state-owned enterprises will give rise to a larger or even giant-level listed companies. Coupled with the reform of mixed ownership, these listed companies gradually introduce the strategy investors, social capital and employee stock ownership plans. Driven by many other factors, the overall level of financial governance of mixed ownership listed companies will be further improved.

One of the links of mixed ownership reform is the employee stock ownership plan, which is an effective way for enterprises to encourage their employees to hold the company's stock. With the consent of the State Council, China Securities Regulatory Commission has formulated and issued the *Guiding Opinions on the Pilot Implementation of Employee Stock Ownership Plan in Listed Companies*, and has carried out the pilot implementation of employee stock ownership plan in listed companies.

After the analysis of the financial governance status of mixed ownership of listed companies, it is concluded that the financial incentive effect of mixed ownership of listed companies as a whole is not good. Not only is there only 13 listed companies announcing incentive plans in 2012, but also because the average managerial shareholding ratio of mixed ownership listed companies is only 0.4255% (the average of non-state-owned listed companies is 6.05%) and mixed ownership agricultural listed companies is only 0.005867%. Such a low shareholding ratio can also explain why the regression results show that sig of management shareholding ratio and financial governance index is 0.781. The fundamental reason is that employees do not take the interests of the enterprise and their own interests as a whole due to too little shareholding proportion, so the proportion of management shareholding does not have much impact on the final results of financial governance.

It can be seen that the mixed ownership listed companies, especially the mixed ownership agricultural listed companies, have an urgent need to mobilize their work enthusiasm by increasing the proportion of management and grassroots employees to shareholding, forming a culture of ownership, linking the fate of employees and enterprises together and forming the interest community of capital owners and workers. Therefore, the implementation of employee stock ownership plan at such a time point has far-reaching significance for mixed ownership enterprises.

5. Conclusion

The factors influencing the financial governance of our mixed ownership listed companies are focused on. The whole article follows the basic framework of "theoretical analysis - empirical test – evaluation and summary". Firstly, the research background, theoretical basis and literature review are introduced. Then, the current status is analyzed. The present situation of financial governance of mixed ownership listed companies in China is profoundly analyzed. Finally, constructive policy recommendations are put forward. Financial governance theory is the core of corporate governance theory, and improving the level of financial governance helps to improve the level of corporate governance.

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