Research on Corporate Governance of Party Organizations Participating in the Reform of Mixed Ownership of State-Owned Enterprises from the Perspective of Organization Structure

——Based on the CSME analysis framework

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Abstract: The report of the 19th National Congress of the Communist Party of China pointed out that it is necessary to develop a mixed ownership economy and cultivate world-class enterprises. Corporate governance is the foundation for the success of mixed ownership reform. At present, the difficulty of corporate governance in mixed ownership is reflected in the conflict between the logic of property rights and the logic system of government rights, and how to effectively combine party leadership and corporate governance. Based on the perspective of organizational structure, this paper draws on the corporate governance analysis framework of CSME mixed ownership proposed by Qiao Huibo, explores the solution path of corporate governance problems after the mixed reform of state-owned enterprises, and the way in which party organizations are embedded in corporate governance institutions, and takes Unicom as a case. Further discussion. It is found that the incorporation of party organizations can help solve the problem of inconsistent business objectives of shareholders of state-owned enterprises and shareholders of private enterprises after the mixed reform of state-owned enterprises, and help to form a protection mechanism for small and medium-sized shareholders. At the same time, at the level of board governance, party organizations should be actively embedded in the board of directors and the board of supervisors, but should not be embedded in the managerial level. The selection and remuneration of managers should be determined by the market.

1. Introduction

Since the "Decision" of the Third Plenary Session of the 18th Central Committee in 2013 put forward "actively developing a mixed ownership economy", the reform of state-owned enterprises has focused on the integration of state-owned enterprises and private enterprises. The report of the 19th National Congress of the Communist Party of China pointed out that it is necessary to deepen the reform of state-owned enterprises, develop a mixed-ownership economy, and cultivate world-class enterprises with global competitiveness. After the joint ownership of state-owned enterprises such as China Unicom, the mixed ownership reform has entered the actual operation stage. The reform of mixed ownership is an important breakthrough for the reform of state-owned enterprises, with the aim of improving the performance of state-owned enterprises. Corporate governance is an important factor affecting the operation of state-owned enterprises. Corporate governance is the foundation of modern enterprise development. Many scholars believe that the new round of mixed ownership reform is the reform of corporate governance, and corporate governance reform is the basis for the success of mixed ownership reform.

The difficulty of governance after the reform of state-owned enterprises' mixed ownership is mainly reflected in two aspects. On the one hand, there is a conflict between the logic of property rights and the logic of government power after the mixed reform of state-owned enterprises. Most enterprises, including mixed ownership enterprises, are based on property rights to build a corporate governance system. The relationship between shareholders, directors and managers is relatively clear, and the corporate governance system is relatively standardized and effective. This is based on
corporate governance under the property rights logic system; general state-owned enterprises. Governance is based on the logic of government power and there is no difference between shareholders, directors and managers. Then, after the reform of state-owned enterprises' mixed ownership system, there are contradictions between these two sets of different governance systems. How to design a corporate governance system to effectively resolve this contradiction has become a problem that must be solved in the reform of state-owned enterprises. On the other hand, to "cultivate world-class enterprises with global competitiveness", we must improve the corporate governance structure of state-owned enterprises. At the same time, the 13th meeting of the Central Committee for Comprehensively Deepening the Reform Leading Group proposed to "unify the strengthening of party leadership and the improvement of corporate governance." Then, is it clear that the positioning of party organizations in the corporate governance structure will affect the improvement of the governance system after the mixed reform of state-owned enterprises? How to grasp the positioning of the party organizations in state-owned enterprises in the governance structure after the mixed reform is also an urgent problem to be solved.

Based on the needs of theory and practice, this paper proposes the following research questions: How to effectively solve the conflict between power logic systems in the reform of state-owned enterprises through the corporate governance system? How to grasp the position of the party organization in the governance structure of state-owned enterprises after the mixed reform?

2. Literature review on corporate governance

Corporate governance is the foundation of the modern enterprise system. Understanding the meaning of corporate governance is the cornerstone of exploring the corporate governance model of mixed ownership. At present, there is no consistent definition of corporate governance at home and abroad. The Corporate Governance Guidelines, published by the Organisation for Economic Co-operation and Development (OECD), include a corporate governance model model that includes shareholders, directors, management, and other stakeholders. From a theoretical point of view, the current mainstream views include: the corporate governance structure is composed of the owner, the board of directors and the manager, and the three organizations have a triangular relationship in the organizational structure, forming a check and balance. From the perspective of institutional economics, ownership, control and residual claims are the core content of corporate governance. Corporate governance is the arrangement of the company's control and residual claims. Corporate governance is to solve the two major problems of incomplete contracts and information asymmetry. Corporate governance research includes equity arrangements, principal-agents and incentives. For state-owned enterprises, the research on corporate governance mainly focuses on the checks and balances between owners, boards of directors, managers and stakeholders.

The purpose of the mixed ownership reform is to solve the problems of imperfect state-owned enterprise systems, so as to improve business performance, the key is to optimize the corporate governance capabilities of mixed-ownership enterprises. Going in the direction of governance system and governance capacity is a fundamental issue. For the state-owned enterprises after the mixed reform, how to build the governance system and in what direction, it also directly determines the effectiveness of the mixed reform of state-owned enterprises. Corporate governance for mixed-ownership enterprises, especially for state-owned enterprises with mixed ownership, is important in the following aspects: good corporate governance can attract private capital to participate in the reform of state-owned enterprise mixed ownership; Can bring about an increase in business performance. Which kind of governance is more suitable for corporate governance of mixed ownership in China, Zhang Wenkui has established a SOCRE framework; Qiao Huibo believes that it should be analyzed and constructed from four perspectives: shareholder development goals, shareholding structure, board operation mechanism and external governance environment; Liu Jiejiao thinks that compared with The governance model of shareholder-centered and manager-centered, and the central-level governance model of the board of directors is more suitable for the development of mixed-ownership enterprises in China at this stage.

In the 1990s, scholars began to pay attention to the combination of party organization leadership
and modern corporate governance in state-owned enterprises. Lu Changchong’s key issue in the reform of state-owned enterprises is to deal with the relationship between the shareholders’ meeting, the board of directors, the board of supervisors, the workers’ congress, the party committee, and the trade unions, and to clarify the position of the party committee in the corporate governance structure. Ma Lianfu pointed out that the current participation of party organizations in state-owned enterprise governance includes two modes, one is that party organizations are embedded in corporate governance institutions, the other is embedded in corporate governance structures, and different models are applicable to different types of state-owned enterprises. There are still many scholars who explore the influence of state-owned party organizations' participation in corporate governance from an empirical perspective; Wang Yuanfang believes that party and government unity can help solve internal control problems.

In general, the models used by the academic community to analyze corporate governance in mixed-ownership enterprises have their own merits, and there is also mixed discussion on the issue of party organizations participating in corporate governance. When exploring a specific issue, it is basically believed that the participation of party organizations can effectively suppress such situations. However, when starting from the macro level as a whole, it is generally believed that the participation of party organizations is not necessarily conducive to corporate governance, or there are checks and balances. This shows that the lack of top-level design in the party organization's participation in corporate governance has not played the role of $1+1>2$, but instead has $1+1<2$. Throughout the current literature, exploring the corporate governance structure and studying how party organizations participate in corporate governance are not rare, but there are very few combinations of the two, from the perspective of corporate governance structure to explore how party organizations should participate, can effectively improve governance Ability and level. Therefore, on the basis of predecessors, based on the corporate governance connotation from the perspective of organizational structure, this paper draws on Qiao Huibo's corporate governance analysis framework to explore the positioning of party organizations in the corporate governance model.

3. The positioning of party organizations in the governance structure

From the perspective of organizational structure, the analysis of corporate governance focuses on the relationship between the shareholders' meeting, the board of directors, the managerial level, and the board of supervisors. Among them, the shareholders' meeting, the board of directors, and the managerial level form a triangular balance, and the board of supervisors supervises the board of directors and the management. The corporate governance organizational chart is as follows:

![Figure 1. Corporate governance structure](image)

Among them, the shareholders' meeting means that the owner will hand over the assets to the
board of directors, and the board of directors is responsible to the shareholders. The board of
directors has the right to select and dismiss the management, and the management is executed under
the authority of the board of directors. The board of supervisors is responsible for the shareholders
and supervises the board of directors and the management on behalf of the shareholders. From the
perspective of organizational structure, corporate governance forms a conical structure, and the
parties balance each other and have certain stability.

Party organizations are involved in corporate governance. There are currently two models,
namely, party organizations embedded in corporate governance institutions and party organizations
embedded in corporate governance structures. Among them, the first model is to integrate party
organizations into the corporate governance structure while the original corporate governance
structure remains unchanged. The other is to increase the party committee as an institution in the
company's articles of association, and form the corporate governance structure of the shareholders'
meeting, the board of directors, the managerial level, the board of supervisors, and the party
committee. At present, it has not explored the corporate governance model applicable to the
state-owned enterprises after the reform of mixed ownership. How to integrate the party
organizations into the state-owned enterprise corporate governance system after the mixed reforms
remains to be explored.

When exploring the state-owned corporate governance model that applies to the reform of mixed
ownership, organizations should be considered, but more importantly, the implicit system behind
the organizational structure needs to be considered. Therefore, based on the corporate governance
organization, this paper draws on the corporate governance analysis framework of CSME mixed
ownership proposed by Qiao Huibo, and analyzes the integration of party organizations into
corporate governance model.

3.1 Introduction to Unicom's mixed reform

Unicom's mixed reforms did not begin with the release of the mixed-reform plan in August 2017.
In fact, as early as August 2014, Unicom was actively exploring mixed ownership; in September
2016, China Unicom became a pilot of mixed ownership reform. Subsequently, in October, China
Unicom announced that it is studying the specific reform plan for mixed ownership. In April 2017,
China Unicom's A-shares were suspended, and Unicom's mixed-improvement progressed into a
substantive phase; in May 2017, Unicom announced that it would continue to suspend the
two-month suspension and continue to refine the mixed-reform plan; July 2017, China China
Unicom's mixed ownership reform pilot program was approved by the National Development and
Reform Commission; subsequently, on August 20th, China Unicom released a plan for mixed
ownership reform.

Figure 2. China Unicom's mixed ownership reform process
In this mixed reform, China Unicom has transferred about 1.9 billion shares to the structural adjustment fund through non-public issuance of more than 9 billion shares to strategic investors, and granted approximately 800 million restricted shares to core employees in the first phase. Upon completion of the above transaction, China Unicom still holds more than 36% of the shares, China Life holds 10.22% of the shares, Tencent holds 5.18% of the shares, Baidu holds about 3.3% of the shares, Jingdong holds 2.36% of the shares, and Ali holds with approximately 2.04% shares, Suning holds approximately 1.88% of the shares, forming the existing diversified shareholding structure of China Unicom.

3.2 Ways of Unicom Company Party Committee to Participate in Corporate Governance

During the process of formulating the reform plan of Unicom, a special system was established to ensure the integration of party leadership into corporate governance. Unicom mainly adopts the way in which the party organization embeds the corporate governance structure to ensure that the original governance structure remains unchanged.

In the process of mixed reform, Unicom always adhered to the overall work of the party organization to supervise the mixed reform, and established a mixed-change leading group under the responsibility of the party committee secretary and party members to establish a normalization working mechanism of the party group and conduct research on the process of mixed reform. At the same time, the company's party group has revised the company's articles of association before the mixed reform, and formulated the "China Unicom company mixed ownership reform management personnel management measures" and other systems.

3.3 CSME Corporate Governance Analysis

3.3.1 Shareholder Development Goals after Mixed Reform (C)

Mixed ownership enterprises are composed of two different types of shareholders, including state-owned shareholders and private shareholders, and there may be foreign investment. The difference in shareholder development goals after mixed reforms and the difference in business objectives are the first problems facing corporate governance. For the average enterprise, the target among shareholders is relatively consistent, that is, the profit is maximized. For the mixed state-owned enterprises such as China Unicom, the state-owned shareholders will also pay attention to the public interest, long-term returns, etc., and the different development goals among shareholders will lead to the goal-driven The decisions made mistakes and led to inefficient corporate governance. Then, for the mixed state-owned enterprises that use Unicom as an example, it is necessary to clarify the development goals, responsibilities, and obligations in the form of the company's articles of association, and coordinate the development goals between state-owned shareholders and private shareholders. Due to the inconsistent goals of state-owned shareholders and private shareholders, the board of directors is governed by shareholders and needs to be accountable to shareholders. Therefore, coordinating the development goals among shareholders is not suitable for shareholders or the board of directors. Taking into account the particularity of state-owned enterprises, the revision of the company's articles of association should be the responsibility of a special working group set up by the party organization. Through the establishment of the mixed-reform leadership group in the previous period, Unicom revised the company's articles of association, clarifying that the party organization is the pre-procedure of major decisions of the board of directors and managers, and helps to coordinate the inconsistency between the state-owned shareholders and private shareholders.

3.3.2 Establishing a Balanced Equity Structure (S)

In the analytical framework constructed by Qiao Huibo, the shareholding structure is the basis of corporate governance and can directly determine the company's rights structure. Therefore, for mixed ownership companies, it is necessary to seek a balance between shareholders. In the process of mixed reform, China Unicom reduced its holdings from 62% to 36.7%, and introduced China Life Insurance, BAT and other companies to form a diversified shareholding structure. However,
after the mixed reform, the state-owned shareholders still hold about 53% of the shares, which guarantees the absolute controlling position of the state-owned shareholders. In the case of China Unicom's mixed reform, China Unicom is still a big one, and it is difficult to form a reasonable governance structure. The major shareholder's violation of the interests of small and medium shareholders is precisely the dilemma in China's corporate governance. On this basis, the equity protection mechanism is very important, and it is necessary to form a better protection mechanism for minority shareholders. It is difficult to build a secondary agent mechanism between the shareholders' meeting, the board of directors and the management level, and it is necessary to rely on the special working group established in the first part.

3.3.3 Board Governance Mechanism (M)

In the organizational structure, there is a principal-agent relationship between shareholders, directors and managers. The shareholders entrust the directors at the first level, and the board of directors entrusts the managers with the second-level entrustment. The former board of directors of the state-owned enterprises has overlapping problems between the shareholders' meeting and the board of directors. Shareholders not only have ownership, but also can intervene in management rights. The ownership and management rights are not separated, forming an internal control situation. Therefore, for mixed-ownership companies, ensuring the independence of the board is one of the priorities of its governance reform. Based on Qiao Huibo's analytical framework, the governance mechanism of the board needs to start from the following three aspects:

The first is to standardize the board of directors. It is necessary to strictly follow the selection procedures of internal directors and determine the proportion of internal directors and external directors. At present, the integration of party organizations into corporate governance generally adopts the method of “two-way entry and cross-employment”. The party committee secretary serves as the chairman of the board, and the party committee members enter the board of directors, the board of supervisors and the manager. For a mixed-ownership enterprise, it is necessary to clarify the number of party committee members and the number of internal directors. Under the premise of ensuring the status of the party organization, the number of people should be as small as possible. At present, after the merger of China Unicom, the company's board of supervisors has been re-elected, including 13 board members, including 5 independent directors, 8 non-independent directors, 4 directors of state-owned enterprises, and 4 non-state-owned directors. 3 people. Through mixed reforms, Tencent, Baidu, JD, Alibaba and other strategic investor management have joined the board of directors. There are checks and balances between them and the directors of state-owned enterprises, which helps to solve the problem of internal control of state-owned enterprises.

The second is to clarify the principal-agent relationship between the board of directors and the manager. For mixed ownership enterprises, it is necessary to clarify the relationship between the board of directors and the management level, so that the principal-agent relationship is normalized, and the managerial layer selects professional managers from the market, and should not be determined internally. Then, the integration of party organizations into the board of directors is conducive to clarifying the development direction of state-owned enterprises after the mixed reforms. However, the integration of party organizations into the managerial level is not conducive to the separation of the two powers, and the management should be reformed in the direction of market selection.

The third is the issue of incentive constraints. For the enterprise manager, the compensation at the manager level is generally proportional to the company's performance. After the mixed reform of state-owned enterprises, it is necessary to implement market-based compensation for managers, and it is not for the controller to determine the salary standards of managers. The excessive involvement of party organizations in the field of professional managers is not conducive to the formation of the manager market, and is not conducive to the realization of two Separation of rights.
3.3.4 External Governance Environment (E)

Corporate governance in China is currently in the process of administrative governance to economic governance, and external governance is also very important for corporate governance. For China, the most distinctive and important thing is political connections. Political connection refers to the formation of a network of relationships between the shareholders, directors, and managers of the enterprise. For mixed-ownership enterprises, part of it will be reflected in the integration of party organizations and help to form more stable control.

4. Summary and discussion

Due to the special form of mixed ownership enterprises, there are differences between corporate governance and general corporate governance and state-owned corporate governance. Relative to state-owned enterprises based on administrative corporate governance system, mixed ownership enterprises must realize the transition from administrative to economic governance, and need to design appropriate corporate governance systems to solve the contradictions in the reform of state-owned enterprises. At present, the problem to be solved urgently by the mixed state-owned enterprises is to achieve the separation of the board of directors and the management, to ensure that managers come from the market to select and hire, to ensure the separation of the two rights; at the same time, it is necessary to form a protection mechanism for minority shareholders.

Party organizations also play a very important role in the corporate governance of mixed-reform enterprises. Based on the CSME analysis framework proposed by Qiao Huibo, the integration of party organizations into the corporate governance process will help solve some of the corporate governance problems that exist after the reform of mixed ownership enterprises. Due to the inconsistency between the development goals of state-owned shareholders and non-state-owned shareholders after the mixed reform, it is difficult for the shareholders' meeting and the board of directors to coordinate. The integration of party organizations helps to clarify the development direction of mixed-ownership enterprises, which can guarantee the interests of state-owned shareholders and help maintain them. The rights of non-state shareholders are also conducive to safeguarding the rights of minority shareholders. Specific to the level of governance of the board of directors, party organizations need to actively integrate into the board of directors and supervisors to grasp the general direction of development, but should not enter the managerial level through cross-employment. Based on the theory of separation of powers between corporate governance, the board of directors and the managerial level should be independent of each other. The managerial level is selected and employed by the board of directors in the market. The managerial level is operated by the board of directors under the authority of the board of directors, and the salary of the managerial level should also be determined by the market.

When discussing the integration of party organizations into corporate governance, this paper mainly focuses on the discussion of party organizations embedded in corporate governance institutions, but it does not involve the way in which party organizations are embedded in corporate governance structures. This is mainly because the first type of party organization participation is suitable for the competitive field, and the second party organization embedded method will change the corporate governance organizational structure and form the structure of the party committee, shareholders, directors, managers, and supervisors. Non-competitive areas. In addition, since this paper mainly analyzes from the perspective of organizational structure, when using the analysis framework for analysis, there is not much emphasis on the analysis of the external governance environment. The external political connection of mixed ownership enterprises is also an important issue in corporate governance and needs to be further studied.

References


