

Research on Mixed Ownership Reform, Executive Corruption and Corporate Performance

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Abstract: With the advancement of the state-owned enterprise reform process, mixed ownership has become a developing trend in China. Mixed ownership reform will lead to adjustments in the internal structure of the company, and this change in ownership structure will affect the corrupt behavior of senior executives. Based on the reform of state-owned enterprises, this paper selects A-share listed companies from 2010 to 2017 as research samples. The empirical research results of this paper show that after the reform of mixed ownership, enterprises have a governance effect on senior executives' corruption, which will eventually improve corporate performance. The study of this paper not only deepens the understanding of the inducement of corporate executives' corruption, but also has a strong enlightenment significance for improving the performance of state-owned enterprises.

1. Introduction

With the advancement of China's economic reform, the reform of state-owned enterprises and the improvement of corporate performance have become the focus of academic research [1-2]. The continuous deepening of the reform of state-owned enterprises has promoted the influx of a large amount of foreign capital and private capital into state-owned enterprises. The essence of the reform is to integrate state-owned capital and non-state-owned capital, so as to change the nature of property rights and form a mixed ownership economy. The concept of mixed ownership was proposed as early as the early 1990s. At the Third Plenary Session of the 18th Central Committee, the reform of mixed ownership was emphasized as an important direction for the reform of state-owned enterprises. The desire to improve the performance of state-owned enterprises is more urgent by optimizing the allocation of resources of state-owned enterprises through cross-shareholding of different subjects.

In recent years, with the intensification of anti-corruption in China and the enhancement of citizens' awareness of anti-corruption, more and more anti-corruption incidents reported by social media have attracted great attention from the public [3]. It is generally believed that corruption is mainly the corruption of political bureaucrats, but this concept has been extended to the economic field, and corporate executive corruption is one aspect of the economic field [4]. Corruption is generally defined as the behavior of seeking personal benefit by abusing power [5], which not only seriously damages the productivity of enterprises [6], distortion of enterprise resource allocation, the wastes of resources [7], and also had a negative impact on the management practice of enterprises [8], which ultimately led to low economic benefits of enterprises [9].

Previous studies have shown that there are existing internal management factors leading to corporate executives' corruption, such as imperfect corporate governance mechanism [9], imbalanced corporate power allocation [10], and low governance level [11]. There are also some external government intervention factors, There are also some external government intervention factors, such as the insufficient incentives for executives' behaviors due to government compensation regulation [12] [13], the lack of constraints on the behavior of senior executives after the implementation of power delegation reform led to the fact that the excessive power of senior

executives made it more convenient for them to seek personal gains [7]. In China's transition period, compared with foreign corporate governance problems, state-owned enterprises in China still have some deeper problems such as “state-owned shares are dominant” and “owner absence” [1], which has led to the intensification of state-owned assets loss, interest transfer, and corruption. Making state-owned enterprise reforms face serious difficulties [14].

At this stage, mixed ownership reform is the focus of state-owned enterprise reform. Cross-shareholding is one of the characteristics of mixed ownership reform. Cross-shareholding formed a certain equity balance [15]. Then, can the effect of equity balance brought by diversification of shareholdings implement effective internal control over enterprises, thus having a certain governance effect on corruption? Can the governance of executive corruption improve the operational efficiency of state-owned enterprises and enhance the value of state-owned enterprises?

Although the phenomenon of corporate executive corruption is a universal reality in the society, it is extremely harmful, but scholars at home and abroad pay little attention to this aspect. At present, academic and corruption-related research results are mainly concentrated in the field of government officials' corruption [16]. The research on the corruption of senior executives is mainly to put forward policy suggestions such as strengthening internal supervision and improving the internal structure of enterprises for the development of enterprises [4]. Few scholars have conducted empirical studies on executive corruption [7].

Based on this, this paper mainly takes mixed ownership reform as the entry point to empirically investigate whether mixed ownership reform can inhibit senior executives' corruption, so as to improve corporate performance. Manually collect research samples of A-share state-owned listed company executives' corruption in 2010-2017 and construct a regression model. The empirical test results show that the mixed ownership reform of state-owned enterprises has a significant effect on the governance of senior executives' corruption, so it has a positive impact on the improvement of enterprise performance.

The research contribution of this paper mainly includes the following three points :(1) Expanding the research scope of corruption. Different from previous studies on corruption, existing literatures mainly focus on corruption of senior government officials, we study the existence of senior executives corruption in enterprises, deepen the related theories of corruption incentives, and provide some new ideas for the reform of state-owned enterprises. (2) Provide a new research perspective for the governance effect caused by policies related to mixed ownership reform. This paper considers the influence of mixed ownership reform on executive corruption of micro enterprises. (3) Optimize the path of influence to improve the performance of state-owned enterprises. It is of great practical significance to accelerate the development of state-owned enterprises and improve the efficiency of capital allocation by revealing the connection between the reform of state-owned enterprises and the corruption of senior executives and exploring the influence on enterprise value through the way of controlling the corruption of senior executives.

2. Theoretical Analysis and Research Hypothesis

2.1 Mixed Ownership Reform and Corporate Executive Corruption

Mixed ownership reform is the key path of state-owned enterprise reform in China. In enterprises that implement mixed ownership, the diversification of corporate asset investors is not only the representative of the interests of the state-owned economy, but also the carrier of multiple economic interests. The key factors that affect the development of the enterprise also extend to other economic interests [17]. China launched the share-trading reform in 2006, which reduced the concentration of ownership of state-owned enterprises, and the ownership structure of state-owned enterprises was also more balanced [18]. Regarding the research on the governance of listed companies in China, most scholars believe that the diversification of shareholdings plays a role in the checks and balances and supervision of state-owned shareholders [19]. The balance of equity has a positive impact on the development of state-owned enterprises.

In fact, the corruption of corporate executives is a kind of power rent-seeking [20]. The power

intensity of corporate executives is significantly positively correlated with the possibility of corruption [7]. Due to agency problems, agents with actual control of the firm may not aim at maximizing the interests of investors, they have incentives and the ability to control corporate assets for self-interest. With the implementation of the government's decentralization reform, China's state-controlled enterprises are faced with a greater risk of senior executives' power rent-seeking [21]. Many existing studies also show that with the enhancement of executives' real power, they are more likely to carry out connected transactions, seek for excess compensation [22], and implicit money for extravagant consumption.

Therefore, in order to fundamentally curb executive corruption, it is necessary to improve the internal supervision mechanism and strengthen the restriction and supervision of executive power. Especially after the implementation of decentralization reform, it is essential to improve the corporate supervision system, which is a key measure to prevent senior executives from corruption. In mixed ownership enterprises, the balance of shareholders has a clear constraint on the behavior of the controlling shareholder, and can also monitor its use of power for private gains [23]. The cost of coordination required by both shareholders of different natures to achieve complicity is high. Corporate executives must consider the cost of supervision brought about by their "corrupt behavior" and additional "political costs".

Based on the above analysis, this paper proposes H1:

After the enterprise implements the reform of mixed ownership, it forms an effective internal checks and balances mechanism, which can restrain the behavior of senior executives and have certain governance effects on executive corruption.

2.2 Mixed Ownership Reform and Corporate Executive Corruption

Executive corruption is a common phenomenon in enterprises, and the main influence of executive corruption on corporate value is to obtain profits through various explicit and implicit means. Scholars believe that no matter what means executives use for personal gain, it will have a significant negative impact on corporate performance [9-10]. Corporate executives' manipulation of investment projects for their own profit will eventually lead to the decline of corporate performance.

Implicit corruption mainly includes extravagant perks, obtaining excess compensation, and building a commercial empire. In the case of imperfect supervision mechanism, the agency problem will be aggravated, that is, the owner cannot effectively supervise the behavior of the executives, increase the moral hazard of the executives, and lead to an increase in the agency costs of the enterprise. Jensen and Meckling (1976) have long shown that perks is essentially agency conflict, and the direct result of which is the decline of corporate value [24]. Compared with the companies whose executives did not manipulate their compensation, the average enterprise value of those whose executives did not manipulate their compensation was 7.5% lower [25]. For state-owned enterprises, executive corruption can damage corporate performance [11].

In recent years, even in developed countries with relatively perfect legal systems, executives have hit the legal bottom line to invade investor profits frequently. Corporate executives usually take advantage of their information advantages to conduct illegal operations, especially in insider trading before the breakthrough of R&D activities. Forcing enterprises to face acquisition, financial crisis and bankruptcy are the direct economic consequences of explicit corruption of executives [26].

Corporate executives' corruption is very harmful. Only by cracking down on corruption can corporate performance be improved. With the increase of governance corruption, the supervision environment of enterprises has been strengthened, the quality of accounting statements has increased, and the control of earnings has decreased. In consideration of the future, senior executives will reduce perks and correct their abuse of power. These changes ultimately promote the improvement of shareholder value and corporate performance [27].

Based on the above analysis, this paper proposes H2:

The governance effect of mixed ownership reform on executive corruption can improve the

performance of corporate.

3. Research Design

3.1 Sample Selection and Data Sources

In this paper, the perks is used to measure the degree of senior executives' corruption. The perks data was only gradually disclosed and improved in 2010. Therefore, this paper mainly selected a-share state-owned listed companies from 2010 to 2017 as samples, excluding samples from the financial industry, ST and PT as well as samples with missing data, to investigate the impact of mixed-ownership reform on behavior supervision of senior executives of state-owned enterprises, so as to enhance the value of state-owned enterprises and promote the preservation and appreciation of state-owned capital. The data in this paper are mainly from the CSMAR database.

3.2 Model Design

This paper uses the following three models to test the research hypothesis.

$$ROE = \beta_0 + \beta_1 MIX + \beta_2 LEV + \beta_3 INSIDER + \beta_4 SIZE + \beta_5 SALARY + \beta_6 BOARDSIZE + \beta_7 OWNER + \beta_8 INDEP + \beta_9 YEAR + \beta_{10} INDUSTRY \quad (1)$$

$$CORRUPTION = \beta_0 + \beta_1 MIX + \beta_2 LEV + \beta_3 INSIDER + \beta_4 SIZE + \beta_5 SALARY + \beta_6 BOARDSIZE + \beta_7 OWNER + \beta_8 INDEP + \beta_9 M_SHARE + \beta_{10} DUAL + \beta_{11} YEAR + \beta_{12} INDUSTRY \quad (2)$$

$$ROE = \beta_0 + \beta_1 MIX + \beta_2 CORRUPTION + \beta_3 LEV + \beta_4 INSIDER + \beta_5 SIZE + \beta_6 SALARY + \beta_7 BOARDSIZE + \beta_8 OWNER + \beta_9 INDEP + \beta_{10} YEAR + \beta_{11} INDUSTRY \quad (3)$$

This paper uses the mediating effect to test whether the implementation of mixed ownership reform can restrain executive corruption and improve the performance of state-owned enterprises. The dependent variable is CORRUPTION and ROE, which represent the degree of executive corruption and corporate performance, respectively. The degree of corruption of executives is calculated using $1000 * \text{perks} / \text{operating income}$, and corporate performance is expressed in terms of net profit/net assets. The independent variable MIX represents the degree of mixed ownership reform, and the degree of mixed ownership is measured by the number of appointed directors. The more directors appointed by non-state-owned shareholders, the higher the degree of mixed ownership reform. The rest are control variables, LEV stands for enterprise risk, total assets/total liabilities are calculated, INSIDER is the number of internal directors, the SIZE on behalf of the enterprise scale, as measured by the logarithm of the total assets of the company. SALARY stands for executive compensation. It is expressed in logarithm with the total salary of the top three executives. BOARDSIZE is the size of the board of directors. It is represented by the logarithm of the total number of directors. OWNER represents the shareholding ratio of the largest shareholder, INDEP is the size of an independent director. It is measured by the number of independent directors/all directors. M_SHARE is the shareholding ratio of the management. It is measured by the proportion of the shareholding of the management in the total share capital. If there is a combination of chairman and general manager, the DUAL value is 1, otherwise it is 0. In addition, this paper also controls the industry and annual variables.

4. Empirical Results and Analysis

4.1 Descriptive Statistics

This paper collected relevant data of A-share state-owned listed companies and finally obtained the annual observed values of 5,260 enterprises. Table 1 is the descriptive statistics of the main variables. As shown in the above table, the mean value of corruption is 5.226, with a large standard deviation, indicating a large difference in corruption among enterprises. The average value of the mixed ownership reform is 0.088, which indicates that the number of directors appointed by

non-state enterprises is small, but the maximum is also 8. The enterprises with a large degree of mixed ownership reform indirectly reflect the willingness of non-state shareholders to actively participate in the governance of state-owned enterprises. Therefore, in some state-owned enterprises listed companies, non-state-owned shareholders have a certain voting right and can play a governance role.

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
ROE	5260	0.054	0.178	-2.794	3.361
CORRUPTION	5260	5.226	5.244	0.271	31.04
MIX	5260	0.088	0.392	0.000	8.000
LEV	5260	0.519	0.201	0.010	1.345
INSIDER	5260	2.110	1.298	0.000	10.00
SIZE	5260	22.57	1.264	18.37	28.07
SALARY	5260	13.10	0.773	0.000	15.59
BOARDSIZE	5260	2.211	0.197	1.099	2.944
OWNER	5260	38.99	15.09	3.620	84.71
INDEP	5260	0.369	0.056	0.125	0.800
M_SHARE	5260	0.004	0.024	0.000	0.576
DUAL	5260	0.092	0.289	0.000	1.000

4.2 Empirical Analysis of Mediating Effect

Table 2 Mixed ownership reform, executive corruption and corporate performance

	(1) ROE	p	(2) CORRUPTION	p	(3) ROE	p
INTERCEPT	-0.611	0.000	22.71	0.000	-0.569	0.000
MIX	0.024	0.000	-1.166	0.000	0.022	0.000
CORRUPTION	-	-	-	-	-0.002	0.008
LEV	-0.244	0.000	-2.369	0.000	-0.249	0.000
INSIDER	-0.001	0.645	-0.003	0.955	-0.001	0.640
SIZE	0.017	0.000	-0.877	0.000	0.016	0.000
SALARY	0.037	0.000	0.156	0.135	0.037	0.000
BOARDSIZE	0.001	0.931	1.016	0.007	0.003	0.828
OWNER	0.001	0.001	-0.009	0.058	0.001	0.002
INDEP	-0.147	0.001	1.621	0.198	-0.144	0.001
M_SHARE	-	-	0.761	0.733	-	-
DUAL	-	-	-0.065	0.780	-	-
INDUSTRY	yes	-	yes	-	yes	-
YEAR	yes	-	yes	-	yes	-

Table 2 shows the regression results of the three models. According to the mediation effect model, combined with the regression results, the coefficient of the independent variable MIX in model one is positive and significant, indicating that the mixed ownership reform can improve the performance of the enterprise. Then test model 2 and model 3, and find that the MIX regression coefficient in model 2 is significantly negative. The regression results show that the mixed ownership reform can help prevent the occurrence of executive corruption. The CORRUPTION regression coefficient in Model 3 is negative and significant, which is consistent with the existing research results, indicating that executive corruption damages corporate value and is not conducive to the improvement of corporate performance. In the final test model 3, the MIX coefficient is significantly positive, indicating that the partial mediation effect is significant. That is, the mixed ownership reform has certain governance effects on the executive corruption behavior, thus improving the enterprise performance, which is consistent with our research conclusions.

5. Conclusion

The reform of mixed ownership is an important breakthrough for the reform of state-owned enterprises. The entry of heterogeneous capital forms a certain balance of equity, thus clarifying property rights. In addition, some non-state-owned shareholders appointed directors to directly

participate in corporate governance, which is conducive to corporate governance efficiency. This paper takes state-owned listed companies from 2010 to 2017 as research samples, and supports the research conclusion with large sample data. Studies have shown that mixed ownership reform is conducive to preventing the occurrence of corruption in state-owned enterprise executives, thereby improving corporate performance and promoting the preservation and appreciation of state-owned assets.

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