

Research on the Problems and Countermeasures of Differentiated Control of State-owned Enterprise Groups

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Abstract: Since the implementation of the three-year action of state-owned enterprise reform, the mixed ownership reform of state-owned enterprises has continued to make positive progress, and differentiated control has been gradually implemented. However, there are still some problems, such as the autonomy of enterprise operation is not fully used, the power boundary of governance subjects is not clear enough, the accuracy of authorization and decentralization is not accurate enough. Because of the current situation of differentiated control of state-owned enterprise groups, this paper puts forward countermeasures and suggestions for optimizing differentiated control to provide a reference for the high-quality development of state-owned enterprises.

1. Introduction

State-owned businesses are crucial political and material pillars of socialism with Chinese features, as well as a key supporter in governing and developing the nation. For mixed-ownership enterprises, the three-year SOE reform action mandates the implementation of more market-oriented and differentiated control, and SASAC makes it abundantly clear that differentiated control should be used as a reform breakthrough to encourage the establishment of flexible and effective market-oriented operation mechanisms for enterprises^[1]. The reform of state-owned enterprises is an important step to adapt to the new era. The reform of state-owned companies has drawn considerable attention from all spheres of society since it is a necessary step in adjusting to the development of the new era and is linked to the success and growth of the national economy. The reform of the mixed ownership system of state-owned companies serves as a crucial link in the comprehensive, deepening transformation. To encourage the release of vitality and high-quality development of mixed ownership enterprises, it is urgent to determine the differentiated control objectives, control priorities, and control measures according to the characteristics of enterprises and to implement policies according to enterprises, industries, and time.

With the ongoing standardization and systematization of pertinent policies, an increasing number of enterprise groups have begun to modify their control models in accordance with pertinent policies and the actual enterprises, and have seen some success in doing so. As a result, the subject of differentiated control has gradually drawn more attention from academics. In order to serve as a guide for further enhancing the competitiveness of state-owned enterprises, this paper reviews the current state of research on differentiated control of state-owned enterprise groups, analyzes the control issues that currently exist, and proposes measures to optimize differentiated control.

2. Literature Review on Differentiated Control

We used CNKI to search the literature related to "differentiation control" at home and abroad, and found that the current research scope is limited to China (Figure 1) and domestic academics have been focusing on this topic since 2007. Overall, the amount of literature related to differentiation control is currently small, but in a gradual growth trend.

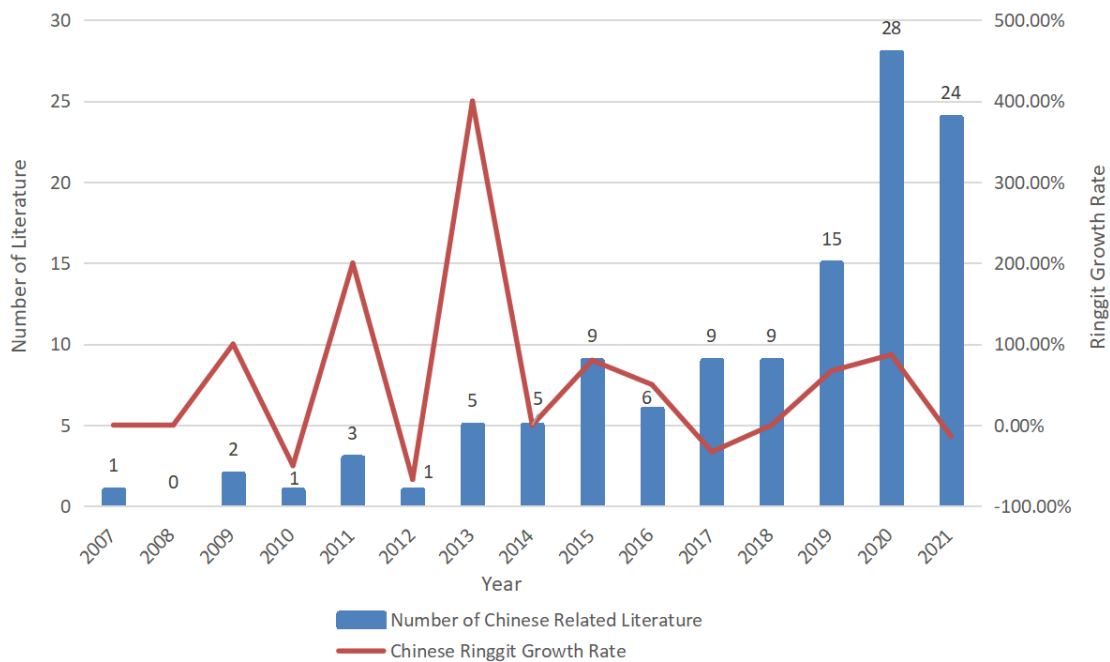


Figure 1 Number of literature related to differentiated control in China (2007-2021).

At present, the differentiated control of state-owned enterprises is still in the stage of policy implementation and practical exploration, and there are not many relevant research results, scholars mainly put forward their views on the principles of differentiated control, control mode, and control system.

2.1. The Principle of Differentiated Control

The implementation principles of differentiated control mainly include financial control and corporate governance. Scholar Xu believes that in group control, the basic principle of financial control is followed to manage capital and returns for mixed ownership firms, while in corporate governance, state-owned shareholders carry out governance through a corporate governance structure^[2]. Zou explains that the principle of financial control means state-owned shareholders should only manage money and returns properly, while the idea of corporate governance means they should consult with other shareholders to clarify rights and responsibilities^[3].

2.2. The Mode of Differentiated Control

In terms of the modes of differentiated control, scholars classified the control modes based on different indicators but agreed on the need to integrate various control modes with reality. From the perspective of a strategic network, Tang et al. established a control model selection matrix and proposed four control models: operational control, strategic control, core resource control, and investment control^[4]. Cai agrees with such a classification of control models and points out that enterprises should choose suitable control models according to the different characteristics of each subject, and in practice, they need to achieve the integrated use of various control models^[5].

2.3. Construction of Differentiated Control System

To build a differentiated control system, Zhang believes it is necessary to clarify the group's strategy and functional positioning, assess the parent company's control ability and the subsidiaries' management maturity, clarify the degree of centralization and decentralization of different types of subsidiaries, and form a reasonably designed control means^[6]. Han and Cai feel it's vital to first assess the degree of decentralization and control precision of related enterprises, then determine the level of comprehensive control and apply differentiated control with strategic control as the focus^[7].

2.4. Review of Literature

From the existing results, the research related to differentiated control has formed a certain

theoretical framework and theoretical system, but most of the current research stays at the theoretical level without an in-depth analysis of the problems existing in practice. Therefore, based on the existing research, this paper tries to propose countermeasures for the actual problems in the process of SOE reform.

3. Problems in Differentiated Control

Since the three-year action of SOE reform, the modern enterprise system with Chinese characteristics has been continuously built and improved, the structural layout of state-owned capital has been continuously optimized and upgraded, and the efficiency of state-owned capital allocation has been significantly improved, but there are still some contradictions and areas for improvement in the practice of differentiated control of state-owned enterprises.

3.1. Business Autonomy Not Fully Utilized

In recent years, the State Council has promoted corporate restructuring, the establishment of state-owned investment companies and operating companies, and central enterprises have also actively introduced various types of investors to implement equity diversification reforms at the group level to create modern enterprises that adapt to market competition.

The market-oriented reform of state-owned enterprises has been deepening, and their vitality and competitiveness have been increasing, but there are still shortcomings in the use and exercise of the enterprises' operational autonomy. In state-owned holding companies, the state-controlled shareholder, as the largest shareholder, can effectively control the board of directors, and there is the phenomenon of overstepping its authority, which fetters the independence of the enterprise and causes low efficiency in the use of resource allocation. In some state-controlled listed businesses, state-owned shareholders intervene with everyday operations and management, leading to late and irregular disclosure of crucial information and upsetting market order.

According to the theory of separation of two powers, state-owned firms are prone to insider control due to the lack of the owner of state-owned property rights^[8]. Investment rights, pricing rights, personnel rights, and other powers are too concentrated in enterprise insiders, making it difficult for small and medium shareholders to effectively supervise company operations. The right to income is not effectively protected, the incentive to invest is affected, and the rights and interests of stakeholders cannot be fully protected.

3.2. Lack of Clarity in the Rights and Responsibilities of Each Governance Body

The three-year action of SOE reform has improved the corporate governance structure of SOEs a key task, and SOEs at all levels have improved the system of the board of directors in conjunction with the actual situation, and the reform of the three systems has achieved a wide range of ice-breaking and breakthrough^[9]. However, there are still some SOEs with corporate governance structures.

First, some corporate governance subjects have a high degree of overlap, members of the party committee and corporate board of directors and managers are duplicated, which does not achieve mutual checks and balances in the corporate governance structure and makes it difficult to regulate the process of exercising power by each corporate governance subject. Secondly, the structure of the board of directors is not scientific and reasonable, the members of the board of directors are from a single source, the proportion of relatively independent professional directors is low, and the team building needs to be strengthened. Third, the responsibilities and authority of the party organization are not clear, there is the phenomenon of the absence of the party organization overstepping its position, the leadership role is not fully played, and the party committee pre-procedure is not put into practice.

According to the principal-agent theory, there are layers of principal-agent relationships in state-owned enterprises from the national people to government agencies, asset management platforms, enterprise management layers, etc^[10]. This complex principal-agent hierarchy is likely to lead to problems such as rights and behaviors not being clearly defined and information asymmetry

among subjects, resulting in the misalignment of power and responsibility.

3.3. The Precision of Delegation of Authority Needs to be Further Improved

SASAC has carried out a lot of work on the delegation of power to SOEs, requiring central enterprise groups to increase the delegation of power and to reasonably delegate power to their subsidiaries.

The "Guiding Opinions on Deepening the Reform of State-owned Enterprises" (Zhongfa [2015] No. 22) issued by the Central Committee of the Communist Party of China and the State Council classifies central enterprise groups and sub-enterprises into three main categories: competitive commercial category, special functional commercial category, and public welfare category. The List of Delegation of Powers by the State-owned Assets Supervision and Administration Commission of the State Council (2019 Version) (SASAC Reform [2019] No. 52) issued by SASAC specifies the matters of delegation of powers for each type of enterprise.

At present, the rough, "one-size-fits-all" control model has been changed, but there is still a large gap between the "one-enterprise policy" of comprehensive and effective management, the traditional single control method has been difficult to adapt to the fast-changing market environment, to meet the actual development of enterprises. In the management of state-owned enterprises, it is necessary to change from rough management to fine management.

The precision of the delegation of authority to state-owned enterprises needs to be improved, and the content and procedures of the delegation of authority are not detailed enough, and the authority and responsibilities are not clear enough. When managing mixed-ownership enterprises, they cannot fully combine the characteristics of the enterprises, and the control measures are not targeted, which reduces the operational efficiency of the enterprises and makes it difficult to maximize the respective advantages of state-owned capital and non-state-owned capital.

4. Countermeasures and Suggestions

To solve the problems faced by state-owned enterprise groups in the practice of differentiated control and to comprehensively improve the implementation effect of differentiated control, it is necessary to start from various aspects to avoid the phenomenon that the mixed ownership reform only mixes the capital but not the mechanism, and to enhance the competitiveness and internal life of enterprises.

4.1. Comprehensive Strengthen the Construction of the Party

To strengthen the leadership of the Party to achieve the system first, the Party's work is written into the company's articles of incorporation, clarifying the general requirements of the Party's work, the form of setting up the Party organization and its responsibilities, and authority, etc., to integrate the Party's leadership into all aspects of corporate governance. To standardize the requirements and procedures of the Party Committee's front research and discussion, give full play to the Party Committee's leading core and political core role.

We should actively explore the innovative path of party building in state-owned enterprises, and innovate and promote the work according to the characteristics of different types of enterprises. Party-building work of relatively state-owned enterprises should be combined with the enterprise's shareholding structure and operational reality, and party organizations should actively communicate and coordinate with other shareholders and investors to establish a two-way consultation and interaction work mechanism, reflecting the overall and coordinating role of party organizations.

4.2. Improve the Market-oriented Business Management Mechanism

Marketization is the main direction of SOE reform and should continue to accelerate the improvement of market-oriented business mechanisms and give full play to the decisive role of the market in resource allocation.

We should insist on combining the principle of party-controlled cadres with market-based selection and recruitment, and train more senior managers and entrepreneurs through market-based

mechanisms. Accelerate and improve the tenure system for managers, implement contractual management, and promote the establishment and improvement of the professional management system. When selecting and hiring professional managers, scientific selection and hiring criteria should be formulated, and the whole process of selection and appointment should be open and transparent. While fully delegating authority to the managerial level, the annual and term performance assessment should be carried out according to regulations, and the compensation allocation system based on economic value added (EVA) should be improved and perfected^[11].

In the management of enterprise employees, we should improve the job-based labor contract management mechanism, accelerate the establishment of a talent evaluation system oriented by innovation value, ability and contribution, and at the same time implement the application of the assessment results, smooth the exit channels of employees through the system of last-class adjustment and incompetent exit, form a regular exit mechanism, and promote the internal mobility of enterprises.

4.3. Strengthen the Construction of the Corporate Governance System

To regulate the principal-agent relationship of state-owned enterprises, it is necessary to improve the enterprise system with the articles of association as the core, promote the improvement of the corporate governance mechanism, and clarify the boundary of authority and responsibility of each governance body.

Governance-based control should be the key mode of differentiated control for hybrid enterprises. In the SOE group, the parent company and subsidiaries should be linked through equity and investment relationships, and the state-owned shareholders should exercise their shareholder rights through voting at shareholders' meetings, recommending directors and supervisors, and participating in decision-making by laws and regulations.

We should strengthen the construction of the Board of Directors, examine the qualifications of outside directors from various aspects, broaden the source channels of outside directors, comprehensively consider business ability, political quality, and other elements, and give priority to members with diversified professional backgrounds and rich experience in the field, to improve the decision-making level of the Board of Directors.

4.4. Improving the Precision of Delegation and Decentralization

To achieve precise policy, we must first clarify the specific mode of SOE group control. According to the degree of centralization and decentralization, the parent-subsidiary control models of state-owned enterprise groups mainly include financial control, operational control, and strategic control^[12]. In addition, enterprises should form a control model that meets their own needs, taking into account the actual situation.

State-owned enterprise groups need to promote the list of delegated authorities within the enterprise and clarify the matters and operating procedures of delegated authority. The delegation of authority should be carried out in a categorized manner, taking into account the shareholding structure of the enterprise and the stage of development. For wholly state-owned and state-controlled enterprises, we should improve the articles of association and develop a reasonable system of delegation and decentralization. For relatively state-controlled mixed-ownership enterprises, we should delegate authority to the board of directors and management to support independent decision-making.

Enterprises must also establish a dynamic adjustment mechanism and supervision mechanism, strengthen the supervision of the process of exercising authority, evaluate the actual implementation of the delegation of authority, and adjust the scope and matters of the delegation of authority promptly based on the evaluation results.

4.5. Promote the Application of Diversified Incentive Mechanisms

Establishing a sound medium- and long-term incentive mechanism for state-owned enterprises is an important way to deepen income distribution reform. State-controlled mixed ownership enterprises should continue to promote employee shareholding, incentive objects to senior

management, scientific research staff, and business backbone, so that employees and enterprises form a community of destiny of value creation, benefit sharing, and risk sharing.

For listed companies, it is necessary to actively implement equity incentives, use various incentive tools, and formulate scientific and reasonable equity incentive plans to make employees closely combine their interests with corporate interests and promote the achievement of long-term corporate goals. It is also necessary to design a reasonable exit mechanism and clarify the exit price and exit method of equity incentive, to ensure the implementation effect of equity incentive.

When improving the medium and long-term incentive mechanism, we should also pay attention to moderate incentives, adopt appropriate restraining measures at the same time as incentives, set certain equity lock-up periods and equity effective conditions, and help the enterprise develop steadily in the long term.

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