

Mixed Ownership Reform and on-the-job Consumption Governance of State-owned Enterprises

-Case Study Based on Chongqing Beer

Ye Songqin; Luo Yinhui*, Tan Mengyi
The Financial College, Jiangxi Normal University
Nanchang, Jiangxi, China

Abstract—Mixed ownership reform is the core content of the development of state-owned enterprises. However, the reform is restricted by the long-standing governance problems of state-owned enterprises in China. In the government work report of 2019, it proposed tasks such as “actively yet prudently advancing the reform of mixed ownership, improving corporate governance structure, perfecting market-oriented operation mechanism, and establishing professional manager system”. To explore the impact of mixed ownership reform on the on-the-job consumption of state-owned enterprises, based on the analysis of financial indicators and case studies, this paper takes the reform of mixed ownership of Chongqing beer as research object, analyzes the change of internal governance structure and based on the analysis of the evaluation indicators of on-the-job consumption. The results suggest that the ownership structure has been changed after the reform of mixed ownership, and then internal governance environment improved, in the meanwhile, on-the-job consumption is effectively governed.

Keywords—Mixed ownership reform; Internal governance; On-the-job consumption; Chongqing beer

I. INTRODUCTION

In the government work report of 2019, it was proposed to speed up the reform of state-owned enterprises, strengthen and improve the supervision of state-owned assets, promote the pilot reform of state-owned capital investment and operation companies, and promote the preservation and appreciation of state-owned assets. It shows that the development of mixed ownership is an important content and key breakthrough in the reform of state-owned enterprises in China at the present stage. State-owned enterprises are the market-oriented direction in China, however, there are many problems in these enterprises, such as inefficient governance and loss of state-owned assets, which hinder the development of state-owned economy. (Alex & Ayse, 2009; Chen Donghua, 2010; Li Jianbiao, 2016) [1-3].

The main purpose of the mixed ownership reform is to inject new vitality into state-owned enterprises through mixed reforms, thereby enhancing the overall efficiency and market competitiveness of state-owned enterprises (Qian, 1995) [4]. But corruption and anti-corruption have been the focus of society in China with its economic and social transformation, and on-the-job consumption of state-owned enterprises has been regarded as corruption. In the emerging market with imperfect factor market development, it is of special significance to the

study of on-the-job consumption.

II. LITERATURE REVIEW

Due to the prolix management chain of state-owned enterprises, enterprises have not yet established a consummate modern enterprise system and effective corporate governance mechanisms. So state-owned enterprises need to promote non-state-owned capital to play guiding role through mixed ownership reform, then improve the governance of soes and business performance (Huang Sujian, 2014) [5].

(1) The impact of mixed ownership reform on enterprise internal governance. Mixed ownership reform changes ownership structure by introducing non-state capital. All types of shareholders control the company through their respective shareholding ratios, and improving corporate governance and optimizing ownership structure is the primary consideration of mixed ownership (Lin Yifu, 1997) [6]. The distribution of rights and responsibilities within an enterprise is affected by the ownership structure, and due to the consideration of corporate performance, state-owned shareholders will make full use of the professional manager market and give full play to the managerial management ability, so that enterprises can adjust accordingly according to market demand (Tang Kemin, 2015) [7], reducing the administrative proportion of managers (Tang Kemin, 2015; Mou Shaohong, 2016) [7-8].

(2) The impact of internal governance on on-the-job consumption. In state-owned enterprises with more dispersed stock ownership, the administrative appointment and removal of senior executives have increased the degree of on-the-job consumption (Zhao Can, 2015) [9]. Usually, the participation of private enterprises makes executive compensation no longer regulated, instead, the compensation is linked to the performance, and the corporate executives replace the incentive system by diversified forms of consumption. The mixed state-owned enterprises will rationally allocate senior management power to reduce the control of senior management, which can alleviate the occurrence of on-the-job consumption (Barroso, 2016) [10].

Fund project: Jiangxi Social Science Planning Project :Government Intervention, Marketization Reform and Executive Incentives for State-Owned Enterprises.(14GL52); Jiangxi province 2018 postgraduate fund provincial level funding project: Mixed ownership reform and management of executive corruption in state-owned enterprises—Case study based on Chongqing beer. (YC2018-S179).

III. CASE INTRODUCTION

Chongqing Beer Co., Ltd., formerly known as "Chongqing Brewery" founded in 1958. In 1995,

renamed as "Chongqing beer co., LTD." Its actual controller is the Chongqing State-owned Assets Supervision and Administration Commission. In December 2013, after

years of increasing its shareholding, Carlsberg group of Denmark became the largest shareholder of heavy beer with a 60% shareholding ratio, while Chongqing beer's shareholding ratio dropped to 4.95%.

A. Main contents of the tender offer

TABLE I MAIN CONTENTS OF THE TENDER OFFER

Acquired company	Chongqing Beer Co., Ltd.
Acquisition company	Carlsberg brewery Hong Kong limited
Share category	Tradable shares
The offer price	RMB 20 per share
Method of payment	Cash payment
Number of shares purchased	146,588,136 shares
Proportion of total share capital	30.29%
Tender period	November 5, 2013 to December 4, 2013

Source: Chongqing Beer Co., Ltd. Tender Offer Report

B. Tender acquisition of shareholding structure changes

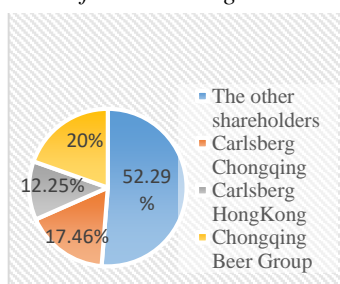


Fig. 1 Share structure of Chongqing beer before the offer

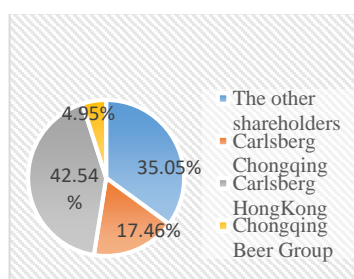


Fig. 2 Share structure of Chongqing beer after the tender offer

Carlsberg Hong Kong co., ltd. purchased 30.29% shares of Chongqing beer group and other shareholders by issuing an invitation for offer to Chongqing beer group and other shareholders. Carlsberg Hong Kong and Carlsberg Chongqing jointly hold. Its actual controller, the Carlsberg Foundation, holds a total of 60%. After the sale of part of its shares, the remaining shares account for 4.95 percent of the company's total shares.

IV. CASE ANALYSIS

A. The Impact of Mixed Ownership Reform on the Internal Management of Chongqing Beer

1) Management appointments are de-administrated

From 2013 to 2017, the senior management of Chongqing Beer has undergone many changes. The following are the appointments of senior executives of state-owned shareholders and non-state shareholders before Chongqing Beer announced its tender offer in March 2013 and from 2014 to 2017.

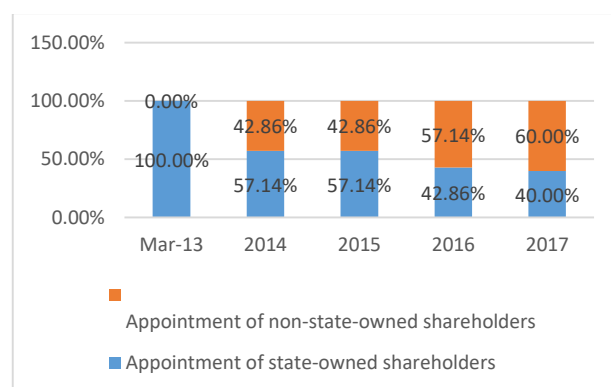


Fig. 3 Appointment of senior executives before and after Chongqing beer reform

As can be seen from Fig.3, Carlsberg appointed half of its executives after the offer was announced in 2013. In 2016, senior executives appointed by non-state shareholders accounted for 57.14% of all executives. By 2017, Carlsberg's appointed executives accounted for 60% of the total, and state-owned shareholders only accounted for 40%. After the implementation of the reform, Selecting senior management according to the needs of the enterprise and the professional ability of the manager instead of implements administrative management, which is conducive to the long-term development of the company.

2) Pay control constraints weakened

The executive compensation of state-owned enterprises is generally lower than that of private enterprises. When the salary fails to meet the expectations of the management and

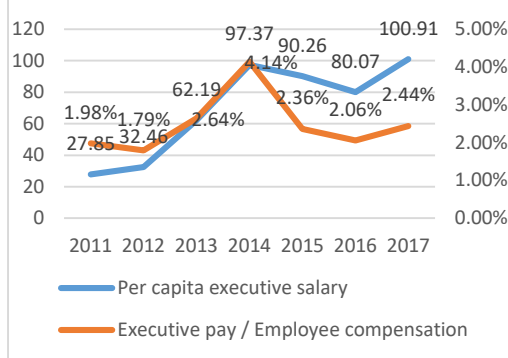


Fig.4 Trends in executive wages of Chongqing Beer from 2011 to 2017(Ten thousand yuan)

As can be seen from Fig.4, before the Chongqing Beer Group implemented the mixed reform, both the per capita salary of executives and the proportion of executives' wages to the total wages of employees were low. After the implementation of mixed ownership reform, both the per capita salary of senior executives and the proportion of senior executives' salary in the total salary have been improved. It shows that after the introduction of non-state-owned capital into Chongqing beer, the executives of the company determine their remuneration according to the value brought to the company, so as to urge the executives to regard the interests of the company and their own interests as a whole and take the maximization of the enterprise value as the business goal.

B. The change of on-the-job consumption before and after the mixed ownership reform of Chongqing beer

Excluding items that can specify specific items in the administrative expenses, the remaining administrative expenses shall be the amount of the in-service consumption of senior executives. The management expenses are mainly generated by the main products and services of the enterprise. Therefore, the ratio of the on-the-job consumption amount to the main operating income is used as an indicator to measure the level of on-the-job consumption of the enterprise.

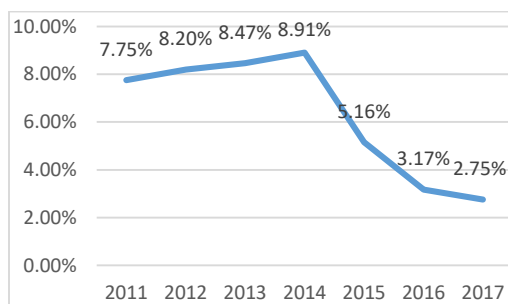


Fig. 5 Chongqing beer consumption level from 2011 to 2017

Fig.5 shows that the ratio of in-service consumption and main business income was 7.75%, 8.20% and 8.47% respectively from 2011 to 2013. After the implementation of the mixed ownership reform, although it was 8.91% in 2014,

there is no effective supervision, senior executives are likely to make up for their own interests by damaging the interests of the company.

and still an upward trend compared to 2013. However, from 2015 to 2017, it was 5.16%, 3.17% and 2.75% respectively, showing a downward trend. It shows that the phenomenon of enterprises' on-the-job consumption has been improved.

V. CONCLUSION

One of the important reasons for the phenomenon of on-the-job consumption in state-owned enterprises is that the appointment of senior executives in state-owned enterprises is administratively managed, and the status of senior executives does not represent the interests of investors, so it is difficult to converge the interests of the two, which encourage corporate executives to obtain additional subsidies from companies through other forms, and abuse power to seek benefits for themselves.

After the reform of the mixed ownership system in Chongqing Beer, most of the senior managers appointed by the former state-owned shareholders were replaced by non-state-owned shareholders, and administrative management was no longer implemented.

REFERENCES

- [1] Alex Ng, Ayse Yuce. Determinations of State Equity. Ownership, and Its Effect-ion Value Performance: China's Privatized Firms [J].Pacific-basin Finance Journal,2009,4(17):413-443.
- [2] Chen Donghua, Liang Shangkun. On -the - job consumption, equity checks and balances and their economic consequences——Empirical evidence from Chinese listed companies[J]. Journal of Shanghai lixin accounting college,2010,24(01):19-27+97.(In Chinese)
- [3] Li Jianbiao, Wang Gaoyang. The behavior game of state - owned and non - state capital during mixed ownership reforms——Evidence of laboratory experiments[J]. Chinese industrial economy,2016, (6): 109-126. (In Chinese)
- [4] Qian,Y .Y , 1995, "Reforming Corporate Governance and Finance in China," in Masahiko Aoki and Hyung-Ki Kim eds., Corporate Governance in Transitional Economies (Washington DC: World Bank, 1995).
- [5] Huang Sujian. Study on the mixed ownership reform of Chinese state-owned enterprises[J]. Economic management, 2014,36(07):1-10. (In Chinese)
- [6] Lin Yifu, Li Zhou. The connotation of modern enterprise system and the direction of state-owned enterprise reform[J]. Economic research, 1997(03):3-10. (In Chinese)
- [7] Tang Kemin. The main difficult problem that mixed ownership reform faces and countermeasure[J]. Economic problems, 2015(06):1-8. (In Chinese)
- [8] Mou Shaohong, LiQihang. Internal control, property right nature and excessive on-the-job consumption——Based on the empirical study of non-financial listed companies from 2007 to 2014[J]. Audit research,2016(04):90-98. (In Chinese)
- [9] Zhao Can, Yang Demin. Administrative power, control and state-owned enterprise executive corruption[J]. Financial research, 2015,41(05):78-89. (In Chinese)
- [10] Barroso Casado, R., M. Burkert, A. Dávila and D. Oyon,2016,"Shareholder Protection: The Role of Multiple Large Shareholders", Corporate Governance: An International Review, Vol. 24,No. 2,pp. 105~129.
- [11] Fan J P.Wong T J.Zhang T. Institutions and organizational structure: he case of state-owned corporate pyramids[J].Journal of Law, Economics and Organization.2013,29(6):1217-1252.