

# The Influence of the Party Committee's Participation in Governance on the High-quality Development of State-owned Enterprises

## —Intermediary Effect based on Investment Efficiency

Xinyu Cheng<sup>1, a</sup>, Yunchen Wang<sup>2, b\*</sup>

<sup>1</sup>College of Management, Sichuan Agricultural University Wenjiang, Chengdu, China

<sup>2</sup>College of Management, Sichuan Agricultural University Wenjiang, Chengdu, China

<sup>a</sup>e-mail: 393552404@qq.com

\* Corresponding author: <sup>b</sup>wangyc8684@qq.com

### Abstract

This paper uses the 2012-2018 A-share state-owned listed companies as a research sample, and manually collects data of the party committee members of state-owned listed companies in the corporate governance structure. Then this paper measures the high-quality development and investment efficiency indicators of state-owned enterprises based on the LP method and the Richardson model, and finally uses stata16 to conduct regression analysis to test the impact of the party committee's participation in governance on the high-quality development of state-owned listed companies. The research results show that the party committee's participation in governance can efficiently promote the high-quality development of the enterprise by improving the efficiency of corporate investment. Further research found that, compared with local state-owned enterprises, the participation of party committees in governance has a stronger role in promoting the high-quality development of central state-owned enterprises. Based on the perspective of the party committee's participation in corporate governance, this paper studies the specific mechanism and path of China's state-owned enterprises to achieve high-quality development. The research results not only enrich the theoretical research related to party committees' participation in governance, but also provide a certain reference value for promoting the high-quality development of state-owned enterprises.

**Keywords**—*State-owned enterprise; the party committee's participation in governance; high-quality development; the efficiency of corporate investment*

### 1. INTRODUCTION

At present, China's economy is shifting from high-speed growth to high-quality development. Whether state-owned enterprises, which are the "pillars" of the national economy, can achieve high-quality development has an important impact on the construction of a modern economic system, the realization of the strategic goals of social and economic development, and the promotion of the transformation of China's economy from large to strong. Therefore, it is of great significance to study the influencing factors and mechanism of the high-quality development of state-owned enterprises. The modern enterprise system is constantly developing and improving, and the participation of party committees in corporate governance as a means of political intervention has also

been included in the framework of modern corporate governance, especially in state-owned enterprises, where party committees have gradually become an indispensable part. The participation of party committees in corporate governance is a special advantage of state-owned enterprises. The party committee is embedded in the corporate governance structure through the mechanism of "two-way entry and cross-serving" to clarify and implement the legal status of the party committee in the corporate governance structure of the company, and play the role of "directing, managing the overall situation, ensuring implementation, and participating in major decision-making".

Based on this, this article will take the Shanghai and Shenzhen A-share state-owned enterprise listed companies from 2012 to 2018 as a research sample to

empirically test the impact of party committees' participation in governance on the high-quality development of state-owned listed companies. And on this basis, explore the effect of investment efficiency on the influence of party committees' participation in governance and high-quality development of state-owned listed companies.

Regarding the contribution of this research, firstly, this article enriches the relevant research on the high-quality development of micro-level enterprises through empirical analysis. Secondly, with the high-quality development of state-owned enterprises as a foothold, it has enriched the relevant literature on the governance effectiveness of the party committee's participation in governance. Finally, the research conclusions of this article provide support for optimizing the layout of the state-owned economy and furthering the reform of state-owned enterprises.

## 2. THEORETICAL ANALYSIS AND RESEARCH HYPOTHESIS

### 2.1. Participation of Party Committee in Governance and High-quality Development of State-owned Enterprises

China's economic development has entered a new stage. State-owned enterprises are the lifeblood of the national economy, and their development is the basis for high-quality economic development. So what is the specific path for state-owned enterprises to achieve further development in the new stage? Based on existing research, it can be seen that the participation of party committees in governance is not only the main feature of the state-owned enterprise system, but also gradually becomes a key force in promoting the modernization of state-owned enterprise governance<sup>[1]</sup>.

This article believes that the participation of party committees in governance can have an impact on the high-quality development of state-owned listed companies from the following two aspects. One is to respond to the call of national policy. Various fields in China have taken the promotion of high-quality development as the development theme. As the most important relying force of the party and the state, state-owned enterprises, even are economic organizations, have still shouldered certain political and social responsibilities. State-owned enterprise party participate in strategic guidance through the "two-way entry, cross-service" mechanism, and share decision-making power with management<sup>[2]</sup>, to make enterprise development goals have both "Economy" and "Politics", and more actively respond to the call of the party and the government, and promote the high-quality development of state-owned enterprises faster and better. The other is to strengthen internal control of enterprises. Party

committees can not only participate in major corporate decision-making and major personnel decisions<sup>[3]</sup>, but they can also supervise the power and behavior of corporate executives. It can reduce the information asymmetry between the senior management and the state-owned asset management department through supervision and restraint, reduce the problem of agency conflict, improve the effectiveness of the internal control of state-owned enterprises, and improve the democratic and scientific nature of major decision-making. Based on the above analysis, this article proposes hypothesis 1:

H1: Party committee participation in governance can promote the high-quality development of state-owned enterprises

### 2.2. The mediating effect of investment efficiency

Investment activities, as one of the three major operational activities of enterprises, have a direct impact on the operating results of enterprises. Existing studies have shown that investment efficiency is significantly positively correlated with enterprise performance<sup>[4]</sup>. Therefore, effective investment is an important foundation for improving enterprise performance and promoting long-term development of the enterprise. As for state-owned enterprises, studies have confirmed that the participation of party committees in governance can improve the investment efficiency of enterprises by effectively restraining excessive investment and timely capturing investment opportunities. So, this article believes that the party committee's participation in governance is mainly to improve the investment efficiency of state-owned enterprises, effectively transform related investment projects into income or other benefits, and then promote the high-quality development of state-owned listed companies. Based on the above analysis, this article proposes hypothesis 2:

H2: Participation of party committees in governance promotes the high-quality development of state-owned listed companies by influencing the investment efficiency of enterprises

## 3. RESEARCH DESIGN

### 3.1 Data source and processing

Since the 18th National Congress of the Communist Party of China in 2012, the party building work of state-owned enterprises has continuously made new progress and new results. Therefore, this article takes the 2012-2018 A-share state-owned listed companies as samples, and processes the samples as follows: (1) exclude the sample of listed companies in the financial industry; (2) exclude samples with missing data in variables; (3) exclude the samples of ST, \*ST and PT; (4) tailor the continuous variables at the levels of 1% and 99%. Finally,

an unbalanced panel sample composed of 6193 sample observations is obtained. Regarding the source of the data, the party committee's participation in governance data is manually collected and sorted through the company's annual report, and the rest of the data comes from CSMAR, which is Wind.

### 3.2 Variable definitions

#### 3.2.1 Enterprise high-quality development:

The dependent variable of this research is the high-quality development of the enterprise. Total factor productivity is an important criterion for measuring the high-quality development of state-owned listed companies, so this research draws on the research of Lu and Lian (2012)<sup>[5]</sup>, use the LP method to calculate and take the natural logarithm of the result, finally get the company's total factor productivity (TFP) to measure the high-quality development of the company.

#### 3.2.2 Party committee participates in governance:

This paper draws on the research of Chen and Lu (2014)<sup>[6]</sup>, by setting the dummy variable Party to indicate whether the state-owned enterprise has a party committee participating in corporate governance. If the members of party committee have concurrently served as directors, supervisors or senior executives, the value of Party is 1, otherwise 0.

#### 3.2.3 investment efficiency:

This article refers to the model and method of Richardson (2006)<sup>[7]</sup> to measure investment efficiency. The regression residual of this model can distinguish between overinvestment and underinvestment (both are inefficient investments). Then use the inverse number of the absolute residual value to express the investment efficiency (INV). The larger the value, the higher the investment efficiency.

#### 3.2.4 Control variable:

This article refers to the model and method of Richardson (2006)<sup>[7]</sup> to measure investment efficiency. The regression residual of this model can distinguish between overinvestment and underinvestment (both are inefficient investments). Then use the inverse number of the absolute residual value to express the investment efficiency (INV). The larger the value, the higher the investment efficiency.

With reference to existing literature, this article adds the following control variables to the model, including: The size of the Enterprise (Size), profitability (Roa), financial leverage (Lev), growth capability (Growth), major shareholder shareholding ratio (Top1), The size of the board of directors (Board), the proportion of independent directors (Indep), and CEO duality (Dual).

**TABLE 1.** VARIABLE DEFINITIONS AND DESCRIPTIONS

Variable	symbol	definition
Dependent variable	TFP	Use the levpet program to calculate and take the natural logarithm
Independent variable	Party	If the members of party committee have concurrently served as directors, supervisors or senior executives, the value of Party is 1, otherwise it is 0
Mediating variable	INV	The opposite of the absolute value of the Richardson model regression residual
	Size	The natural logarithm of total assets
	Roa	The total return on assets
	Lev	Total liabilities divided by total assets
	Growth	Main business income growth rate
Control variable	Top1	The number of shares held by the largest shareholder divided by the total number of shares
	Board	The natural logarithm of the number of directors members
	Indep	The number of independent directors divided by the total number of board members
	Dual	If the chairman and general manager are the same person, the value of Dual is 1

### 3.3 Model building

In order to empirically test the impact of the party committee's participation in governance on the high-

quality development of the enterprise, a model (1) is constructed to perform regression:

$$TFP = \alpha_0 + \alpha_1 Party_i + \alpha_2 Controls + \varepsilon_i \quad (1)$$

In order to empirically test the mediating effect of investment efficiency, referring to Wen et al.(2014) [18], models (2) and (3) constructed to test:

$$INV = \beta_0 + \beta_1 Party_{i,t} + \beta_i Controls_{i,t} + \xi_{i,t} \quad (2)$$

$$TFP = \gamma_0 + \gamma_1 Party_{i,t} + \gamma_2 INV_{i,t} + \gamma_i Controls_{i,t} + \zeta_{i,t} \quad (3)$$

In addition, this research also sets up annual dummy variables (Year) and industry dummy variables (Ind) to control the influence of macroeconomic and industry factors.

## 4. RESULTS AND ANALYSIS

### 4.1. Descriptive statistical analysis

Table2 shows the descriptive statistical results of the main variables of the full sample. It can be found through the descriptive statistics that more than half of the sample companies have party committees participating in governance through the "two-way entry, cross-service" mechanism, and the investment efficiency of state-owned enterprises is generally higher.

**TABLE 2.** DESCRIPTIVE STATISTICS

Variable	N	Mean	Std.Dev.	min	max
TFP	6,193	15.570	1.120	12.890	18.734
Party	6,193	0.554	0.497	0.000	1.000
INV	6,193	-0.033	0.036	-0.213	-0.001
Size	6,193	22.830	1.382	19.871	26.898
Roa	6,193	0.028	0.049	-0.190	0.175
Lev	6,193	0.512	0.201	0.086	0.973
Growth	6,193	0.068	0.269	-0.829	1.397
Top1	6,193	0.390	0.151	0.117	0.770
Board	6,193	2.311	0.177	1.792	2.773
Indep	6,193	0.371	0.054	0.308	0.571
Dual	6,193	0.096	0.295	0.000	1.000

### 4.2. Regression analysis

**TABLE 3.** REGRESSION ANALYSIS RESULTS

VARIABLES	(1) TFP	(2) INV	(3) TFP
Party	0.024** [2.304]	0.003*** [3.252]	0.021** [2.061]
INV			0.652*** [6.238]
Size	0.539*** [56.763]	0.001** [2.117]	0.543*** [57.381]
Roa	1.756*** [16.653]	-0.018 [-1.509]	1.789*** [16.973]
Lev	0.235*** [5.332]	0.006* [1.672]	0.234*** [5.342]
Growth	0.317*** [23.523]	-0.018*** [-10.571]	0.326*** [24.092]
Top1	0.079 [1.253]	-0.003 [-0.757]	0.093 [1.479]
Board	0.129*** [2.962]	-0.001 [-0.263]	0.124*** [2.840]
Indep	0.442*** [3.939]	-0.006 [-0.567]	0.433*** [3.867]
Dual	-0.014 [-0.927]	0.001 [0.564]	-0.015 [-0.998]

Constant	2.401*** [9.270]	-0.070*** [-5.139]	2.366*** [9.202]
Observations	6,193	6,193	6,193
Number of id	1,070	1,070	1,070
r2	0.717	0.0692	0.720

Note: \*, \*\*, \*\*\* indicate significant at the 10%, 5%, and 1% level respectively.

Table 3 is the result of regression analysis for testing H1 and H2. The investment efficiency test adopts the stepwise test method which commonly used in existing research [8].

The regression result of column (1) is significant at the 5% level, indicating that the party committee's participation in governance has a significant effect on the high-quality development of the enterprise. Hypothesis 1 has been verified.

The regression result of column (2) is significant at the 1% level, indicating that the involvement of the party committee's participation in governance can promote the efficiency of enterprise investment.

After controlling the investment efficiency of the intermediary variable, the results of column (3) show that the regression coefficient between the investment efficiency of the enterprise and the high-quality development is significant at the 1% level, this indicates that the mediating effect is significant. In addition, the regression coefficient between party committee participation in governance and high-quality development decreased from 0.024 to 0.021. It can be seen that the investment efficiency of state-owned enterprises plays a part of the intermediary role in the impact of party committee participation in governance on high-quality development. Hypothesis 2 has been verified.

#### 4.3. Robustness test

Replace the independent variable measurement method, and learn from the method of Ma Lianfu et al. (2013) [9], Use 'the proportion of party committee members concurrently serving as directors and supervisors' to replace the party committee's participation in governance variable (Party) for regression analysis. The regression result is similar to the previous article, which further confirms the research conclusion of this article.

### 5. CONCLUSION AND ENLIGHTENMENT

At present, high-quality development has become a new goal of the reform of state-owned enterprises. In this context, this article examines the influence of state-owned enterprise party committees' participation in governance on high-quality development and the mediating role of investment efficiency.

Research indicates: (1) the party committee's participation in governance can effectively promote the high-quality development of the enterprise; (2) the party committee's participation in governance can improve the level and quality of enterprise development by influencing the investment efficiency of enterprises. Further research found that, compared with local state-owned enterprises, the participation of party committees in governance has a stronger role in promoting the high-quality development of central state-owned enterprises.

The high-quality development of state-owned enterprises has become an inevitable requirement in the new stage of China's economic development. Theory and practice have proved that only by continuing to uphold the party's leadership, strengthen party building, and take advantage of state-owned enterprises can we provide a fundamental guarantee for the high-quality development of state-owned enterprises. On the theoretical level, the research results of this article are complementary to the research field of the party committees of state-owned enterprises involved in governance, and help to understand the path and mechanism of party committees' participation in governance. At the practical level, based on the research results of this article, the following suggestions can be provided for the state-owned enterprise party committee to embed the governance structure and promote the high-quality development of the enterprise:

The first is to insist that the party committee participate in corporate governance. State-owned enterprises should actively promote the participation of party committees in governance, At the same time adopting differentiated governance methods based on governance objectives, optimize the party committee's governance efficiency.

The second is to give full play to the role of party committees. Relevant government departments should implement the deployment of the reform of state-owned enterprises, guide and urge the party committee of state-owned enterprises to give full play to their core leadership, so as to continue to promote the reform of state-owned enterprises and achieve high-quality development of state-owned enterprises.

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