

# *Study on Perfection of the Legal System under the Background of the Reform of State-Owned Enterprises*

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**Abstract:** The reform of SOEs is a complex and relatively long-term work, and maintaining the leading position of SOEs in this process is a prerequisite. However, in the process of reform of SOEs, there is a problem of imperfect legal system, leading to the failure of some SOEs to achieve the expected results. Therefore, this paper focuses on analyzing the defects of the existing legal system in the reform of SOEs, and provides advise to improve the system from the aspects of clarifying the status of the main body of property rights, improving the information disclosure mechanism, and establishing the legal system of the executive compensation system, so as to provide reference for promoting the reform of SOEs in the new era.

## **1. Introduction**

State-owned enterprises (SOEs) are the ballast stone of the socialist market economy with Chinese characteristics, a key tool for providing social public services, regulating macroeconomic operation, stabilizing economic shocks and implementing national policies[1]. Enterprise reform is an important link in market economy, which has always played a leading role[2]. The reform of SOEs is a complex and relatively long-term work, and maintaining the leading position of SOEs in this process is a prerequisite. The goal of enterprise reform is to promote unique structural optimization, maximize profits, and compete fairly with private enterprises in the market.

However, while SOEs implement reforms, due to the absence of the main body of enterprise property rights, the unreasonable equity structure, the imperfect information disclosure system, and the lack of the legal system of executive compensation, the reform of some SOEs did not achieve the expected results. Therefore, this paper focuses on analyzing the defects of the existing legal system in the reform of SOEs, and puts forward suggestions to improve the system, so as to provide reference for the promotion of the reform of SOEs[3].

## **2. History and Current Situation of the Reform of State-Owned Enterprises**

### **2.1 Connotation and Significance**

The reform of mixed ownership in SOEs can help alleviate the contradiction of “state-owned enterprise disease” such as low efficiency, waste of resources, and serious monopoly of SOEs, help

promote the adjustment of China's economic structure, make the layout of the national economic structure more reasonable, and promote the healthy and rapid development of China's national economy. Specifically, the reform of SOEs mainly includes the following aspects:

First, the mixed ownership economy condenses a variety of different ownership forces, which helps improve the market competitiveness of SOEs. Due to the excessive dependence of SOEs on resource monopoly, the market economy is lack of competition and vitality, economic efficiency is poor, economic growth is weak, and the resulting the phenomenon of corruption. The introduction of the non-public economy allows the integration of different ownership economies, combines the resource advantages of state-owned capital with the positive factors of private property, and optimizes the integration of resources again, which can realize the complementarity and mutual promotion of various economic forces, and finally realize the sustainable and healthy development of society and improve the market competitiveness of SOEs.

Second, common prosperity of multiple economies is conducive to optimizing the strategic layout of the national economy and giving play to the leading role of state-owned capital. In the reform of common ownership of SOEs, it is based on the diversified portfolio of different ownership economies, the readjustment of equity structure and the reorganization of assets to achieve the optimal the resources allocation. The reform of mixed ownership will also help to further adjust the control field of SOEs. For those industries and fields that do not need to be controlled by the state, further open and introduce other capital.

Third, the innovation in enterprise ownership is conducive to the development of the non-public economy. Through the innovation in enterprise own and the establishment of a reasonable share system, the state-owned shares have been continuously withdrawn or reduced from competitive industries without the need for state control, providing an opportunity for the promotion of the private ownership economy. At the same time, with the reform of mixed ownership, the state monopoly in many industries and fields has been weakening, and the share of resources has also been further reduced. Because of the scarcity of resources and the relationship between SOEs and non-SOEs in the possession of resources, the reduction of SOEs in the possession of resources will help to share more resources for the enhance of the private ownership economy.

## **2.2 Policy System**

The current complex and volatile situation puts forward new and urgent requirements to promote the reform of SOEs. The reform of mixed ownership of SOEs is related to the vital interests of employees, the future development of enterprises, and the further growth of the national economy. It is a systematic and complex work. In order to better promote the reform of mixed ownership, China's SOEs has formulated a number of supporting implementation documents of mixed ownership reform; According to the guidelines of the central government, local governments have also introduced detailed plans to guide the mixed ownership reform of local SOEs.

### **2.2.1 National Policies**

With the further understanding of the innovation of common ownership, the Opinions on Further Optimizing the Market Environment of Enterprise Merger and Reorganization issued by the State Council on March 24, 2014 proposed to deepen the reform of SOEs, further promote the innovation of property rights diversification of SOEs, and improve the corporate governance structure.

In 2015, Chinese government has proposed to deepen the Reform of SOEs, proposing to improve the state-owned assets supervision system, promote the transformation of the functions of state-owned assets supervision institutions, reform the authorized operation system of state-owned capital, promote the rational flow and optimal optimization of state-owned capital, and promote the

centralized and unified supervision of operational state-owned assets[4]. This guidance is a programmatic document for the reform of SOEs in the new era, and a top-level design document for the new round of reform of SOEs. After that, several supporting documents have been issued under the guidance of this guidance, forming a “1+N” policy system for the reform of SOEs, forming a four-beam and eight-pillar top-level design framework, which plays an important role in guiding and promoting the reform practice of SOEs.

In September 2015, the State Council issued the Opinions on the Development of Mixed Ownership Economy by SOEs, clarifying the overall requirements for the development of mixed ownership economy by SOEs, and putting forward the working requirements for the organization and implementation[5].

In 2017, the government point out that we should further improve the governance structure of SOEs as legal persons in the direction of establishing and improving a modern enterprise system with clear property rights, clear powers and responsibilities, separate government from enterprises, and scientific management. There are also other supporting documents that have finally formed the “1+N” policy document system designed around the top level in the reform of SOEs.

In August 2018, the Office of the State-owned Enterprise Reform Leading Group of the State Council issued the “Double Hundred Actions” Work Plan for the Reform of State-owned Enterprises, and decided to select more than 100 subsidiaries of central enterprises and more than 100 local SOEs, and under the guidance of the “1+N” policy system for the reform of SOEs, to further promote comprehensive reform between 2018 and 2020[6]. The main goal of this policy is to take the lead in making breakthroughs in key areas and key links of reform, and to create a group of state-owned enterprise reform pioneers with scientific and complete governance structure, flexible and efficient management mechanism, strong leadership of the Party, and significantly improved innovation ability and market competitiveness. The proposal of the “Double Hundred Action” marks the beginning of the reform of SOEs from top to bottom and from point to face[7].

### 2.2.2 Local Policies

The background of the reform of state-owned enterprises is the establishment and improvement of China's socialist market economy system. Against the backdrop of reform and opening up, the Chinese government has begun to implement market-oriented reforms, gradually liberalizing the management rights of state-owned enterprises, introducing market competition mechanisms, and promoting the reform and development of state-owned enterprises. At the same time, with the continuous expansion of the scale and increase in the number of state-owned enterprises, some state-owned enterprises have encountered problems such as poor management, low efficiency, and serious losses, which require reform. Therefore, the reform of state-owned enterprises has become one of the important issues in China's economic and social development.

Local governments have accumulated a lot of practice and experience in the reform of state-owned enterprises, and the following are some typical examples:

The "three supplies and one industry" reform implemented by the Beijing Municipal Government. The reform aims to entrust the water supply, power supply, gas supply, and property management businesses that were originally handled by the government to enterprises, thereby promoting the transformation of state-owned enterprises and market-oriented reform.

The construction of a state-owned asset supervision platform promoted by the Shanghai Municipal Government. This platform has achieved centralized supervision and management of state-owned capital throughout the city by establishing a state-owned asset supervision information system, improving the efficiency and transparency of state-owned asset operation.

The pilot program of "mixed reform" implemented by the Guangdong Provincial Government. The pilot aims to introduce private capital to participate in the restructuring and restructuring of

state-owned enterprises, thereby promoting the transformation, upgrading, and market-oriented reform of state-owned enterprises.

The "zombie enterprise" clearance work implemented by the Jiangsu Provincial Government. This work has gradually cleared a group of inefficient and loss-making state-owned enterprises through various means, such as mergers and acquisitions, bankruptcy liquidation, etc., promoting the reform and development of state-owned enterprises.

In December 2013, Shanghai issued the Opinions on Further Deepening the Reform of State-owned Assets in Shanghai and Promoting the Development of Enterprises. In January 2016, the Operating Guidelines for the Reform of Mixed Ownership of SOEs in the City (for Trial Implementation) was issued, and detailed guidance was provided in terms of general process, restructuring decision-making process, audit evaluation, property rights transaction and enterprise party building[8].

Shandong Province also established its own "1+4" mixed reform policy system according to the "1+N" policy system of the central government, issued a "mixed reform implementation opinion", and formulated four supporting policies of "promoting capital securitization, introducing strategic investors, standardizing the development of employee stock ownership".

Table 1: Local State-Owned Enterprise Reform Policy Document System.

Policy document	Year	Primary coverage
Implementation Opinions on Deepening the Reform of Municipal SOEs	2016	Deepen the deployment requirements of the municipal state-owned enterprise reform promotion meeting, and do a good job in the reform of SOEs
Notice on Issues Related to the Adjustment of the Administrative Authority for Asset Appraisal Filing	2014	Standardize the State-owned Assets Supervision and Administration Commission (SASAC) to perform the responsibilities of investors in accordance with the law, ensure the autonomy of enterprises in operation, and implement inventory supervision over state-owned assets of municipal enterprises
Opinions on the Implementation of State-owned Assets Inventory Supervision of Enterprises	2014	
Plan to Promote the Transformation of Functions Based on Capital Management	2017	
List of supervision rights and responsibilities of contributors	2018	
Measures for the Supervision and Administration of Investment of Municipal Enterprises	2017	Fulfill the responsibilities of state-owned asset investors according to law, standardize and strengthen the management of the articles of association of municipal enterprises
Notice on Matters Related to the Entry Transaction of Assets Transfer of Municipal Enterprises	2014	
Notice on Further Promoting the Orderly Circulation of State-owned Property Rights of Enterprises	2014	
Tentative Measures for Accountability of SOEs under Municipal Administration for Illegal Operation and Investment	2017	
Notice on Perfecting and Perfecting the Property Right Management System of Municipal Enterprises	2016	Improve property rights system and protect state-owned assets
Measures for the Administration of State-owned Assets Appraisal of Enterprises Supervised by SASAC	2018	
Implementation Opinions on Further Improving the Corporate Governance Structure of SOEs under the City	2017	Measures for the Administration of External Directors of SOEs under Municipal Administration
Implementation Opinions on Carrying out the Employee Stock Ownership Pilot in State-owned and Mixed Ownership Enterprises	2017	
Measures for the Administration of External Directors of SOEs under Municipal Administration	2018	

In November 2018, Yunnan Province announced the plan for Deepening the Reform of SOEs in Yunnan Province (2018-2010), proposing to establish Yunnan State-owned Equity Operation and

Management Co., Ltd., and gradually inject the state-owned equity of provincial enterprises whose main business is in a fully competitive field into the company, creating a unique reform model in Yunnan.

The local state-owned enterprise reform policy document system is shown in Table 1.

## 2.3 Reform Achievements

### 2.3.1 In Terms of Enterprises Number

From the perspective of the number of SOEs, the reform of SOEs has been promoted since 2003, and the number of SOEs has dropped from 150000 to 113700 in 2008 due to the withdrawal of the state and the advancement of the people. Affected by the global financial crisis, the country adopted a four trillion stimulus plan. In order to stabilize the economy, the country adopted the policy adjustment tool of SOEs, which promoted the expansion of SOEs, up to 159200 in 2013. The reform of mixed ownership in 2014 led to a significant decline in the number of SOEs, down to 113800 in 2015; Later, in order to stabilize the economy, the country adopted the policy adjustment tool of SOEs to promote the expansion of SOEs, and rapidly expanded to 186000 households in 2020. The decline in the number of state-owned enterprises is one of the important achievements of state-owned enterprise reform. This is mainly due to a series of measures taken by the Chinese government in the past few years, including promoting market-oriented reform, strengthening supervision, etc., to promote the healthy development of state-owned enterprises and improve efficiency.

From 2003 to 2020, the number of SOEs in China has changed as shown in Figure 1.

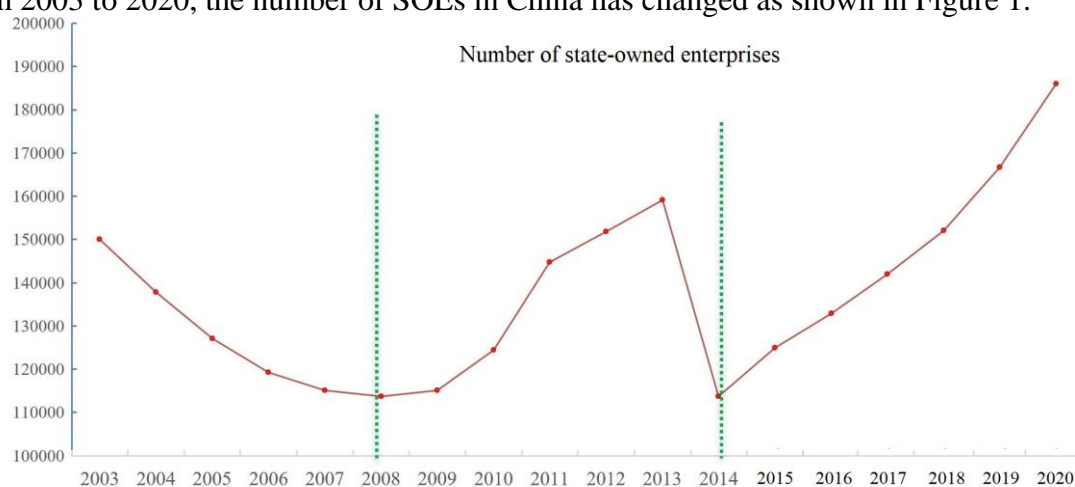


Figure 1: Number of SOEs from 2003 to 2020.

### 2.3.2 In Terms of Enterprises Assets and Liabilities

Despite a decrease in the number of state-owned enterprises, their asset size continues to expand, their structure continues to optimize, and their efficiency and competitiveness continue to improve. These changes indicate that state-owned enterprises are developing towards a more market-oriented, specialized, and internationalized direction. From 1997 to 2020, the assets of SOEs increased from 12.5 trillion yuan to 268.50 trillion yuan in 2020; During the same period, liabilities increased from 7.88 trillion to 171.48 trillion. However, from the perspective of asset-liability ratio, the asset-liability ratio of SOEs is basically in the range of 64%, which should be related to the strict regulations on asset-liability ratio of SOEs. It may be that the annual budget and expansion of SOEs have strict regulations. The assets and liabilities of SOEs from 1997 to 2020 are shown in Figure 2.

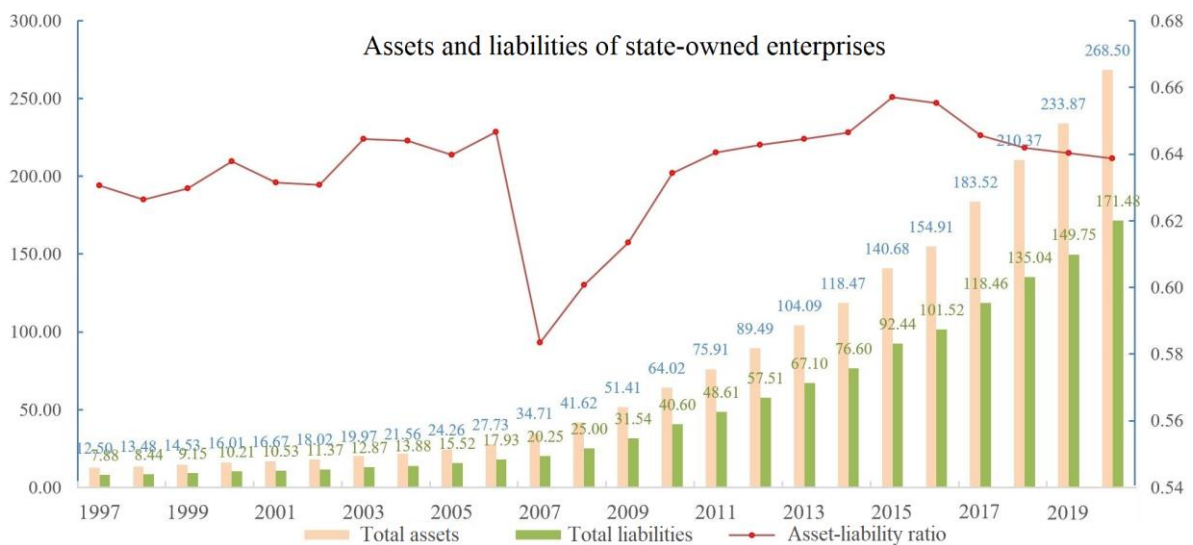


Figure 2: Assets and Liabilities of SOEs from 1997 to 2020.

### 2.3.3 In Terms of Enterprises Financing Constraint

The difference of financing constraints between SOEs and private enterprises has always been the focus of research on the benefit of enterprise.

From the perspective of specific financing conditions, the average loan interest rate for more than five years is 5.6% from 2011 to 2021; In the same period, the average rate of return on total assets of SOEs was 3.75%, and the average rate of return on net assets of SOEs was 5.38%, which was indeed lower than the financing cost (5.6%); The comprehensive interest rate of Wenzhou private lending was used to represent the financing cost of private enterprises. The average financing cost was 18.12% during 2011-2011. It should be noted that the financing cost of private enterprises continued to decrease from the highest 24.6% to 14.61%, a decrease of nearly 10 percentage points, from 2011-2011.

From the perspective of demand, the available channels of enterprise financing are limited at present, and bank credit is the main means of enterprise financing; as for supply, China's four major state-owned banks play an important role in the financial system. The government can influence the financial process indirectly or directly through monetary and credit policies, as well as through state-owned banks. When banks arrange credit, in addition to taking into account the operating performance and default risk of the lending enterprise, the ownership nature of the lending enterprise will affect the risk evaluation, thus affecting the return expectation of the bank on the risk, making the loan conditions different. SOEs are in a better position than private enterprises in credit financing because of their property ownership, scale and affinity with the government.

### 2.3.4 In Terms of Enterprises Investment Efficiency

As shown in Figure 3, from 1998 to 2017, the capital coefficient of private industrial enterprises generally showed a decline trend, and the investment efficiency of private industrial enterprises has been increasing, which also reflects the technological progress of increasing capital intensity. In contrast to the efficiency of capital investment in state-owned industrial enterprises, the capital coefficient of state-owned industrial enterprises showed a rapid decline trend from 1998 to 2007, which reflected the upgrading of technology and the continuous improvement of use efficiency of state-owned industrial enterprises[9]. From 2008 to 2012, the capital coefficient of state-owned industrial enterprises first increased rapidly, and then gradually decreased to a stable level of 11.7.

The reason may be that in 2008, affected by the financial crisis, the government, in order to stabilize the economy, increased the scale of loans to state-owned industrial enterprises by intervening in the financial sector, resulting in the rapid accumulation of capital in state-owned industrial enterprises and reduced efficiency. Since 2013, the capital coefficient of state-owned industrial enterprises has risen again, and gradually stabilized at the level of 12.5.

In addition, the ICOR of private industrial enterprises is almost twice that of state-owned industrial enterprises. Especially in 2009, the investment growth of state-owned industrial enterprises and private industrial enterprises was unreasonable, and there was a leaping investment expansion, which affected their economic performance. The reason may be that there are differences in financing prices in the financial market, forcing private industrial enterprises to improve the efficiency of capital use; However, state-owned industrial enterprises with low financing costs tend to pay more attention to their scale expansion rather than corporate profits. This means that with the expansion of economic scale, state-owned industrial enterprises should pay more attention to improving the rate of return on investment and technological progress; And private industrial enterprises should pay more attention to how to get rid of financing constraints and expand the scale of financing.

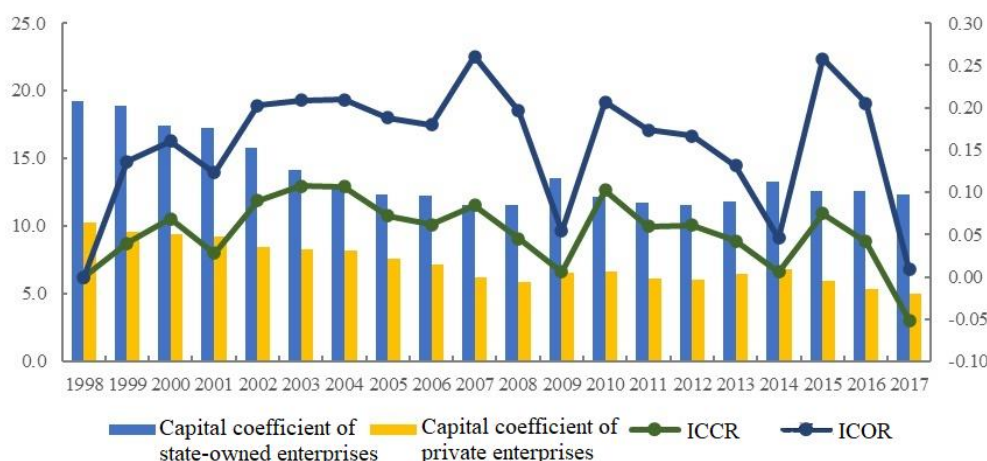


Figure 3: Investment Efficiency between SOEs and Private Enterprises.

## 2.4 Future Reform Direction

For the new round of deepening the reform of SOEs, emphasizing the rule of law is to put all kinds of national legal systems through all aspects of deepening the reform of enterprises. The operation of the company should follow the provisions of the law and fully carry forward the contract spirit of the rule of law.

For the new round of deepening the reform of SOEs, the emphasis on the rule of law is to put all kinds of national legal systems into every link of deepening the reform of enterprises, keep the original norms of the implementation of national regulations and policies by enterprises, and the operation of the company should also follow the provisions of laws and agreements, and fully carry forward the spirit of the contract of the rule of law. The reform should actively eliminate all kinds of drawbacks that hinder the healthy development of enterprises and are not conducive to market competition, so that the SOEs of the central enterprises after reform can not only be brave in innovation, courage and good at market competition, but also can set a model for many private or non-state enterprises in terms of standardized management and implementation of national laws and regulations.

### 3. Existing Legal System Defects in the Reform of State-Owned Enterprises

#### 3.1 Absence of Property Right Subject

China's listed companies are characterized by a high concentration of state-owned shares in terms of ownership structure. The largest shareholder of SOEs is usually the Chinese government, which means that the government has the controlling right of listed SOEs. However, the state is an abstract subject of property rights. The state can only exercise its responsibilities as a contributor through an agent and perform its responsibilities as a contributor in China's SASAC. However, most of the staff of the SASAC are government officials, whose interests are not consistent with those of SOEs, and lack of experience in corporate governance, and cannot effectively perform the responsibilities of a contributor.

The absence of the property right subject of SOEs is reflected in the fact that the state, as the controlling shareholder, cannot well perform its due regulatory responsibilities for SOE, resulting in the low efficiency of corporate governance of SOE. The largest shareholders of state-owned listed companies are local state-owned asset management bureaus and local branches. The chairman of the board of directors of a listed company is often the representative of the State-owned Assets Administration. The chairman can nominate the manager of the state-owned listed company, supervise the operation of the company, and decide on major issues of the company. These government officials are not experts in corporate governance and do not have sufficient knowledge and experience in corporate governance and enterprise operation. At the same time, they need to supervise hundreds of enterprises at the same time, so it is difficult to effectively exercise the responsibilities of investors.

In addition, because the state as the investor is only an abstract property right subject, SOE are often controlled by key persons such as the chairman of the board of directors or the general manager of the company, resulting in these key persons becoming the highest power and the only controller of the company. Insider control will bring very adverse consequences to corporate governance. On the one hand, the rights and interests of the company's external directors and minority shareholders are vulnerable to infringement by the majority shareholders. The minority shareholders have no voice in the company's operation, which may cause the minority shareholders to vote with their feet and withdraw capital from the company, which is not conducive to the long-term development of the company. On the other hand, insider control is reflected in the fact that key people transfer the company's profits and assets through multiple stakeholders, thus misappropriating the company's assets, causing serious loss of state-owned assets. Insider control is the inevitable result of the absence of the subject of property rights, which will lead to the failure of the corporate governance mechanism to play its role. The nationalization of SOE has only become a form.

#### 3.2 Incomplete Legal System of Information Disclosure

At present, China has not promulgated special legal regulations on information disclosure of state-owned listed companies. China's SOE are divided into commercial and public welfare categories, while commercial SOE are also divided into competitive and non-competitive categories. Due to the different business scope of competitive commercial SOE and non-competitive SOE, especially the non-competitive SOE often involve the fields of national security and the lifeline of the national economy. Therefore, the information disclosure rules are different between competitive and non-competitive commercial SOE. At the same time, although unlisted commercial SOE undertake certain social functions and are closely related to the interests of the public, the public has the right to know the operation of SOE. However, in terms of information disclosure rules, state-



owned holding listed companies and non-listed commercial SOE should also be different.

The State-owned Assets Law of the People's Republic of China stipulates that only the general situation of state-owned assets needs to be disclosed, nor does it specify the relevant information to be disclosed by individual SOE, nor does it specify the specific content, extent and disclosure method of information disclosure. Because it is difficult for the SASAC to obtain specific information about the operation of state-owned assets, the SASAC, as a contributor, lacks comprehensive supervision over SOE.

In terms of information disclosure, it mainly discloses business information rather than financial information; The supervision process is ignored in the way of supervision. The Measures stipulate that the ways for SASAC to disclose information to the public include announcement, SASAC website, news media, and legal compilation. These methods seem diverse, but the effect is not good. Most of the information disclosed in the announcement is the overall operation of SOE, lacking the specific information of individual SOE; The amount of information on the website of SASAC is very limited and most of it is outdated, which is not conducive to the public's timely access to effective information; It is difficult to obtain specific and useful information because of the broad coverage of the news media; The compilation of laws is too professional and time-limited to meet the public's demand for supervision of SOE. From the above laws and regulations, we can see that the current laws and regulations on information disclosure in China are relatively general, most of which are principled regulations and requirements, and lack of specific rules for information disclosure, resulting in the lack of specific practical norms and requirements for information disclosure. Therefore, the current information disclosure system of SOE in China lacks a complete legal system foundation.

From the perspective of supervision mechanism, the internal board of directors of SOE in China lacks independence, the board of supervisors is virtually non-existent, and the internal supervision mechanism has not been formed. At the same time, the external capital market and manager market have not been formed, and the external supervision mechanism of SOE is not perfect. The information disclosure system of SOE in China mainly includes voluntary information disclosure system and mandatory information disclosure system. The voluntary information disclosure system is mainly determined by the internal mechanism supervision mechanism of SOE. Mandatory information disclosure belongs to the scope of national administrative supervision, and the subject of supervision is the SASAC. However, the SASAC is also the investor of SOE. Therefore, the SASAC not only performs the obligations of investors, but also performs the responsibilities of supervisors, and also assumes the responsibilities of managers and supervisors, which may lead to the lack of information supervision of SOE.

### **3.3 Lack of Executive Compensation Legal System**

The legal regulation of executive compensation in SOE has become an important issue in the reform of SOE. Although China's SOE have classified the types of enterprises, they still implement a unified salary management system. However, the adoption of the unified salary system in competitive SOE has little effect on the incentive of executives, while non-competitive SOE often enjoy the state monopoly resources but enjoy the market-oriented incentive compensation, which is easy to cause social injustice and people's dissatisfaction. Competitive SOE should participate in the fierce competition as private enterprises, and compared with non-competitive SOE, they do not possess a large number of national resources, and their economic benefits are generally inferior to non-competitive SOE. Therefore, competitive SOEs are not suitable to adopt the same salary incentive method as non-competitive SOE. The salary incentive methods of SOE in China should be classified and managed according to different types of SOEs.

At present, it is very common for the chairman of the board of directors to concurrently serve as the general manager and the members of the board of directors to concurrently serve as the senior executives of SOEs in China. At the same time, there is no clear regulation on who decides the salary of senior executives of SOEs and what procedures and standards to implement. The current situation is that the compensation standards for senior executives of SOEs are formulated by SOEs themselves and then submitted to the competent department for approval. However, the salary standard of executives in SOEs is mainly determined by the executives themselves, so unreasonable salary standards are often passed by high votes in SOEs. In addition, insider control leads to the lack of supervision and control over the operation and management of SOEs, and the executive compensation cannot be effectively regulated. Due to the lack of effective supervision and regulation of compensation in SOEs, the compensation of senior executives in SOEs is seriously out of line with their performance.

## **4. Suggestions on the Improvement of the Legal System for the Reform of State-Owned Enterprises**

### **4.1 Establish Three-Level Management Mode of State-Owned Assets**

According to the theory of property rights, state-owned property rights are collective property rights, whose owners are all the people, and individuals of all the people cannot exercise state-owned property rights. All the people need to entrust an agent to exercise state-owned property rights, that is, the National People's Congress, which authorizes the government to exercise the ownership of state-owned assets. These two authorization and entrustment are in line with the provisions of China's laws, but they operate within the scope of public law. Because the government can't interfere too much in the normal operation of SOEs, the government can't perform the responsibilities of investors well, so there is a natural vacancy in the main body of SOEs, and the property rights of SOEs are unclear. Commercial SOEs are characterized as independent market entities, and participate in market competition as common enterprises. Therefore, the reform of state-owned assets management system is mainly discussed in commercial SOEs.

The political system of Singapore is a combination of democratic system and party rule with absolute ruling power in reality. It has greater similarities with the traditional political culture of contemporary China and is easier to learn from the reform of SOEs in China. More importantly, China's national economy is dominated by public ownership, and state-owned capital accounts for the vast majority of the national economy. The reform of SOEs in China must be carried out on the basis of ensuring the dominant position of state-owned capital. Therefore, the theory of privatization development of SOEs in the new free economy cannot be applied to China. Of course, the reform of equity diversification is feasible, but the dominant position of state-owned capital cannot be shaken. Therefore, China's commercial SOEs can learn from the development model of Singapore's SOEs, establish a three-tier model of government-state-owned capital investment and operation company-SOEs, and adopt a gradual reform approach based on the existing system. The government's shareholder responsibilities are assumed by state-owned investment companies. The government separates the administrative functions from the shareholder responsibilities to avoid direct interference in the operation of SOEs. The SASAC will no longer perform the responsibilities of the investor, but only perform the administrative functions of supervision and management of state-owned assets.

### **4.2 Improve the Legal System of Information Disclosure**

The content of the information disclosure system includes not only mandatory normative

documents such as laws and regulations, but also non-mandatory mechanisms such as the concept of integrity, sense of responsibility, value judgment, and public opinion supervision. The construction of information disclosure system is the combination of mandatory legal documents and non-mandatory mechanisms. At present, China's information disclosure system has problems such as insufficient motivation for information disclosure, single information disclosure channel, and too principled disclosure content. Therefore, the key to accelerate the construction of information disclosure system is to establish a mandatory information disclosure legal system. At present, the Key Points for Government Information Disclosure in 2014 put forward detailed requirements for the financial information, overall operation, assessment and other contents of central enterprises, but it is lack of mandatory and operability, and still needs detailed legal provisions to provide operational basis for information disclosure.

First, non-listed SOEs are mainly responsible for the authenticity, integrity and timeliness of information disclosure. The board of directors is responsible for specific information disclosure. SASAC has dual responsibilities for information disclosure, including both disclosure and supervision obligations. For those who fail to fulfill the obligation of information disclosure stipulated by laws and regulations, the law should provide specific punishment measures, including civil liability and even criminal liability. At the same time, SASAC should also establish the integrity archives of SOEs and share information with other government departments, banks and other institutions.

Second, SOEs have multiple entrustment relationships, so it is necessary to establish a multi-level supervision system of internal and external integration. People's congresses at all levels perform supervisory responsibilities to SASAC, while SASAC performs its obligation to report to the NPC. The state audit institutions perform the functions of audit supervision. The Ministry of Finance supervises the national financial budget and prepares financial reports. Social audit institutions participate in state-owned assets evaluation and annual report audit of SOEs.

#### **4.3 Establish Legal Regulations on the Disclosure of Executive Compensation Information**

Many developed countries have introduced laws and regulations on executive compensation management of SOEs, including the decision mechanism, salary structure and standards, and information disclosure methods of executive compensation. If these contents are not effectively regulated by laws, the disclosure of salary information will lack the proper institutional basis. China can learn from the advanced experience of developed countries in the field of executive compensation in SOEs to improve our executive compensation disclosure system.

First, realize multi-level management of salary information disclosure. China can learn from the advanced experience of executive compensation information disclosure in other countries to achieve multi-level management of information disclosure. The management will report the executive compensation information to the SASAC, the government and other competent departments in the form of financial statements or annual reports, and disclose the amount, structure and relationship with corporate performance to the employees and the society in the form of corporate notice or corporate internal website notice.

Second, standardize the content and procedure of salary information disclosure. In order to standardize the disclosure of compensation information of senior executives in SOEs, China can draw on the practice of developed countries to formulate corresponding legal norms, and regulate the time, method, channel, voting procedure, etc. of compensation disclosure. It is essential to strictly disclose the information of senior executives' job consumption and implicit welfare, standardize the management of job consumption and implicit welfare, and gradually make job consumption go from behind the scenes to the front of the stage, from invisible to the legitimate

behavior of corporate executives under the sun.

Third, disclose the selection criteria for senior executives. China can learn from the practice of Singapore's Temasek to establish a recruitment mechanism for professional managers. We can cultivate professional managers in SOEs, and also select senior executives of SOEs who are willing to give up their administrative positions. Some excellent private entrepreneurs with good business management ability can also be included in the selection of professional managers. In addition, it is supposed to establish a moral prevention mechanism for professional managers, establish a moral evaluation committee for professional managers, improve the moral evaluation mechanism, record and evaluate professional managers' operation and management behavior at the moral level, reduce the moral risk of professional managers and increase the risk of professional managers' moral violations.

## 5. Conclusions

SOEs refer to enterprises that are funded or controlled by the state and maximize profits through commercial operation. Most of China's SOEs are commercial SOEs, and the development direction of commercial SOEs is to establish a modern enterprise system, maximize profits, and compete fairly with private enterprises in the market. The key to achieving these corporate goals is to have good corporate governance. Therefore, this paper analyzes the main problems existing in the corporate governance of China's commercial SOEs at present, compares the domestic practical experience with the foreign experience of corporate governance of SOEs, and then puts forward countermeasures and suggestions for the improvement of the legal system of corporate governance of China's commercial SOEs.

First, the development model of Singapore Temasek Holding Company is the three-level model of government - state-owned holding company - government-connected enterprise, and has achieved great success. China's commercial SOEs can learn from the development model of Singapore's SOEs, establish a three-level model of government, state-owned asset management company and general commercial SOEs, and adopt a gradual reform approach based on the existing system.

Second, there are some problems in China's information disclosure system, such as lack of information disclosure motivation, single information disclosure channel, and too principled disclosure content. Therefore, the key to accelerate the construction of information disclosure system is to establish a mandatory information disclosure legal system. Therefore, we should revise the legal rules on information disclosure of SOEs, identify the subject of information disclosure of SOEs, clarify the content of information disclosure, broaden the objects and channels of information disclosure, and establish an auxiliary mechanism for information disclosure.

Third, the salary structure, amount and standard of senior executives in SOEs in China are not transparent, and there is a lack of mandatory information disclosure legal system to clearly stipulate the information disclosure standard. The efficiency of the incentive mechanism can be improved by distinguishing competitive and non-competitive commercial SOEs and SOEs' high salary classification management, establishing a sound professional manager system and selection criteria, formulating an effective salary performance evaluation system, and the executive salary information disclosure system.

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