

Analysis of Inefficient Investment Behavior of State-owned Enterprises

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Abstract: The unique characteristics of the property rights of state-owned enterprises determine the complexity of their investment behavior. The investment activities of state-owned enterprises are an important part of promoting the sustained, rapid, and healthy development of the national economy, and they are responsible for promoting the national economic growth. Therefore, it has always attracted much attention from all walks of life. The investment efficiency of state-owned enterprises has a significant impact on the future expansion of the enterprise and economic benefits. However, in actual operation, due to some practical issues, such as property rights structure, corporate management, administrative intervention, etc., the inefficient investment behavior of state-owned enterprises is frequent. To analyze the reasons behind this behavior and deeply explore the solution strategies is important and meaningful.

1. Introduction

Studying the causes of inefficient investment behavior of state-owned enterprises and proposing effective evasion strategies to avoid inefficient investment and reduce losses have a certain reference value for preventing blind investment and improving the investment performance of state-owned enterprises; And have certain guiding significance to upgrading the choice of state-owned enterprises' capital structure and scientific investment. In addition, the analysis and research on the inefficient investment behavior of state-owned enterprises can, to a certain extent, enable all sectors of society, capital investors, and the government and other relevant stakeholders to more intuitively and thoroughly understand and reasonably analyze the various problems that may arise from investment behavior. It has great research value.

2. Analysis of the Status Quo of Inefficient Investment by State-owned Enterprises

Investment in fixed assets of state-owned enterprises has maintained a high growth rate and a large investment scale since the implementation of state-owned enterprise reform in 1998. This measure has greatly promoted the growth of China's national economy and made an important contribution. The proportion of state-owned enterprise investment in China's total fixed asset investment of enterprises has always been high, and it is an important subject of China's fixed asset investment. ^[1]Therefore, the investment efficiency of state-owned enterprises is very important. It not only determines the trend and direction of investment efficiency of Chinese enterprises, but also relates to the steady development of the national economy. Since the beginning of the 21st century, active financial intervention has been implemented in order to meet domestic demand, but the increasing investment rate of enterprises has not brought high efficient investment returns, which has brought great development risks to the long-term steady development of our national economy. In fact, an over-highly investment rate leads to a large number of inefficient investment behaviors, that is, a high investment rate comes at the expense of capital utilization efficiency.

3. The Reasons for the Inefficient Investment Behavior of State-owned Enterprises

Analyzing the reasons for the current inefficient investment of state-owned enterprises, unreasonable investment directions is very common. The key to whether the state-owned enterprise

investment can achieve the expected benefits lies in whether the investment direction is correct, scientific and reasonable. The main reason for the unclear investment direction of many state-owned enterprises lies in the unreasonable or confusing formulation of corporate development strategic goals. When formulating short-term, medium-term and long-term investment and operation development plans, enterprises are prone to do the short-sighted behavior, and will invest rashly because of temporary gains or the pursuit of small benefits.^[2] There are some investments that are extremely blind and have nothing to do with their leading businesses. For example, the IT industry, investment and construction industry. Business personnel do not understand this industry, and blind investments cause operational difficulties, reduce the investment management efficiency, and increase the investment risks.

Long investment chains are also one of the main reasons for the inefficient investment behavior of state-owned enterprises. In recent years, state-owned enterprises have developed many subsidiaries with the growth of the national economy,^[3] which has made the management chain quite lengthy. Most of the joint stock companies are ignorant of the investment situation and lack detailed information. The investment chain is showing an irrational extension. In fact, the goal of enterprise that want become bigger and stronger has not been implemented. The development ability, competitiveness and profitability of an enterprise cannot be matched with the rapidly increasing total investment, and many negative effects such as poor management and investment failure have been generated.

The investment decisions of state-owned enterprises are very important. Investment decisions are the key measure to determine whether an enterprise's investment is efficient. To achieve investment efficiency, we must ensure the rationality, scientificity, and accuracy of decisions. However, in the actual investment decision-making, some state-owned enterprises did not pay due attention to investment decision-making, and investment projects lacked the most basic feasibility study. Even carried out preliminary investigations, which was too formal, resulting in low investment benefits. Some state-owned enterprises have not evaluated their value in accordance with relevant regulations of the Stated-owned Assets Supervision and Administration Commission(SASAC) in the change of equity, resulting in the loss of state-owned assets. Even some state-owned enterprises did not report to the SASAC for approval when making major investments. Blindly expanding the investment scale created investment risks and caused serious damage to state-owned capital.

4. Governance Measures for Inefficient Investment Behavior of State-owned Enterprises

4.1 Determine a reasonable investment direction

When state-owned enterprises investing, they must first understand the overall strategy for enterprise development, and clarify the future development direction and goals of the enterprise. Secondly, it is necessary to accurately determine the investment direction according to the company's future development goals and overall development strategy. Thirdly, when investing, state-owned enterprises must have a holistic view, pay attention to long-term investment benefits, and always aim to enhance the appreciation and preservation of values of state-owned assets for investment purposes.^[4] Separate long-term investment and implement it into every investment in each development stage of the enterprise. Finally, when making investment decisions, state-owned enterprises should do a thorough analysis of resource information, select investment areas related to the main business of the enterprise, and make analysis on actual and planned, historical and realistic, domestic and international information about the same industry. To determine a reasonable investment direction, put forward a scientific and detailed investment plan, and conduct evaluation screening and final decision-making.

4.2 Strengthen internal control

The main purpose of standardizing the investment management system and strengthening internal control is to avoid investment risks of state-owned enterprises and ensure investment efficiency. State-owned enterprises should combine relevant laws and regulations, attach

importance to learning from mature foreign experience, and quickly build a set of internal control systems suitable for investment of China's state-owned enterprises based on their actual development. In the internal control system, the three dimensions, the subject, the goal, and the program are indispensable. Whether it is investment decision-making, investment execution or investment supervision, finally human factors are inseparable. Therefore, the subject is the first dimension of the internal control system. The goal is the direction of investment decision, and also the standard of investment decision, which is the second dimension. And the procedure is the key to achieving the goal, which is the third dimension. The main body of the first dimension mainly refers to the main body of internal control of investment risk of state-owned enterprises. For example, the responsible person, department, and the whole of a state-owned enterprise are all main bodies of internal control. It is divided into operation control level, management control level and strategic level from the organizational structure.^[5] For the main body, it can build the internal control system of the investment business, and the responsibilities are implemented at every level to control and manage according to the principles of risk management and target decomposition.

The goal in the second dimension is strategic guidance for the steady development of state-owned enterprises. The target dimension is closely linked to the expansion of business scope of the state-owned enterprise. Therefore, the key to internal control management for the purpose of investment risk lies in strategic goals. Thus needs to decompose the strategic goals of the enterprise, so that the internal control system can gradually become a hierarchical composite system. Each level has its own sub-targets, the operation control level acts on the operation goals, and the business goals are controlled by the management level to achieve optimal control of the target. As the highest-level goal of an enterprise, strategic goals need to preferentially select competitive areas and rationally allocate resources combined with the overall strategy of the enterprise, so that all the business of the enterprise can carry out in an orderly manner.

As far as the procedural dimension is concerned, it is the execution stage of the main body after determining the strategic goals. At this stage, it is necessary to do a good job of internal control, establish relevant approval systems, authorization systems, and post responsibility systems to ensure that incompatible positions in the investment business are in a balanced state of mutual supervision and restriction with each other. Each responsibility is implemented in each post of each department and is clearly divided.

4.3 Standardizing the investment management process

Regulating investment management behaviors starts from the following four aspects: Firstly, we must do a good job of managing investment decisions and control investment decisions well. According to the new Corporation Law, the company's investment plan is solely in charge of the shareholders' meeting, the company's investment plan is decided by the board of directors, while the one that implement the plan is the manager, and the board of supervisors is responsible for the supervision and management. Combined with the actual situation of state-owned enterprises, according to the provisions of the Corporation Law, investment decision-making management will be implemented in the board of supervisors, the board of directors, the shareholders' meeting of the state-owned enterprise, and every operation management level of the company one by one. To develop mechanisms of "each performs its own functions, effectively restrict and coordinately operate", which to standardize the behavior of relevant personnel and effectively promote the process of the decision-making management of investment projects.

Secondly, we must do a good job of managing the investment project approval procedures and properly control the link of project approval. At the initial stage, state-owned enterprises should systematically demonstrate each investment of the enterprise from various aspects such as expected investment benefits, operational feasibility, and legal risks to ensure that the investment is legally valid, technically feasible and economically beneficial. The strict control of project approval can effectively avoid investment risks. Attention should be paid to the legitimacy of investment projects, whether the expected investment income can be realized, and whether there are problems in operation and management, etc. In this way to ensure the preciseness, scientificity, efficiency, and

feasibility of investment projects.

Thirdly, we must do a good job of managing the investment approval process and properly control the link of approval. After state-owned enterprises make decisions and investment projects, they must submit the investment approval content to the superior authority or the State-owned Assets Management Department of the State Council for approval in a timely manner to ensure that every investment carried out by the enterprise in the later period has gone through the strict approval procedures. According to relevant state-owned asset management regulations, the State-owned Assets Supervision and Administration Commission of the State Council has the responsibility of supervising state-owned assets management. After receiving the approval content, the State-owned Assets Supervision and Administration Commission, under the guidance of prudent principles, will assess state-owned enterprises' investment benefits and possible risks in the future by strict approval procedure, which to avoid the occurrence of inefficient investment behavior of state-owned enterprises to the greatest extent.

Fourthly, it is necessary to do a good job in the management of supervision and operation and to control the link of supervision well. The control of supervision link requires the construction of three supervision systems: the dynamic investment management system, the responsible person of the investment risk system, and the performance evaluation system for foreign investment.^[6] The construction of state-owned enterprise investment dynamic management system is subdivided into tracking audit system and investment special audit, etc., which are mainly used to monitor the entire process of all investment companies of the enterprise in order to reduce investment risks; the main purpose of the responsible person of the investment risk system is to improve the investment efficiency of state-owned enterprises. This system requires that the problems arising from the future operation and development of investment companies be linked to the economic benefits of relevant persons in charge. To combine the rewards and punishments, such as association with the promotion of the person in charge,^[7] encourages the person in charge to strengthen the management of the investment company so as to improve the investment efficiency of state-owned enterprises; the performance evaluation system for foreign investment requires that the performance of relevant personnel in state-owned enterprises is regularly assessed according to the investigation of asset losses, operating losses, investment and return indicators, and resource occupation. And specifically implement the operational responsibilities to individuals and carry out the operations responsibility system, combining rewards and punishments, combining risk mechanism and incentive mechanism to avoid short-sighted behavior in operation.

4.4 Construction of investment risk restriction mechanism

The "Operation Rules of State-owned Capital Performance Evaluation " and " Evaluation Rules of State-owned Capital Performance " stipulate that state-owned enterprises should effectively regulate the decision-making behavior of relevant responsible persons, formulate assessment and evaluation indicators to quantify. And starting from the four aspects from development ability, debt repayment ability, asset operation to financial efficiency. The basic focus is to increase and maintain the value of state-owned capital and strengthen the internal control of relevant responsible persons of state-owned enterprises, strictly control the investment risks of enterprises, and improve the investment efficiency of enterprises. In the investment of state-owned enterprises, the ultimate decision-maker is usually the legal representative of the enterprise, and the investment project director is responsible for implementing the investment plan. Establishing the investment risk restriction mechanism and restricting investment legal persons are key measures to effectively avoid investment risks and approve risks.^[8] In addition, it is recommended that the liability audit of corporate legal persons be included in the investment risk control mechanism to strengthen the management of state-owned assets.

5. Conclusion

Because of the particularity of the state-owned enterprise itself, it cannot be regarded as a competition subject of market economy that seeks to maximize the company's own interests in

China's market economy. Due to the dual role of state-owned enterprises in the market economy, it is impossible to achieve the set investment goals when making investment decisions, leading to inefficient investment behavior, which has extremely important influence on the overall coordinated development of the national economy. The reasons for the inefficient investment of state-owned enterprises have been deeply explored above, and corresponding countermeasures have been proposed on the basis of these reasons. All these are aiming to provide corresponding theoretical support to regulate the investment behavior of state-owned enterprises, improve its performance, and effectively manage the inefficient investments.

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