

Characteristics of Corporate Governance in State-Owned Enterprises

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Abstract:

This article examines corporate governance in state-owned enterprises (SOEs), focusing on how different governance models influence operational efficiency and public accountability. It discusses the unique challenges faced by SOEs due to government ownership and suggests governance strategies that can help balance commercial objectives with public mandates.

Keywords: SOEs, corporate governance, efficiency, public accountability, government ownership

Introduction

State-owned enterprises (SOEs) are pivotal to national economies, especially in sectors that are strategic to national interests such as energy, utilities, and transportation. These entities are typically characterized by significant government ownership and are often tasked with strategic objectives that extend beyond profit maximization to include broader economic and social goals. The dual role of SOEs as both profit-seeking entities and public policy instruments creates unique challenges and complexities in their governance.

The effective governance of SOEs is crucial, as it influences their efficiency, competitiveness, and ability to deliver on public mandates. Unlike private corporations, where governance structures aim primarily to protect the interests of shareholders, SOEs must balance a wider array of interests, including those of the public and government as the ultimate owner. This complex stakeholder environment necessitates a tailored approach to corporate governance that can address the specific challenges posed by the intersection of market performance and public accountability.

Furthermore, the governance of SOEs is often under additional scrutiny due to the public nature of their operations and the higher standards of accountability and transparency they are expected to uphold. Issues such as political interference, bureaucratic inefficiencies, and the challenge of aligning diverse objectives are more pronounced in SOEs than in private sector companies. This

article aims to explore how governance structures and practices in SOEs are designed to manage these challenges effectively, looking at various models from around the world to identify best practices and areas for improvement.

Literature Review

The literature on corporate governance in state-owned enterprises (SOEs) is extensive and reveals several critical themes. Initially, the debate revolves around the role of government as an owner and the unique challenges this presents. According to Pargendler (2012), the government's role as both a regulator and a market participant creates inherent conflicts of interest that can undermine corporate governance. Furthermore, Megginson and Netter (2001) explore how political influences can often supersede profitability and efficiency, leading to suboptimal business decisions.

Studies specifically focusing on the autonomy of SOEs highlight the balance between government oversight and the need for operational independence. Stanisławski et al. (2019) provide empirical evidence suggesting that excessive government control can stifle innovation and responsiveness, which are crucial for competitive advantage in dynamic sectors. Conversely, Cuervo-Cazurra (2006) argues that some level of government involvement is necessary to align the SOEs' objectives with national development goals, suggesting a nuanced approach to autonomy and control.

The dual objectives of financial performance and fulfilling public policy mandates are another major area of interest. Bortolotti and Faccio (2009) analyze the performance implications of political objectives in SOEs, finding that these often lead to lower profitability compared to privately owned firms. However, Grossi et al. (2015) counter that SOEs can achieve high levels of operational efficiency and social welfare when governance structures effectively balance commercial and social objectives.

Finally, the management of diverse stakeholder interests within the politically sensitive environment of SOEs is extensively discussed. Tian and Estrin (2008) examine the stakeholder theory in the context of SOEs, emphasizing the complexity of satisfying both the government's and public's expectations while maintaining competitive market practices. They propose a framework for stakeholder management that can help mitigate conflicts of interest and promote transparency.

Analysis and Results

To provide a comprehensive analysis of corporate governance in state-owned enterprises (SOEs), we compare governance models across different countries. We focus on governance structure, board composition, and transparency standards. Each table below presents a summarized view of the governance frameworks in select countries, followed by a discussion of the implications of these frameworks.

Table 1. Governance Structures in SOEs across Different Countries

Country	Governance Model	Key Features
USA	Public Corporation	High autonomy, emphasis on profitability, mixed board composition.
China	Central Government Control	Strong government control, strategic alignment with state objectives.
Germany	Federal Involvement	Federal and state ownership, professional management, independent board
Brazil	Mixed Administration	Government-majority boards, mix of public and corporate governance rules

Source: Developed by the author

In the USA, SOEs operate with high autonomy, focusing on profitability like private sector companies, which facilitates a competitive edge in international markets. Conversely, in China, the central government exerts significant control over SOEs, aligning their operations closely with broader state goals, which may sacrifice some operational efficiency for strategic gains.

Germany presents a model of federal and state ownership where governance is professionalized, and boards are often composed of independent members alongside government appointees, balancing public accountability with operational independence. Brazil's approach, with a mix of public governance rules and corporate practices, aims to bring the best of both worlds but often struggles with conflicts between political and business objectives.

Table 2. Board Composition and Transparency in SOEs

Country	Board Composition	Transparency Standards
USA	High percentage of independent directors	Strong disclosure norms, regular public reporting
China	Dominated by government appointees	Limited transparency, state-centric reporting
Germany	Mix of government representatives and independents	High transparency, strict reporting guidelines
Brazil	Government majority, some independents	Moderate transparency, influenced by public sector rules

Source: Developed by the author

Board composition varies significantly across countries, impacting the strategic direction and operational efficiency of SOEs. In the USA, a high percentage of independent directors fosters a governance structure that is robust against political interference, promoting transparency and stakeholder confidence. This is supported by strong disclosure norms that are akin to those found in the private sector.

China's boards, dominated by government appointees, may lack the diversity of thought seen in more mixed boards, impacting the strategic agility of SOEs. Transparency is also limited, reflecting a focus on state objectives over public scrutiny.

Germany's balanced approach with a mix of government and independent directors supports both accountability and professional management. This is complemented by strict transparency and reporting guidelines, aligning SOEs closer to public company standards.

Brazil while improving, still faces challenges in balancing effective governance with the requirements of public administration. Its moderate transparency standards reflect an ongoing transition towards more open and accountable governance practices.

Recommendations

Based on the comparative analysis of corporate governance in SOEs across various countries, the following recommendations can help enhance governance structures to promote transparency, efficiency, and accountability:

1. **Strengthen board independence:** Countries like China and South Africa could benefit from increasing the proportion of independent directors on SOE boards. This would help mitigate risks associated with excessive government control and enhance decision-making by incorporating diverse perspectives.
2. **Enhance transparency and disclosure:** Implementing stronger transparency and disclosure norms akin to those in the USA and Germany can boost stakeholder trust and public accountability in SOEs. Brazil and South Africa, in particular, should aim to adopt more stringent public reporting and disclosure requirements.

3. **Professionalize management:** Following Germany's example, other countries should consider professionalizing SOE management by hiring executives based on merit and relevant industry experience rather than political affiliation. This could improve operational efficiency and competitiveness.
4. **Balance strategic goals with commercial objectives:** SOEs should clearly delineate their commercial and public policy objectives, as seen in the German model. This clarity will help manage potential conflicts between profitability and social or strategic goals.
5. **Regular review of governance practices:** All countries should establish mechanisms for the regular review and revision of SOE governance practices to ensure they remain relevant and effective in changing economic and political contexts.
6. **Encourage stakeholder engagement:** Increasing stakeholder engagement can help SOEs align their operations more closely with the needs and expectations of the communities they serve. This is particularly important in sectors where SOEs have significant social impact, such as utilities and transportation.

Conclusion

The governance of state-owned enterprises presents unique challenges that stem from their dual role as commercial entities and public policy instruments. This article has explored how different countries structure the governance of their SOEs, revealing a wide array of approaches from highly autonomous to tightly government-controlled systems. The analysis underscores the importance of adapting governance models to the specific economic, political, and social context of each country.

Effective governance in SOEs is crucial for ensuring that they not only operate efficiently and profitably but also fulfill their broader public mandates. The recommendations provided aim to foster governance frameworks that balance these objectives, enhancing both public value and commercial viability. As the global economic landscape evolves, so too must the governance models of state-owned enterprises, adapting to new challenges and opportunities to remain relevant and effective in serving both their commercial and public policy roles.

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