Proceedings of Business and Economic Studies

Research Article

An Empirical Research About Corporate Governance on Enterprise Innovation

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Abstract: Enterprise innovation is the core driving force of national development. As the core of the modern enterprise system, corporate governance has a significant impact on enterprise innovation. Through particularizing the issue of corporate governance and then analyzing thoroughly about the interaction between the structure of corporate governance and the level of enterprise innovation by means of the method of empirical research , the article aims to ascertain the critical factors in the mode of corporate governance which have an impact on the level of enterprise innovation, thereby providing the relative references for the reform of corporate governance in China and promotion of enterprise innovation.

Keywords: The level of innovation; Governance structure

Publication date: June, 2020

Publication online: 30 June, 2020

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1 The overview of corporate governance

Since the 1980s, foreign scholars' research on corporate governance theory has gradually emerged and domestic attention to this research began in the mid-1990s[1]. Although the term"corporate governance"has a long history, the academia has not yet formed a unified definition or connotation and various scholars have explained corporate governance from different perspectives:

Blair (1996) believes that corporate governance is a system arrangement including laws, culture, etc., which is used to confirm the distribution of company's operating control rights and claim rights[2]. This arrangement will determine many issues such as the company's business objectives, who is the operating controller, what is the control mechanism, risk sharing and how to distribute the income.

In the "DECD Corporate Governance Principles" revised by the OECD in 2004, a set of relationships among the company's shareholders, board of directors, management, and stakeholders are defined as corporate governance, and through the determination of the company's objectives, the design of the corresponding means to achieve the objectives, supplemented by the supervision system to build a governance framework[3]. Mark Gergen (2006) made a similar definition. The corporate governance system is a mechanism whose purpose is to ensure that company managers (agents) operate the company for the rights and interests of one or several stakeholders (principals)[4].

Wu Jinglian (1994) defines corporate governance as a structure that includes the company's shareholders, the board of directors, senior managers, etc. and the restricted relationship formed by the three[5]. Through this structure, the assets of the company owners are in trust to the Board of directors through the general meeting of shareholders, which is the company's highest authority; the Board of directors is the company's decision-making body and has the power to decide on the appointment, reward, punishment or dismissal of senior executives; senior managers are directly responsible for the Board of directors, execute the decisions of the Board of directors, and conducts business activities in the areas authorized by the Board[6].

Qian Yingyi (1995) explains the corporate governance structure from the perspective of economics and proposes that corporate governance is a kind of institutional arrangement that can reasonably regulate the relationship between the group with important interests of the enterprise, including shareholders, creditors, managers, staffs and so on[7]. Corporate governance structure includes: how to configure and exercise corporate control; how to supervise the Board of directors, managers; how to design and implement employee incentive mechanism[8].

Zhang Weiying (1996) believes that Blair's interpretation of corporate governance falls into a broad category[9]. Corporate Governance in a narrow sense refers to the system design of the structure, function of the Board and shareholder rights[10].

2 An analysis of corporate governance

2.1 Unclear definition and distribution of company property rights

There are some problems in the definition and distribution of property rights in Chinese companies. Chinese companies are usually set up by private investors or family partners. At the beginning of the establishment, in order to make the company run normally and make profits, most of the energy will be spent on the normal operation, less attention will be paid to the definition of corporate property rights and the distribution of property rights[11]. The decision-making and management right of a company are generally highly centralized on investors, but with the expansion of the enterprise scale, there will be some contradictions and disputes in the process of important transactions because of the unclear definition and distribution of ownership and property right[12].

2.2 Low separation of ownership and management rights

There is a phenomenon in China where the separation degree of ownership and management rights is low. At the beginning of the establishment of Chinese companies, most of them were set up by the self-employed or family members, and most enterprises had a problem of highly concentrated ownership and management rights[13]. With the continuous expansion of the enterprise, the operational risk of the enterprise is also relatively large. All affairs of the company are determined by the owner, and there is no principal-agent relationship.

2.3 The internal organization structure is simple, the decision-making mechanism is not scientific

There is a phenomenon that the corporate governance structure of the Chinese company is virtually absent, which is mainly manifested in the simple internal organization structure and unscientific decision-making mechanism. In a normal corporate governance structure, there will generally be a board of shareholders, a board of directors, a board of managers, a board of supervisors, etc., and these main bodies will perform their duties, restrict each other, and jointly promote the business development of the enterprise. However, due to the high centralization of corporate rights in China, family management model is very common. This model attaches too much importance to human rights, the internal organization is simple, and the rules and regulations are not integrated, enterprises are facing a bottleneck of sustainable development. At the same time, due to the over-concentration of equity in Chinese company, the major shareholder holds several positions and is responsible for decision-making, which leads to the lack of sufficient authority of the board of directors and the management[14]. At the same time, the supervisory board can not play a corresponding role, and most of them supervise themselves[15].

2.4 Inadequate legal policy support

At present, the market environment in which the company exists has an issue of inadequate legal policy support. The development history of Chinese companies is short, and under the market economy system, there is no particularly integrated system focusing on protecting the operating behavior and corporate governance of Chinese companies. However, with the development of the economy, the status of the Chinese company in economic development has gradually improved[16]. For further development, Chinese company has higher requirements for the expansion of the legal policy environment and financing channels.

3 An empirical research about corporate governance on enterprise innovation

3.1 Research assumptions

(1)There is a negative correlation between ownership concentration degree and enterprise innovation level. The degree of ownership concentration will change with the change of proportion of shares held by different shareholders. When the proportion of shares held by the largest shareholder increases, the degree of ownership centralization will increase, the control rights of the largest shareholder will increase, and the management risk will increase subsequently. In order to avoid the risk of innovation activities, R & D investment will be reduced[17].

(2)There is a positive correlation between the independence of the Board of directors and the level of enterprise innovation. The increase of independent directors can increase the supervisory function of the Board of directors, promote the company to make innovative decisions that are beneficial to the company's long-term development, and increase the innovation level[18].

(3)There is a positive correlation between management equity incentives and enterprise innovation level. The equity incentives can reduce the agency problem to a certain extent, impel the management to stand in the perspective of the owner of the company, consider for the long-term development of the company, increase the innovation input and improve the innovation level[19].

3.2 Research design

3.2.1 Variable setting

(1)The explained variables. The explained variables in this paper are measured by R&D investment. In order to avoid the influence of scale effect, we use the R&D input/revenue to measure.

(2)Explanatory variables. This paper selects explanatory variables: The share concentration CRI is the shareholding proportion of the company's largest shareholder = the number of shares held by the company's largest shareholder / the total number of share capital of the company; Board independence ID is the proportion of independent directors = the number of independent directors / the total number of Board of directors; the management equity incentive STO is the shareholding ratio of senior executives = the number of shares held by senior executives / the total number of share capital of the company. Control variables: asset-liability ratio = debt / total assets; growth = (operation revenue for the current year-operation revenue for the previous year) / operation revenue for the previous year.

3.2.2 Sample selection and data sources

The data selected in this article come from the Guotai'an data base. It selects Shanghai A shares and Shenzhen A shares, excluding ST, incomplete data and extreme samples. The final sample data is 2768.

3.3 Empirical research

(1)Correlation analysis. This paper uses SPSS to analyze the relationship among ownership concentration, Board independence, management equity incentive, asset-liability ratio, enterprise growth and enterprise innovation.

(2)Multiple linear regression analysis. In this paper, we take the level of enterprise innovation as the dependent variable, and the variable coefficients of ownership concentration, board independence and management equity incentive are-0.06, 4.461, 5.404, and the values of SIG are 0, 0.006, 0 respectively[20]. The results above prove the establishment of the hypothesis one, two, three, and explain the impact of governance structure on the company's R & D level from the perspective of equity, directors, management incentives. The reduction of ownership concentration, the increase of the independence of the Board of directors and the implementation and enhancement of management equity incentive can improve the corporate governance level and increase the corporate R & D level.

3.4 Conclusion and outlook

(1)setting up a reasonable ownership structure. The results above show that the ownership structure has an important impact on the innovation level of enterprises. When large shareholders have more shares, they will reduce the innovation activities and encroach on the interests of small and medium-sized shareholders to avoid the high risk brought by the innovation activities[21]. Therefore, a reasonable ownership structure should be set up to promote enterprise innovation.

(2)attaching importance to the role of independent directors in the Board of directors. The establishment and increase of independent directors can provide strategic policy decision for enterprises from various angles. At the same time, strengthening the supervision and management function of the Board of directors can enhance the corporate governance level and improve the innovation level of enterprises.

(3)Providing appropriate equity incentives to management. The innovation activity is made by the management, therefore, the ownership incentive can enhance the sense of ownership, reduce the risk and impel the management to make the innovative decision which is beneficial to the development of the company from the perspective of the proprietor.

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