

Abstract

This study aims to investigate the corruption and collusion problems occurring in the reforms of state-owned enterprises in China, and to analyze how this problem affects the performance of state firms. Using the idea of principal-supervisor-agent relationships, we analyze the decay of officials control over state-owned enterprises resulting from the change that employees, managers and the public are now allowed to hold shares of state-owned enterprises, and they can claim the residual rights of the enterprises. From our analysis, the corruption and collusion between officials and managers may not become less serious. The performances of state-owned enterprises will not be improved even after the introduction of the shareholder system. We use a game-theoretical model involving public, government officials and enterprise managers, focusing on political considerations to study the effect of ownership structure of state-owned enterprises.

Keywords: agency relationship, state-owned enterprise, shareholding, compensation surplus