A Formation Mechanism for China’s State-owned Enterprises Harmonious Finance

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ABSTRACT

Harmonious finance is different from corporate finance in terms of financial objectives, contents and assessment methods. Based on the generalized financial theory, this paper defines harmonious finance. SOES harmonious finance is made up by harmonious finance capital, harmonious finance goal, harmonious finance status and harmonious finance result, which construct SOES harmonious financial theory mechanism. Further, it converts into actual formation harmonious of financial mechanism that is "environment adaption ability + resource allocation ability + interest coordination ability = harmonious finance". Thus, it describes SOES harmonious finance expression and reveals influence factors.

Key words: Formation Mechanism; Harmonious Finance; SOES

The mechanism is defined the operation rules of the internal working mode of all the elements in system structure and associated elements under certain conditions to achieve a specific function of an organization. State owned enterprises (SOES) play a leading role in national economy, they are important forces to promote country modernization and can protect the common interests of the public as well as the material and political basis for the development of the party and the state. SOES have special missions to develop economic, social stability and create people's well-being. At the same time, the generalized capital structure of SOES is more complex than that of ordinary private enterprises, and has concluded multiple capital relations. So, SOES financial management activities and corporate financial relations are very complex. The traditional view is that the financial power of an enterprise is indivisible, the financial entity is an economic entity with independent

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financial power and independent accounting, with its own interests and efforts to maximize. The theory of proprietor's property rights is questioned by the academic circle, the binary view of the financial subject and the multiple financial subject are put forwarded. Among them, Gan Shengdao (2005) believed that the financial main body of the enterprise is the owner and the operator. Li Xinhe in 2001 focused on research of financial governance problem, questioned analysis of logic of "capital fires labor", emphasized "financial capital and the owner of human capital property rights cooperation theory, and putted forward the Stakeholder Theory of Property Right, the enterprise is taken as a stakeholders’ cooperation, each stakeholder enjoys the residual claims, in essence, they are the enterprise's financial entity. Wang Zhi (2008) issued a harmonious financial entity theory, he thought that a harmonious financial entity was external to the enterprise itself, and a dynamic integration from the owners to the stakeholders network at some point. Based on above points of view, the pluralistic and harmonious financial entity of SOES is bound to identify multiple objectives of enterprises, and pursuing financial performance is included in the target framework of harmonious finance of SOES, which forms the essential difference between corporate finance and harmonious finance.

ENTERPRISE FINANCE AND HARMONIOUS FINANCE

Enterprise Finance

Enterprise finance is the general term of funds movement related to the process of production and operation of enterprises, mainly including fund-raising activities, investment activities and funds distribution activities. The results of enterprise finance can be expressed through financial performance to reflect the effect of capital allocation, cost control and asset management. The financial performance of an enterprise can be analyzed in terms of profitability, operating capacity, solvency, and risk ability.

Harmonious Finance

According to the generalized financial theory, a company is a combination of financial resources, human resources, technological resources and social resources, with the principle of resource requirement matching, it is bound to involve multiple financial activities and financial relationships. Financial activity optimization, financial relationship coordination, and the interests of the stakeholders can be guaranteed and realized, the financial entities of enterprises always maintain the relationship of complementing, cooperating and co-developing under the condition of unity of opposites, in accordance with the connotation of harmony, combined with the generalized financial theory, in-depth analysis of the essence of all kinds of financial activities in enterprises is the relationship between enterprises and financial entities. It interprets SOES harmonious finance from three aspects of the goal, state
and result. The harmonious finance is defined as: acknowledging the interests of capital owners diversity, differences and contradictions, emphasizing the coordination, balance, stability, improvement of enterprise development, following the systematic logical thinking, in pursuit of financial revenue for minimum, the capital owners achieving mutual coordination and mutual support and relying on each other, it covers many dimensions harmony in financial status and results.

The Relationships Between Enterprise and Harmonious Finance

From the content, enterprise finance concerns the value or profit which can be measured by money, and the unilateral governance is the governance model of the enterprise. Harmonious finance pays attention to systematic thinking, which not only pursues corporate profits, but also advocates non-monetization value. The most important goal of harmonious finance is to maximize enterprise's comprehensive income, multilateral governance is a governance mode of harmonious finance. From the characteristics of view, corporate finance more using a monetary measure of enterprise value, easy to overlook hidden all materialized, and the potential of resources caused by strategic positioning showing short-term, narrow and non systemic problems, is not conducive to the development of long-term, sustained and stable. On the contrary, harmonious finance takes account of monetization and non monetization value, explicit and implicit financial resources, and enterprises pursue long-term, continuous and stable concept of sustainable development. Financial evaluation, corporate finance mainly includes the several dimensions of profitability, operating capacity, solvency, risk ability, the use of financial indicators and evaluation methods of the traditional measure of business performance; and harmonious finance evaluation methodology includes financial indicators and traditional methods, while expanding the dimensions of the assessment, combines the qualitative and the quantitative financial indicators and non-financial indicators.

HARMONIOUS FINANCE THEORY FRAMEWORK OF SOES

Constructing harmonious finance theory framework for SOES can help understand harmonious finance thoroughly and systematically, and guide the harmonious financial management of SOES. The harmonious financial theory framework of SOES mainly includes SOES harmonious finance capital, harmonious finance goals, harmonious finance status and harmonious finance result.

Harmonious Finance Capital of SOES

The contract theory shows that the enterprise capital source is diversified, and enterprises depend on shareholders’ investments which include physical capital to create the necessary material conditions of production, and talent managers turn production material into product and service. At the same time, natural resources,
ecological resources, social atmosphere, social culture, morality, etc. the social resources, and play an important role in the process of enterprise production and management. Therefore, in the process of production, the values consumption is various, both materializing labor consumption and living labor consumption, form material capital consumption to human capital consumption, from natural resources and social resources, also include external negative effects in the process of operation. In essence, the owners of SOES are all the citizens. Therefore, according to the generalized capital theory, the financial capital of SOES is multiple, consisting of shareholders' material capital, managers' intellectual capital, employee's human capital, social capital of the government and community, and human's natural resources capital.

The Goal of SOES’ Harmonious Finance

SOES should first clear their goals, the goal of financial management of SOES is produced in a specific environment, the enterprises carry out financial activities and dealing financial relations between the owners of capital to achieve the desired results, which is the basic standard of financial management activities reasonable. The financial management of SOES has two effects: on one hand, it encourages interest entities actively participate in business together; on the other hand, it guides all level stakeholders towards the ultimate goal of development. Under the drive of scientific and reasonable objectives, it must build up internal and external environmental conditions, formulate enterprise development strategies, carry out financial activities, form financial relationships, maintain healthy development status and results, and enable enterprises to run healthily, harmoniously and dynamically. Under the modern market economy condition, the goal of the harmonious financial management of SOES is the dialectical unity of economic responsibility, social responsibility and moral responsibility, and the economic responsibility should be related to all stakeholders of the enterprise. Harmony refers to taking the interests and claims of all stakeholders into account management process of SOES, allowing enterprises to obtain the support of all parties, to stimulate the participation and support of the relevant subjects. The enterprises always maintain a comprehensive enterprise profit maximization no matter how the environment changes.

The Harmonious Finance Status of SOE

Wang Haibing (2012) putted forward the concept, essence, goal and main entity for human finance, which require not only balance between horizontal equity insider and outsider, but also fair between contemporary vertical equity and future generations. The diversification of stakeholders constitutes the diversification of the interests and requirements of SOES. These diversified financial entities have established property relations within SOES, harmonious financial status reflects the strategic position, financial activities and financial relations coordination, each
financial subjects’ interests eventually naturally focus on the enterprise financial body, because any kind of SOES behavior and the results can be expressed by financial measure. Therefore, the financial status harmony of SOES mainly refers to the enterprises maintaining a good financial efficiency, also is the "process in promote companies under specific conditions", also is a course of financial entity participating in financial activities, trying to make a good impact on SOES financial activities and financial results. Therefore, the status harmony requires SOES keep the internal and external conditions as an open whole, and always maintain a stable or dynamic balance.

The Harmonious Financial Result of SOES

The harmonious financial result refers to a satisfaction of the basic interests of each financial subject and the maximization of the comprehensive financial income of enterprise. The premise of SOES harmonious finance result requires a balance in financial activities, such financial capital allocation balancing in investment, cash flows balancing, all financial entities’ interests balancing, dealing with the financial relationships between SOES and creditors, managers and shareholders, major stakeholders and minority stakeholders, SOES and supplies, SOES and consumers, SOES and community, so make SOES keep a dynamic stability. In particular, the financial results harmony is not equal to the financial results optimal, or that to say, it is a financial result optimal in certain conditions, because according to the economics point of economic view, there is no parito optimal, but parito improvement.

THE THEORETICAL LOGICAL TRANSMISSION MECHANISM OF SOES HARMONIOUS FINANCE

The concept of social development is changing along with the change of economic form. From the past industrial economy to the knowledge economy nowadays, people have gradually changed the infinitely increasing quantity view and set up the quality view of sustainable growth. SOES are not only concerned about the growth of economic interests, but also take the multiparty interests into account. At the same time, the capital of SOES shows a generalization trend, namely financial capital to change from the traditional financial accounting to general capital including financial capital, human capital, organizational capital, social capital, ecological capital, generalized capital to create business value. The harmonious financial value establishes on the basis of the broad capital structure, which determines the multiple financial goal of SOES. The financial target must achieve under financial activities and financial relations, financial activities and financial relationships depend on the financial survival and development conditions, but financial conditions provide a guarantee for the financial management of enterprises. According to Wang Huacheng’s Theory of Financial Environment, the
external conditions include macro environment, market environment and the natural
environment, the macro environment involves the government to create the political
environment, economic environment, cultural environment, the market environment
including the capital market, the market of raw materials, product market, the natural
environment etc. the internal environment mainly contains organizational structure
of enterprise, enterprise strategy, business model etc.

The synergistic effect of the internal and external environment is transferred to
the financial management activities and financial relations of enterprise, which
finally affects the development direction and fate of enterprise. In depth analysis, it
is not difficult to find that the external financial environment and internal financial
management finally affect the financial decisions of enterprises, which is essentially
the result of the interaction of generalized capital owners. The role of macro
environment in enterprises reflects the impact of social capital owners on
enterprises. The role of market environment in enterprises reflects the impact of
suppliers, customers on enterprises. The natural environment is mainly reflected the
impact of communities on enterprises. The operation of the internal environment is
the interactive influence of internal shareholders, management and employees on
enterprise. In a comprehensive way, the relationship between financial environment
and financial decision-making falls to the relationship within financial entities. The
financial environment, financial activities and financial relationships play a
synergistic role in realizing the harmonious financial objectives of SOES, thus
drawing a harmonious financial transmission mechanism map, as shown in Figure 1.

THE ACTUAL FORMATION MECHANISM OF THE HARMONIOUS
FINANCE IN SOES

The figure of SOES harmonious finance conduction mechanism drawn by SOES
harmonious finance capital, harmonious finance value, harmonious finance goal,
harmonious finance status and result, it must carry out financial activities and
financial relations reasonably in order to achieve financial goals of SOES under
certain conditions. From figure 1, we can see that internal and external conditions
create internal and external environment for SOES, allocate internal and external
resources and coordinate relations among stakeholders by developing financial
activities and financial relationships. The SOES financial harmony turns the initial
theoretical logic conduction mechanism "financial capital -- enterprise value --
financial goals - process and state of harmony -- the harmony" into "environment
adaption ability+ resource allocation ability + interest coordination ability =
harmonious finance" actual formation mechanism. Based on this, the environmental
adaptation ability, resource allocation ability and interest coordination ability
constitute the actual mechanism dimensions of SOES harmonious finance, as shown
in figure 2.
The goal is consistent with the result

Harmonious Financial Activities

Internal Conditions

Macro Environment
Market Environment
Natural Environmen

Organizational Structure, Enterprise Strategic, Management Model

Financial Relation

Resource Allocation, Interest Coordination

Harmonious Result

Government Suppliers
Investors
Consumers
Descendants

Stakeholders
Board of Directors
Employees

Process and state are harmonious

Figure 1. Harmonious financial transmission mechanism of SOES.
Continuous operation is a prerequisite for the survival and development of enterprises. The survival and development of SOES is based on the premise of adapting to external conditions, developing financial activities, creating financial performance, and providing material and capability basis for the realization of rights and interests of stakeholders. Xue radium (2014) referred the theory of Peter Drucker, pointed out that what enterprises should do is to adapt to the environment and cultivate their ability. In SOES harmonious financial formation mechanism, the resources allocation ability mainly expressed by performance creation. In addition, environment adaption is a kind of ability that mainly consider survival and development of enterprise internal and external financial environment, regardless of their ability to adapt to the natural environment. Interest coordination ability eventually is settled to the financial interests coordination between stakeholders and enterprise. So SOES harmonious finance is mainly divided into three aspects: environment adaption ability, resource allocation ability, interest coordination ability. SOES are constantly absorbing resources in social environment, industry environment and market environment when they are established, and expand the market by developing financial activities and improving their creativity. At the time of joining the industry, SOES have to accept the test of environment all the time and,
in turn, affect environment creation ability. The financial performance of SOES are to create sustainable survival and preservation condition value, provide the market acceptance for products and services through resources allocation and effective means, improve consumer acceptance and market recognition, so as to realize the enterprise recreation of material foundation, ensure a benign cycle. Coordinating financial relations of stakeholders is the purpose and attribution of enterprise environment adaptability and financial performance creativity.

The purpose for harmonious financial theory is to guarantee the rights and interests of all kinds of capital owners and to coordinate the relationship of the various interests. In SOES, capital entities (consisting of stakeholders) are more complex than the general business, concluded a more complex network of interests, diversification of capital invested are indispensable parts of the survival and development, SOES and all kinds of capital then establish a relationship for symbiotic win-win. Only the interests of all kinds of capital owners have been satisfied or not infringed on, and SOES can be invincible.

It can be seen that SOES financial environment adaptability, financial performance creation ability and financial interest coordination ability are three main links of SOES harmonious development. The ability of environmental adaptation is the prerequisite, the ability to create financial performance is the core, and the coordination ability of financial relations is the key and destination. The three dimensions constitute the closed cycle of SOES harmonious finance, which is the kinetic energy of SOES harmonious development. A harmonious finance closed cycle process is shown in figure 3.

Figure 3. Harmonious Finance Closed Cycle Process.
AN EXPRESSION OF SOES HARMONIOUS FINANCIAL FUNCTION

SOES harmonious financial results can be expressed by harmonious finance degree, and the financial harmony is a kind of overall coordination degree of financial environment adaption, financial performance creation as well as financial relation coordination. The related indicators of enterprises are analyzed and calculated out to comprehend SOES financial harmony. The expression of the harmonious financial function of SOES is as follows:

\[ SOE_{HF}(X_i) = F(SOE_{EA}, SOE_{PA}, SOE_{RC}), i=1,2,3,\ldots,n \]  \hspace{1cm} (1)

Among them, \( SOE_{EA} \) is financial environment adaption ability, and its function expression is illustrated as follows:

\[ SOE_{EA}(X_i) = F(e_1, e_2, e_3,\ldots,e_n), i=1,2,3,\ldots,n \]  \hspace{1cm} (2)

\( SOE_{PA} \) is the financial performance creativity, and its function expression is illustrated as follows:

\[ SOE_{PA}(X_i) = F(p_1, p_2, p_3,\ldots,p_n), i=1,2,3,\ldots,n \]  \hspace{1cm} (3)

\( SOE_{RC} \) is the financial relation coordination, and its function expression is illustrated as follows:

\[ SOE_{RC}(X_i) = F(r_1, r_2, r_3,\ldots,r_n), i=1,2,3,\ldots,n \]  \hspace{1cm} (4)

\( X_i \) represents a specific state-owned enterprise, of which, \( e_1, e_2, e_3,\ldots,e_n \) are expression factors of financial environment adaptability; \( p_1, p_2, p_3,\ldots,p_n \) are expression factors of financial performance creation; \( r_1, r_2, r_3,\ldots \) represent expression factors of the coordination ability of the financial relations of SOES.

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