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Reforming State-Owned Enterprises, Lessons from three International Experiences

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Abstract: Reforming State-Owned Enterprises (SOE) became a core element of economic reform in many countries, especially in the transitional economy. Many developed and developing countries have launched reform programs to reform SOEs using different strategies, including restructuring, privatization, labor policy and promoting corporate governance. In order to benefit from the global experiences in reforming SOEs, we attempt in this study to extract SOEs reform lessons by examining three major international experiences in the reform of SOEs, namely China, Korea and Brazil. The paper plan to use comparative method and descriptive-analytical approach, through reviewing the literature, in order to extract the lessons learned from experiences of the three countries. The study concluded that China has been more selective in implementing the privatization program and that selling SOEs to their employees by providing financial and credit facilities for them, under cooperatives system has contributed to accepting the privatization process and mitigating its negative social impacts. The experience of South Korea has shown the importance of strict application of governance masseurs, especially with regard to internal and external audits. Korean reforms also introduced plans for the financial health of SOEs which promoted governance and strict control over SOEs and improved their performance. As for Brazil, the most important characteristic of its experience is utilizing information technology and designing databases for SOEs. This study is important for scholars, researchers and policy makers in the governments which concern to learn and benefit from the international experiences in reforming state-owned enterprises.

INTRODUCTION

State-Owned Enterprises (SOEs) still play an important role in the global economy, despite the privatization process in recent decades. Therefore, reforming such enterprises has received much attention as one of the biggest issues for both developed and developing countries. Despite the fact the low efficiency, poor management and corruption remain the main characteristics of SOEs, these enterprises have played a significant role in the economic development in many countries. SOEs still dominate public services and infrastructure in many countries including, transportation, utility management, mining, energy and others. SOEs often raise a concern that they hamper competition through government support which takes many forms such as soft budget constraint, preferential treatment and monopoly in some vital economic sectors.

SOEs also have sparked a continuous debate in the past decades on the importance of preserving and reforming them or privatizing these enterprises. Preserving SOEs is linked to many problems, starting with the continuous losses of these enterprises and the state's need to cover these losses from the general budget and ending with the selection of appropriate reform strategies. As for privatization, it is also linked to different types of problems that are mostly related to the undesirable social impacts such as layoffs and the resistance from public opinion against privatization.

Advocates of SOEs argue that SOEs are necessary to mobilize capital and promote technology for giant investment projects where the private sector is unable to do so. Some say that SOEs are necessary to promote the development and create jobs in certain regions or industries in the national economy, especially in regions or industries where private companies hesitate to enter due to their unprofitable nature. Advocates of SOEs also argue that they are necessary to prevent private monopoly and sometimes for national security purposes to prevent foreign interference in the national economy. Most of the developing countries have created SOEs to promote industrial transformation and reduce the imports of industrial goods. Therefore, in addition to public services and infrastructure SOEs, developing countries formed SOEs in various industrial fields, including steel, chemical, mining and other heavy industries. On the other hand, opponents of SOEs argue that government involvement in the economy and the preferential treatment for SOEs, hamper competition and lead to market distortion and failure. Some opponents say that lack of efficiency and productivity represent opportunity cost in the national economy, in addition to the burden of SOEs on the public policy and finance.

Many developed and developing countries have launched reform programs to address low productivity and efficiency in SOEs. Reform strategies have been varied from country to country; some adopted restructuring programs and others adopted privatization as the main strategy, while some countries focused on promoting governance masseurs. In order to benefit from the global experiences in reforming SOEs, we attempt in this paper to extract SOEs reform lessons by examining three major international experiences in the reform of SOEs. The study highlights the phases of SOEs reform in each of the three countries in a chronological order and addresses the key reform strategies taken by each country. China still follows a mixed economy of market mechanisms and state capitalism, therefore, we first focus on the Chinese experience; as the state-owned enterprise sector in China is of great importance in terms of its size and its contribution to the Chinese economy and the global economy. Then, we review the South Korean experience; due to the importance of corporate governance practices implemented by South Korea. Finally, we study the experience of Brazil which is included in this study due to the importance of IT systems that Brazil has created to help the government manage these entities.

CHINESE EXPERIENCE

China still follows a mixed economic system that combines state ownership and market economy. The SOEs sector in China is an arm of the state in implementing its economic and social policies[1]. China has made unremitting efforts to reform these enterprises, starting from the end of the 1970s. These efforts are largely similar to the experiences of developing countries in reforming SOEs, in terms of their chronological development and their tools. SOEs in China are critical to the Chinese economy; they contribute >29.7% of China's GDP[2].

Definition of SOEs in China: SOEs in China include the following:

- Fully SOEs, supervised by the State owned Assets and Supervision and Administration Commission (SASAC) and its subsidiaries in the regions as well as managed by local governments
- Companies in which the state owns a controlling share and are not officially SOEs but in reality, state institutions and their legal persons manage these companies through their holding of shares
- Economic units are owned indirectly by the government, operating inside and outside China and the exact number of these units is unknown

The Chinese government has defined SOEs as enterprises in which all assets are owned by the state; thus, the second and third types are not considered SOEs from the Chinese government's point of view and its statistics. The enterprises may be owned by local governments in the regions or by the central government represented by Lee[3]:

- State owned Assets and Supervision and Administration Commission (SASAC)
- The Insurance Regulatory Commission (CIRC) which owns public insurance companies

- The Banking Regulatory Commission (CBRC) which owns banks and financial projects
- The Securities Regulatory Commission (CSRC) which owns financial companies
- Companies owned by other government agencies according to their specialization, such as: Ministry of Commerce, Ministry of Education, Ministry of Science and Technology and some other ministries

According to the 2017 statistics of the Chinese Ministry of Finance, the number of Chinese SOEs reached >170 thousand firms with assets of 22,310 billion USD and sales of goods and services of > US$7,676 billion. As for the contribution of SOEs to the national income, estimates varied, due to the complexity of the classifications of these companies on one hand and the lack of sufficient data issued by the Chinese government on the other hand. The Organization for Economic Cooperation and Development (OECD) estimated the share of SOEs in the national income at about 29.7% in 2006[2] and some estimates indicated that the percentage of contribution ranges between (30-40%)[4].

Phases of reform: The reform phases of SOEs in China may be classified into four phases as follows[5]:

The first phase-introduction to reform (1978-1983): Some call it the "experimental phase" where it began through experimenting with the reform measures in some factories in some Chinese regions. It started in Sichuan Province in 1978, then it began to expand gradually. This stage generally focused on increasing the autonomy of public companies from the state and increasing financial incentives. The financial incentives included the inclusion of a policy of withheld profits which gave companies the right to withhold a percentage of the profits that had been fully devolved to the state. The financial reforms also included linking incentives to productivity for workers and the Chinese authorities also allowed public companies to plan their production outside of the state's general economic plan.

The second phase-controlling the financial relationship with the state (1983-1987): This stage focused on organizing and codifying rights and responsibilities between companies and the government and included two measures: the first is mixing taxes and profits, meaning that companies send net taxes and profits to the government as one number instead of paying each of them separately. Under this system, the company pays a certain percentage of profits and taxes to the state and keeps the rest. The second of these measures is the paid loans; Where the state replaced investment in the assets of public companies through grants and subsidies from the state, to be replaced by loans that must be paid back to the state and these loans are granted through state-owned banks. The policy of paid loans aimed at reducing the burden of financing these companies from the public treasury on one hand and to improve control over these companies on the other hand. These reforms did not come off as banks were unable to push the losing companies to repay their loans, in addition to the excessive state interference in corporate management.

The third phase: contractual liability (1987-1992): As the previous reforms did not achieve the desired results, the state introduced a system of "the contractual responsibility" which previously proved an unrivaled success in land reform. This system includes a clear organization of the relationship between state ownership on one hand and operation management on the other hand, so that, the companies are given more autonomy in managing their affairs. The measures of these contracts include production and sale for a specific quantity to the government at a relatively low official price and the excess of this product can be sold in the markets according to the company's desire. The total wages are also linked to the total achievements of the company without intervention from the state. These contracts have taken many forms and the most used form is the Contracts Management Responsibility System (CMRS). This system consists of three main components: Contract Management System (CMS), Manager Responsibility System (MRS) and Internal Contracting System (ICS). The objective of the contractual responsibility system was: to clarify the rights and responsibilities of the companies, reduce government intervention in the operation of SOEs and make the institutions financially independent and to focus on profit not on achieving the plan. Also, at this phase, two important laws related to SOEs reform have been introduced, one is the insolvency law and the other is the corporate law.

From the above explanation, we can notice that the common feature of the reforms in the first three phases is that the state ownership remained unchanged and the reforms were based on separating ownership from the operation with an emphasis on re-adapting the income redistribution relationship between institutions and the government[6].

Previous efforts, since, 1981 have led to a major development in the production of SOEs. This output grew at a rate of 7.7% annually. Nevertheless, reform efforts during this period were mainly focused on increasing autonomy and promoting decentralization in the companies and it became necessary to adopt deep administrative reforms for these companies. In 1993, the Fourteenth Congress of the Chinese Communist Party was held and issued a document of 50 points for reforming SOEs, the most important of which is the establishment of a modern enterprise system based on the international experiences, establishing a system to expand the ownership base and that the state guarantees a fair market environment for competition for all types of companies. For these purposes, the State-Owned Assets Management and Supervision Commission (SASAC) was established in 1993. In 1994, the state began implementing the Modern Enterprises System, through the demo application in 10,000 large and medium companies as a new system for accounting and asset valuation was adopted. Then 1000 of the major strategic companies transferred their assets to the ownership of (SASAC) and the other 100 carefully selected companies transformed into joint stock companies[7]. The contents of the modern MES project system can be summarized in the following points:

- Clear and accurate definition of property rights
- Getting rid of social burdens
- Corporate debt restructuring
- Establishing modern corporate governance mechanisms

Reform strategies: China's SOE reform strategies included four main strategies: restructuring, privatization, layoffs and re-employment and finally the Modern Enterprise System. We will address each of them in detail; due to their importance in capturing the lessons learned from the Chinese experience[7].

Restructuring: Many years after starting the reform, the State-Owned Industrial Companies Law was enacted which removed direct state control and the state became just the owner of these companies, giving them legal personality. Over time, many companies have been corporatized, turned into equity shares and became mixed in ownership. Consequently, companies have been subjected to the Companies Law which was enacted in 1994, according to which the ownership of companies was separated from its management to take the commercial form. By the end of the 1990s, more than half of the SOEs had been corporatized and the expansion of the ownership base increased the ability of these companies to finance their assets, however, they had not succeeded much in preventing blatant state intervention[8].

In 1996, the Companies Law was amended; to carry greater protection for the minority shareholders and to set rules for transparency and accountability within companies. In 2002, the Sixteenth Congress of the Communist Party of China convened and issued a reference framework for the management of the state-owned assets and thus increasing state intervention once again in the companie's affairs. The of the State-owned Assets Supervision and Administration Commission (SASAC) established and included in its yard all companies subject to the Companies Law. SASAC worked on separating state ownership from management without interfering in production or operation. It was acting as a representative of the majority of shareholders which is the government, so that, it worked on implementing the supreme policy of the state, including the selection of managers according to the efficiency and performance criterion. The primary roles of SASAC according to its website are:

- Evaluating and supervising SOEs
- Performing control over the SOEs
- Appointing talented managers, dismissing them, evaluating their efficiency, setting incentives and penalties for them according to their performance and establishing systems for selecting executives according to the rules of the socialist economy and the rules of the modern enterprise system
- Introducing draft laws, administrative procedures and legislations that would develop the institutional environment in China
- Coordination between SOEs in the regions in accordance with the law

SASAC evaluates managers with grades A, B and C according to a self-evaluation that is given to the director and another evaluation given to his colleagues and subordinates. In case the manager obtains a grade lower than the minimum rating required for three consecutive years, he would be dismissed. Those with higher grades are promoted to higher management ranks. However, researchers pointed to the deterioration of the human resources system in these companies, considering that this system is marred by a lot of corruption and lack of transparency[9].

Privatization: After the increasing losses of SOEs and the increasing burden of these companies on the state budget (due to the government payments to compensate for the losses in addition to repaying their loans to banks), the Chinese government found no way but to privatize SOEs. It is noticeable here that, unlike Russia and Eastern Europe, the largest portion of SOEs in China are small and medium-sized companies and they are not concentrated in certain regions, rather, they are distributed over a wide geographical area to serve their social and development goals. Small and medium-sized companies in the regions are subject to the management and control of local governments while large companies are subject to the supervision of the central government which was subsequently established an independent central authority to supervise them. The privatization process in China has generally been based on the principle of selling small and medium enterprises to reduce the burden on the government and to keep the huge producing companies and reform them. Therefore, it can be said that China was more selective in setting its priorities in the privatization process and chose the projects to be privatized carefully. The process of privatization began intensively between 1994 until 1996 in the Chinese provinces leading in public projects. By 2001>86% of the SOEs had been privatized[10]. Most of the purchases made by Chinese companies were from local buyers. The prodigious economic growth in China over >2 decades has created enormous savings in the family sector and with the increase in the debt ratio of small public companies to their assets (debt-to-assets ratio), they became very small in value and thus it has become easy to buy, even by the employees of these companies, using their personal savings. In some cases, companies were sold against real estate mortgages in the absence of cash for the purchase. The methods of privatization can be summarized in three ways[11]:

- Selling to a local or foreign major investor
- Transferring the company to a system of limited liability shareholder or joint company and then offering the shares
- Transforming the company into a joint-stock cooperative and shares are often sold to the company's employees

The percentage of companies that were sold according to the first way was about 11% while the second way amounted to 9% as for the cooperatives system, it had the biggest share. The percentage of companies that have been privatized according to this way is about 35% of the total number of privatized companies. As for the remaining percentage, it consisted of companies that had filed for insolvency and other companies that had been merged into other companies[12]. The system of cooperatives includes SOEs that are divided into shares, most of which are sold to workers in these companies as well as management. The legal form for cooperatives is either a limited liability company or a joint company and the process of trading shares for employees may be restricted to within certain limits. Voting for employees who hold these shares can also be limited to one vote for each employee, regardless of the shares he holds, not according to the regular rule: that each share has a vote. According to this system, the shares of companies are sold to workers at a low discounted price and the goal was in general, to curb social and labor opposition to the privatization process. Some of these companies have transformed to the traditional form of joint-stock companies after managers own a controlling quota.

The privatization process in China did not only include the transfer of ownership from public ownership to private ownership; rather, the transfer of ownership coincided with an organized injection of new investments into the sold companies; To make it more attractive and all parties benefit from these investments. Many companies achieved quick profits immediately after the sale due to these investments and thus, the reform process became politically more attractive[11].

Layoffs and re-employment of workers: Many local governments in China have implemented reform programs to lay off the redundant workers from companies and then re-employ them in other private companies. The term "Xiagang" and then "re-employment" became "zaghai gongcheng" from the common terminology in the Chinese press at that time. According to the National Statistical Office, the Xiagang worker is defined as a worker who was laid off from the company due to its poor economic performance but still maintains an administrative relationship with the company which allows him a compensatory salary, health insurance or any other compensation. The National Statistics Office estimates that the number of workers who were laid off by the end of 1997 reached 20 million and increased to >30 million workers at the beginning of 2004.

In conjunction with the "Xiagang" lay-off program, there was a re-employment program in private companies, "zai jiuye gongcheng" and local governments helped laid-off workers to find alternative jobs through these programs. Trade union statistics indicate that nearly five million workers have taken place. Inclusion in this program by the end of 1996 and this program includes direct re-employment, training grants, unemployment benefits and temporary grants. Local governments have also used these programs to combat the social impacts of the reform process. To ease political and social opposition to reform efforts, these programs have been assigned to local governments; Because it is the most knowledgeable of its economic environment and it has sufficient information about employment opportunities in its regions.

As a result of those programs, demonstrations, strikes and sit-ins began to shake various parts of China threatening to disturb the social peace that was a key element in achieving the economic renaissance of China. Labor unions statistics indicated an increased number of strikes, sit-ins and demonstrations from 10,000 in 1993 to >60,000 in 2004 with a participation rate that increased from 730,000 to about 3.7 million participants in the same period. Strikes and sit-ins became more widespread; In the Pearl River Delta alone, at least a thousand workers are on strike every day[13].

The modern enterprise's system: We have discussed this system in the historical development of the reform. This system includes:

- Clear and accurate definition of property rights
- Getting rid of social burdens

- Corporate debt restructuring
- Establishing modern corporate governance mechanisms

Policies to support and stimulate SOEs: SOEs in China enjoyed remarkable support and preferential treatment, through which they were able to continue to compete and make profits. This preferential treatment represented in the following points[7].

Tax support: Observers of the different phases of Chinese growth would find that the Chinese government has supported various economic sectors with tax exemptions; This is for the purpose of attracting foreign investment or developing poor areas[14].

Subsidies and grants: The Chinese government injects funds directly into SOEs to support its capital or to deal with losses. These funds take the form of aid and grants which appear under the item “other revenues” in the balance sheet. Administrative restrictions and obstacles on competing companies:

The Chinese government restricts companies competing with state-owned companies by placing some administrative obstacles such as: centralization of granting permits and some legal obstacles.

Support from government banks: The banking sector in China includes major government-owned banks which are considered the dominant in the Chinese banking sector. China is the largest country in the world in which the state owns banks, as the four largest banks in China are all owned by the government and among the largest banks in the world in terms of the volume of assets. These banks give preferential benefits to state-owned companies, especially strategic industries including the ease of granting credit at very low rates of up to 3-5% for short-term loans. This rate is much lower than the market interest rate, despite the legal framework for these banks is supposed to push them to more profitable commercial operations instead of supporting less profitable SOEs. This is due to the excessive interference of the state in the work of these banks[15]. The public banks waived the debts of the troubled companies so that the loan was completely forgotten. They also granted un-creditworthy loans to some state-owned companies, at a time, obtaining credit was not easy for private companies. This has led some companies to change their legal nature by merging or partnering with SOEs in order to get the fund[16, 17].

Government procurement: In the last two decades, China has gone through great levels of economic growth which had a profound effect on increasing government spending, so, the government procurement market is very important for business owners whether inside or outside China. While the Chinese government estimated its purchases at about 2% of GDP, the European Chamber of Commerce estimated government purchases in China at 20% of GDP, equivalent to a trillion dollars. The government favors SOEs in this area and the largest value from these purchases is in regional governments, therefore, state-owned companies in the regions clearly benefit from these deals through corporate manager’s relationships with local rulers. This preference also includes subcontracting; meaning that if a state-owned company implements a project for the government, it also assigns subcontracting operations to other state-owned companies. Following the global financial crisis of 2008-2009, the Chinese government launched a grand plan for government spending worth 4 trillion yuan over four years in order to stimulate the economy. State-owned companies were among the biggest beneficiaries of this plan. It is estimated that the share of state-owned companies from investments or projects implemented by the government is 43% while their share in government purchases is about 79% which is a large number that reflects the importance of this sector in stimulating state-owned companies. Chinese public companies also participate in tenders and bids for government purchases of major countries such as U.S.A.[7]:

THE SOUTH KOREAN EXPERIENCE

The Korean government has been dominating the institutional landscape for a long time. This is not surprising, given that Korea has a relatively short history of engaging in the capitalist system and that the government has played a crucial role in the rapid industrialization process that began in the 1960s. An important aspect of successive administration’s economic development strategies was the creation of large firms of modern industries that achieve economies of scale and scope. Several large companies have been established in Korea under what is known as the “chaebol system”- a system of a large industrial conglomerate that depends significantly on government intervention in the financial market. Under this system, heavy and chemical industries campaign launched in the mid 1970s, followed by automobile industries, shipbuilding, electronics, oil refineries and others. The Korean government was involved in more industries that require large amounts of capital and owns and operates all major utilities including telephone communications, postal services, electricity, gas, water and rail transportation. It also owns and operates other large companies in the transformative Industries such as the tobacco and steel industries. Virtually all of these industries started out as government monopolies. The government also owns and operates monopolistic suppliers in the books and printing industry[18].

The Korean experience is characterized by the development of a set of reforms aimed at establishing an effective administrative system for public institutions. While administrative reform began in Korea in 1962, SOEs were privatized in the 1990s within the wave of privatization that swept the world at that time. Currently, South Korea has a new management structure for SOEs and Korea continues to make adjustments and improvements in management and governance.

Phases of reform: In reforming state-owned enterprises, the Korean experience has followed the following phases.

The first phase: government reforms (1962-1984): In this phase, the government led the economic development; either by organizing the private companies or by owning many state-owned companies. The government-led development in fact has been very effective in mobilizing labor and capital. There are five reasons why the Korean government was in need of SOEs. Most of these reasons lost their rationale after the Korean economy became more matured. First, State-owned companies are necessary at that time because there was no enough capital and technology in the private sector for giant investment projects, therefore, the government created state-owned companies that invest with foreign capital in such giant projects such as POSCO Steel Company and Namhae Chemical Company. Most of these companies are now privatized as the lack of capital is no longer a reason for the need for SOEs. The second drive for creating SOEs was to increase government revenues at an early stage of development when there was no much tax revenues. The third reason is that SOEs were necessary in areas where private companies hesitate to enter due to their unprofitable nature as these areas were necessary for the public needs. The fourth reason: there are cases in which the government established state-owned companies to prevent private monopoly. The fifth and final reason is: there are cases in which the government was forced to take over the insolvent private companies and incurred their debts despite the fact that the main shareholder in these companies is the government[19].

Since, the 1960s, government policies in Korea have been based on the Economic Development Plan which has promoted industrial expansion, encouraged new roles for public enterprises and established several state-owned enterprises. The need for a coherent management system has become evident. From August 1962 to February 1984, public enterprises were administered under the Budget of Government-Invested Institutions Act 1962 and the Investment Enterprise Management Act 1973. The legal concept of state investment institutions was first conceived in 1962 through this law that regulated the budgets and accounts of public enterprises. There were 21 enterprises and >50% of their capital was funded by the government.

The 1962 Act served as a starting point for state control of state-owned enterprises and it allowed the competent ministers to consolidate and control budget functions through a system designed to be flexible, self-executing and transparent. However, the audit functions led to overlapping responsibilities between the competent minister and the Economic Planning Council. The Act established a standard for budget planning by establishing unified general rules, defining income lists and the balance sheet. Indeed, this process has led to the implementation of effective business practices because, before this law, heads of state-owned enterprises could redirect funds to different financial lists[20].

The 1973 Act established administrative criteria for financing State-owned enterprises and their investments. It outlined how to effectively supervise: budget systems, accounting and audit, including legal standards for audits, general inspections and annual audits. The Act defines the rules of forming the association, establishing committees and their operational guidelines. The procedures for qualification and appointment of members of the Board of Directors have also been defined in this Act which established the broad legal basis for large organizations in Korea.

Despite the 1973 Act, bilateral conflicts and disputes occurred because the role of the competent minister was not clear. Within the prevailing administrative structure under this Act, the authority of the ministry was stronger than that of the Board of Directors. Generally, Boards of Directors were discussing critical issues and making decisions under government regulations, but the ministry had control over budgets and operations. Ministers reserved the right to supervise all operational elements; for instance, they can request status reports, monitor operational tasks. Besides, the competent minister agrees to all projects, implementation plans, fund-raising efforts, fee decisions and profit margin objectives. However, the Ministry of Finance and other institutions had to participate in the approvals, so the system of monitoring and auditing did not work well.

The second phase-privatization (1984-1999): The enterprise governance structure of Korea was completely revised during the second phase of the reforms which were decided from March 1984 to January 1999. The Government-invested Enterprises Management Act of March 1984 strengthened the independence and efficiency of state-owned enterprises. At the same time, the government had to respond to privatization efforts and budget deficits. Reforms in this period encouraged the decision-making process of state-owned enterprises by the Executive Ministry, the Economic Planning Council, the Minister of Finance and the Audit and Inspection Board. Administrative reforms included budget supervision. The 1984 Act also eased inconsistencies and overlaps of responsibilities between the Executive Ministry, the central government and boards of directors and encouraged the development of independent and highly efficient control systems.

The process of privatization and administrative innovation was first proposed in 1993 and subsequently regulated by the 1997 Act on Privatization and Improvement of the Administrative Structure of State-Owned Enterprises, after an attempt to sell all public enterprises directly and partially by the National Privatization Council in 1987. The 1997 Act targeted enterprises that government owns >50% of their capital. With the privatization process, the number of state-owned enterprises decreased from 25 in 1984 to 13 in 1999 and the number was 14 enterprises in 2007 when this Act was repealed.

The 1997 Act expanded the budget autonomy of state-owned enterprises. Before implementing this Act, there was a six-month gap between the approval of the budget and the implementation of its provisions. As a result, the Act ensured that the boards of directors planned and executed the budget under the objectives of the Administration. A management evaluation committee composed of the Board of Directors, Heads of Organizations and Executive Directors established internal management standards. The government appoints the president of the company who shall appoint the vice-president and the rest of the staff[20].

The third phase-administration structure (1999-2007): The third phase of reforms began in February 1999, when the enterprise's governance structure was completely revised, under the 1997 Act and the 2007 Act on the Management of Public Enterprises. These changes consist of the abolition of official government board members and the appointment of permanent directors; the establishment of a contract management system; the establishment of an executive recommendation committee; and the introduction of a management information disclosure system. The 1997 Act had been revised to end government control which had greatly impeded the autonomy of state-owned enterprises. At that time, the government was controlling state-owned enterprises through excessive interference, using its regulatory powers. For instance, the Executive Ministry and the Economic Planning Council determined the size of the workforce. The Audit and Inspection Board lacked independent authority.

The responsibilities of the board of directors and how the auditors are appointed have changed considerably. Previously, the board of directors had superior decision-making power and was responsible for: stock trading, the closing of annual budgets and the balance of accounts, planning regulations and developing job descriptions. The Board also had the authority to appoint or dismiss department heads who could evaluate management contracts and evaluate performance because only non-permanent directors attended board meetings.

For the independence of auditing, the President of the Republic had the authority to appoint auditors following a decision of the Steering Committee of State-Owned Enterprises and a recommendation from the Competent Minister. Under Article 5, the new law stressed the fair and transparent work of the board of directors including the external audits conducted following the results of administrative performance evaluations aimed at enhancing transparency.

The fourth phase-governance of public institutions (2007-2012): The fourth phase of the Korean reforms began with the Public Enterprise Management Act in April 2007. This Act helped to classify state-owned enterprises into:

- Government-Invested Institutions
- Government-Financed Institutions
- Government-Affiliated Institutions
- Government-Contributed Institutions

It addressed reforms of internal and external evaluation standards and excessive government intervention in internal administration which had led to the deterioration of administration in the past and concealed its problems. The Board of Directors and audit did not function effectively, so, the 2007 Act sought to regulate the scope and types of public institutions, improve internal and external administration and fair practices for the appointment and dismissal of executives. The new enterprise strategy reinforced making appointments more equitable and transparent. In April 2012, the government charged public institutions with >2 trillion won (about $1.9 billion) in assets to submit a medium-and long-term financial plan to the National Assembly. These plans ensured the financial viability of state-owned enterprises in Korea. These plans include administration objectives, investment plans and debt information for 5 years. The plans are submitted and approved by the Supreme Ministry and the Ministry of Finance before being passed to the National Assembly.

Internal and external audits were strengthened in the following ways. First, the board of directors was allowed to dismiss heads of enterprises and the non-permanent directors were given the authority to request audits and the necessary attached papers to prevent abuse of power. The internal control system had also been improved by making audit committee documents mandatory and making information publicly available. Low-rating audits reduced the rewards for staff and officials. If the audits are below the required standard, the institutions concerned and any third parties involved must pay compensation.

Concerning the reform of the financial performance of state-owned enterprises in Korea, the obligations and debts of Korean public enterprises have accumulated for some reasons including good investment cost, the price system, oil price rise, price systems, etc. The Korean government has taken several steps to reform the financial position of enterprises as follows:

- Expansion of private capital through partial privatization
- Selling unused assets
- Reducing the size of companies
- Use of financial leasing; to reduce expenses
- Reducing expenses by reducing operating expenses, reducing the number of employees, operating costs and other expenses
- Reduction of benefits and social welfare
- Increase income and profits by raising prices and adjusting sales volumes

EXPERIENCE OF BRAZIL

Brazil is considered a good model for studying state-owned enterprises as the emergence of state capitalism in Brazil has followed a similar path to other countries. It has established governments and managed several state-owned enterprises in the second half of the twentieth century. Therefore, after the Second World War, we find several governments in Europe own and operate water facilities, oil, gas, electricity, telecommunications, shipping and other companies. In Brazil, state ownership of large enterprises began mostly after World War I when the government ended up repairing and adopting a large part of the country’s railway companies. In the 1940s, President Getúlio Vargas established several state-owned enterprises controlled by the state in sectors considered essential for economic development such as mining, steel, chemicals and electricity.

The role of the state in Brazil in economic activities increased after World War II. The state began to influence the production and provision of goods and services by establishing and promoting various state-owned enterprises. We can say that the peak of state capitalism in Brazil occurred in the early 1970s, during military rule (1964-1985). By 1976-1977, the public sector represented 43% of the country’s total gross capital formation with about 25% of those investments come from large state-owned enterprises[21].

State-owned enterprises are subject to the Brazilian Companies Act. Public banks operate under the laws applicable to the entire financial system established by the Central Bank of Brazil. The same laws-which supervise private enterprises- also apply to state-owned enterprises in Brazil, including rights, business duties, employment and tax laws. Moreover, public banks are subject to regulations established by institutions, such as the Securities and Exchange Commission, the Brazilian Stock Exchange and the Central Bank of Brazil.

History of state-owned enterprises in Brazil: Although, the establishment history of Brazilian state-owned enterprises dates back to the colonial period as the Bank of Brazil (BB) in 1808 and the Federal Bank of Caixa Economica (Caixa) in 1861, the biggest leap in this sector came only in the 1940s after Brazil abandoned its agricultural orientation to take a sharp turn towards modernization through industrialization and urbanization. From this period until the establishment of the current democratic system in 1988, the government injected investments into sectors that did not find sufficient importance or financing for the private sector. Under President Getúlio Vargas, great projects such as the National Steel Company (CSN) in 1941, Vale do Rio Doce (Vale) in 1942, BNNDES in 1952 and Petrobras in 1953. Shortly after the democratic system which underwent few changes in the state-owned enterprise sector, the second period which witnessed the military regime that lasted from the 1960s to the end of the 1980s, came with establishing several state-owned enterprises, such as Embraer (Aircraft industry), INFRAERO (Air Navigation Regulation), Embratel (Communications), Correios (Post), RADIOBRÁS (Radio and TV) and other industries. Thus, the process of industrialization in Brazil is traced back to the state and significant public investment has been directed towards energy production, mining, oil extraction and infrastructure and communications later on.

However, state ownership of enterprises in Brazil declined significantly during the 1990s with a series of privatizations that allowed massive transfers of public investment to the private sector. The state restricted its activities as a provider of goods and services, encouraging the emergence of large private conglomerates, often controlled or owned by foreign investors. These changes were reflected in the National Plan for Privatization which began in 1990 and lasted for a decade, leading to the privatization of large companies such as CSN in 1993, Embraer in 1994 and Vale do Rio Doce in 1997. The Brazilian privatization program in the 1990s was mainly based on international standards. According to end-2013 statistics, there are 151 State-owned enterprises in Brazil, the majority of which are engaged in energy with 61 operating in oil, gas and their derivatives while 21 enterprises operate in electricity. Brazil’s state-owned enterprises are divided into two types: joint-stock enterprises in which the government has a controlling stake and completely public state-owned enterprises.

State-owned enterprises in Brazil employ more than half a million workers; most of them work in the financial sector such as Banks, Brazilian Postal and Telegraph Company[21].

Privatization has provoked protests within society and among politicians against accusations of manipulation of corporate sales, valuation of assets and transfer of proceeds to private accounts. By 2003, there has been a clear shift towards the strengthening of private national companies or groups. Both the state and businessmen have been collaborating to create national, world-leading companies. However, Brazil's state-owned enterprise sector, together with more than 100 federal government-owned enterprises, continues to carry out complex activities or roles in the national economy and development[22].

Government's role in managing state-owned enterprises: The responsibilities of various government agencies concerning state-owned enterprises can be summarized as follows: In general, the Ministry of Planning, Budget and Management (MPBM) is developing guidelines for corporate governance, approving income distribution, adopting regulations and capital increases, determining the remuneration of board members and appointing one board member. The mission of the Ministry of Finance is to approve the financial statements, authorize the issuance of securities and appoint one member to the Finance Board. The state is also represented at shareholder meetings. The Ministry of Supervision provides strategic guidance for investment, the formation of the Board of Directors and assists in the appointment of most of the unelected Board members and members of the Finance Board. All these ministries manage state-owned enterprises.

The Ministry of Planning, Budget and Management (MPBM) has another very important mission which is: "Improving the role of the state to promote state investment for the benefit of society". The main functions of the Ministry of Planning, Budget and Management (MPBM) can be summarized as follows: Coordination of the budgets of state-owned enterprises (development and control including financial objectives and investments), consolidation and reporting of the economic and financial data of state-owned enterprises, approval of the remuneration of board members, pension fund policies and establishment of employee's contracts and promoting the adoption of best practices in corporate governance and management.

To monitor and evaluate state-owned enterprises, the Ministry of Planning, Budget and Management (MPBM) has a basic system that allocates a file for each company that includes company information and financial statements. It also has a national expenditure program which contains important information to determine the allocation of resources and investments to state-owned enterprises as well as their ability to expand their businesses. This program allows for identifying monthly balances, short and long-term financial liabilities and the status of indebtedness for each state-owned enterprise. The budget of fixed asset investments of state-owned enterprises is managed annually and monitored monthly through control of the implementation of fixed asset investments. Brazil has a transparency law as part of its Constitution. The Constitution also requires the Administration to publish budget allocations every few months.

Dealing with enterprise's debt: On average, there are 70: 80% of Brazilian state-owned enterprises self-financed. They do not rely on the state for loans or new funds. The central bank authorities monitor the credit and loan policies applied to the state-owned enterprise sector. This policy regulates loan levels, size of the borrowed funds (small, medium, or large), type of funds (public or private), economic sector and classified region. The destination of the supplier is that poorer regions receive a substantial amount of credit and more money to develop their regions, a change that works in favor of Brazil's economic development efforts to reduce inequality.

To achieve quality in state-owned enterprises, Brazil has invested in support systems and information technology systems that help the government manage these entities. Using these systems, a basic file is produced to record the company's information and financial statements. This file is published as a book containing important company information. Each year, the database is evaluated and this information is used to allow state-owned enterprises to expand their business.

State-owned enterprises that do not provide indicators to the Ministry of Planning and Budget face serious consequences. Their budget allocations from the Federal Government are usually reduced. If the situation does not improve and the Ministry does not have up-to-date information on the company, the competent Ministry manages the company[21].

The Ministry of Planning and Budget uses an information system called Catomar, an organizational database to analyze a company's performance. The work of the Ministry is based on information on managers and employees. It can also evaluate operational budgets, financial statements and human resources information. The Administration is continuously expanding its databases to provide greater flexibility and better use of resources. For instance, human resources information provides qualitative and quantitative information that provides a range of reports.

Monitoring and evaluation processes for state-owned enterprises in Brazil are very complex. There is a representative of information technology in general on all boards of directors of state-owned enterprises. Brazil has a mandatory law that directs the Ministry of Planning to attend each Council meeting.

CONCLUSION

This study presented the experiences of three countries in reforming state-owned companies, namely: China, South Korea and Brazil. the study concluded that there are lessons that can be learned from the reform experiences in these countries as follows:

China has been more selective in implementing the privatization program, as it kept the strategic industries and sold small losing companies, that have no impact on the overall economy of the country. Therefore, countries must be more selective in the privatization process.

China used the cooperative system to sell heavily indebted companies to their employees. China got rid of nearly 35% of the state-owned companies through cooperative sales to employees who may have the expertise to reform these companies without administrative interference; due to their deep understanding of the problems of their companies. This system could be an example to follow if privatization is the only solution as selling companies to their employees by providing financial and credit facilities for them, may contribute to accepting the privatization process and mitigating its negative social impacts.

Appointing executives in the SOEs is quite important. The study presented a method for evaluating executives in China that included evaluating managers with grades A, B and C according to a self-evaluation given to the manager and another evaluation given to his colleagues and subordinates. In case the manager obtains a grade lower than the minimum rating required for three consecutive years, he is dismissed. Those with higher degrees are promoted to higher management ranks according to the highest scores on this rating. This method could be efficient in appointing efficient executives who have intellectual dynamism that makes them respond to changes in the surrounding environment and market.

The experience of South Korea has shown the importance of strict application of governance masseurs, especially with regard to internal and external audits. Korean reforms also introduced plans for the financial health of SOEs. These plans include: management goals, investment plans and five-year debt information which companies must adhere to. These plans have promoted governance and strict control over SOEs and improved their performance.

As for Brazil, the most important characteristic of its experience is utilizing information technology designing databases for SOEs. Linking SOEs together using ERP Systems would facilitate the flow of work within companies, promoting control, supporting decision making and formulating rational policies based on accurate information. Databases enable decision-makers to manage the resources owned by companies including untapped assets, through identifying deficits and surpluses and redistribution of these resources.

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