

## The Issues of Corporate Governance in Chinese Public Cultural institutions and Corresponding Countermeasures

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### Abstract

Promoting the corporate governance construction of public cultural institutions is an important part of the reform of culture system, as well as an important initiative to realize the modernization of national governance system and governance ability. At present, Chinese public cultural institutions have made some significant achievements in promoting the reform of corporate governance practice. Whereas, from the perspective of development of public culture and the public’s needs, there are still many problems need to be solved. Search these problems and analyze the causes, as well as put forward by the corresponding countermeasures, means a lot to roundly promote the corporate governance construction of public cultural institutions. It owns great theoretical significance and practical value.

**Key words:** Public cultural institutions; Corporate governance; Issues; Countermeasures; Public culture; Evaluation mechanism

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### INTRODUCTION

In 2013, the Third Plenary Session of the 18<sup>th</sup> CPC Central Committee adopted *Decision of the CPC Central Committee on major issues concerning comprehensively deepening reform*. This decision puts forward a proposition like this:

Identify the function orientation of different kinds of public cultural institutions and establish the corporate governance structure, as well as improve the performance evaluation mechanism. Promote public libraries, museums, cultural centers, science and technology museum, etc. to set up a council. Absorb the representatives from different fields, professionals and people from all walks to participate in the governance process. (Xi, 2013)

It is an important move to propel the innovation of systems and mechanism of non-profit cultural undertakings in China. It also meets the need to promote the modernization of national governance systems and governance capacity.

Public cultural institutions are part of public institutions in China. The government would offer financial funds to support their operation. The financial funds would cover all the expenditure. The corporate governance structure of public cultural institutions refers to the institutions that provide public service, including a public library, cultural centers, museums, with the aim of fulfilling the service mission, make stakeholders participate in joint governance. Thus, form a new organization structure and operation mechanism (Li, 2014). Building corporate governance mode has become a new exploration and attempt to management system reform in public cultural institutions in the new period. The specific approach is the government departments in charge delegate authority and establish council. Thus, separate the authority of decision-making and control of the authority of management in public cultural institutions. Within the public cultural institutions, by clarifying the relationship of rights and obligations among various stakeholders, form a mutual

support and mutual restriction relation between the council and administration layer. In addition, attain effective balance between decision-making, execution and supervision. Establishing the corporate governance structure in public cultural institutions, and make it operate independently has important practical significance. It is beneficial to realize their self-development, self-discipline and self-management. By establishing and perfecting the balanced governance structure and scientific decision-making mechanism, promote the effective use of fiscal funds. And to achieve the maximization of social benefits with the minimum costs, as well as meet the needs of public cultural services from the masses

## **1. THE MAIN ISSUES EXIST IN THE FIELD OF CORPORATE GOVERNANCE OF PUBLIC CULTURAL INSTITUTIONS**

Establishing corporate governance structure is the main content of propelling the reform of corporate governance in public cultural institutions. In recent years, some provincial and municipal public cultural institutions, especially many public libraries, have already started the pilot work for the corporate governance. They achieved some progress, but there are still some issues need to figure out. More details will be given as follows.

### **1.1 Lack Proper Awareness of Corporate Governance**

When it comes to the initiative that establishing corporate governance structure within public cultural institutions, different people hold different ideas. Firstly, some people think that corporate governance of public cultural institutions is to copy company corporate governance and tries to follow foreign mode. It is not suitable for Chinese public cultural institutions. Secondly, some people don't fully understand the reasons and purposes to set up a corporate governance structure. They think adding a council layer is not helpful to enhance working efficiency. Thirdly, some institutions which have already conducted pilot work also don't have proper awareness of corporate governance. They are not clear from the property and orientation of the council. Culture departments in charge are unwilling to delegate power to public cultural institutions out of their own interests. They are afraid to lose their influence on public cultural institutions. Also, they don't want to involve the affairs related to deep interests (Jiang, 2014).

### **1.2 The Principal Parts of Corporate Governance Have Unclear Responsibilities**

In the corporate governance structure, the council should be a kind of quasi autonomous institutions between the government and public cultural institutions. The relationship between government and council shouldn't be leading and being led. The government should undertake

the functions of policy guiding, funding constraints, and behavior supervision. The government cannot intervene directly in the council decision (Wu, 2014). Under the current governance structure of public cultural institutions, the governments are still the principal part of the governance of public cultural institutions. Combined with the reality that correlative laws of public culture are distempered, the autonomy of public cultural institutions is serious deficient. Although some public cultural institutions in China (e.g., public library) have already set up a council, governments still controls most of the affairs, such as appoint the council director directly, control and supervise the expenditure strictly, requires them to report to the upper leader through one level after another. The council fails to play its effective and become a consultancy or expert committee of the government.

### **1.3 Lack Motivation to Conduct Corporate Governance Reform**

Public cultural institutions belong to government-affiliated institutions. They empower public cultural institutions to govern the main work. Governments have the ownership of these public cultural institutions. The essence of corporate governance structure reform is the innovation of system and mechanism. It requires both the government departments and public cultural institutions change their roles. The relationship between governments and managers from public cultural institutions should be changed. For the previous management layer, establishing corporate governance structure means a kind of major change. Before this, superior departments appoint or dismiss the leader of the management layer directly. In the meantime, the management layer would formulate development plans and decide significant affairs according to administrative instruction. The decision-making and implementation are controlled by the same people. After establishing corporate governance structure, council will undertake the main decision-making function. The status of management layer will be changed. Along with the establishment of corporate governance structure, the executive layer is not familiar with their new identity. Meanwhile, they are concerned about the changes that brought over from the new system, such as personnel system, salary distribution and social security mechanism. Both the management layer and executive layer are worried about their future. Thus, they are lack of the motivation to conduct the corporate governance structure reform, and they can't make up their mind and build confidence to make contribution to this reform.

### **1.4 The Performance Evaluation Criteria of Corporate Governance Is Vague**

For now, there is only a grade evaluation of public cultural institutions every four years, which is held by the ministry of culture. The culture department also evaluates

their work on the basis of basic standard provided by the ministry of culture. Corporate governance structure has been established in many pilot organizations, but most of the organizations haven't organized any assessment and evaluation work. And they did not consider this problem carefully at the beginning of making plans. Compared with companies, measuring the performance of culture institution is much difficult. The performance of enterprises can be measured by some specific indicators, like calculating the profits. However, the public culture products and services are intangible, which makes it hard to measure using specific indicators. The public cultural institutions exceedingly rely on financial allocation, and they can get the financial support from culture departments all the time regardless of their performance. Under the current personnel management system, the performance evaluation results of public cultural institutions are not clearly linked to the personnel promotion and salary raise.

## 2. THE CAUSE ANALYSIS OF CORPORATE GOVERNANCE PROBLEMS IN PUBLIC CULTURAL INSTITUTIONS

In order to deal with the main issues existing in the reform of corporate governance in public cultural institutions, analyzing the causes deeply is necessary. Only in this way, can we grasp the nature of the problems, understand their evolution and come up with corresponding measures.

### 2.1 Lack Law Support

By summarizing the experience of foreign public cultural institutions, a consensus will be formed, namely that a sound legal system is an essential guarantee to promote corporate governance. For instance, in the field of public libraries, the United States, Britain, Canada and Japan are more developed and have their own special laws and regulations. However, the first specialized law in public libraries in China, *Public Library Law of the People's Republic of China* (draft law), is still in the stage of review and asks for advice in the State Council. It isn't formally introduced. The *Guarantee Law on Public Cultural Service* is also still at the stage of deliberations. Some existing local regulations are not mature either. Since that the corporate governance structure hasn't form stereotypes in the current pilot process, so the revision work of local laws regulations hasn't been triggered. The relationships between the government, councils and management layers fail to be straightened by explicit provisions. Besides, the boundaries of decision-making, execution and supervision can't be made clearly. The corporate governance structure in public cultural institutions doesn't receive compulsory legal protection (Xiao, 2014). For example, the Shenzhen

municipal library establishes their corporate governance structure based on the notice on *the Seven Special Reform Schemes of the Innovation of System Change in Public Institution*, which is introduced by Shenzhen municipal party committee and municipal government office. In this notice, they didn't presuppose detailed regulation of the corporate governance structure and the council system (Zhang, 2009). Due to the absence of relevant laws, the public cultural institutions don't have a scientific standard to guide their planning and construction of corporate governance, appearing a disorderly state.

### 2.2 Lack Policy Security

Corporate governance construction involves many aspects, and it requires the support from top system design and supporting policies. However, the existing policies are quite insufficient. In March 2011, the *Directive Opinion of the CPC Central Committee and State Council on carrying out reform of public institutions based on their classification* was published. According to this Directive Opinion, improve corporate governance structure is the main content of the reform of public service institutions. *The Opinion of the General Office of the State Council on establishing and improving the corporate governance structure of public institutions* was issued in the same year. There is elaborated introduction on the relevant issues in the process of establishing the corporate governance structure of the institutions, including the basic principles, general requirements, main contents, organization and implementation, etc.. In 2013, the Third Plenary Session of the 18<sup>th</sup> CPC Central Committee adopted *Decision of the CPC Central Committee on major issues concerning comprehensively deepening reform*. This decision puts forward a proposition like this: "Identify the function orientation of different kinds of public cultural institutions and establish the corporate governance structure"; "promote public libraries, museums, cultural centers, science and technology museum, etc. to set up a council". All these policies have a macro and whole perspective, emphasizing the importance and necessity of setting corporate governance structure in public cultural institutions. Some specific and feasible public policies are absent. And different public policies lack compact relation.

### 2.3 Lack Support System

To establish corporate governance structure in public cultural institutions are in regard to many in-depth reforms, including the reforms of management system, personnel system and financial system. The reality is that support systems for corporate governance structure link up insufficiently. The associated personnel, finance and other relevant supporting policies haven't been introduced for a long time. Cultural institutions lack effective operation mechanism and supervision management. In order to offer guide and reference for public cultural institutions,

the regulation construction should be promoted, including annual report system, information disclosure system, financial audit system, performance evaluation system, social supervision system, party organization construction system, etc. However, the basic systems that support the administration and operation of public cultural institutions are still lag behind the reality needs. For example, what reports in the annual report? What discloses in the information disclosure system? If the staffs don't report or disclose, what's the possible results? All of these problems are lack of clear regulations and standards.

#### **2.4 Lack Operating Mechanism**

Implement corporate governance in public cultural institutions doesn't merely equal to add a new organization level namely the council. Clarify the relationship between the council, management layer and executive layer is more important. Sophisticated operating mechanism is an important underpinning for promoting the corporate governance of public cultural institutions. Summary the current pilot work in China, we can find that the responsibility and authority among different principal parts are not very clear, as well as the specific operation rules. How to conduct decentralization and delegation of authorities between decision-making layer and management layer lacks reliable criterion. Also, lack the governance mechanism which adapts to the features and requirements of public cultural institutions. Perfect internal governance mechanism and external governance mechanism hasn't been established. Within the public cultural institutions, different defects exist in recruitment mechanism, decision-making mechanism, incentive mechanism and supervision mechanism. The external information disclosure mechanism, performance evaluation mechanism and social supervision mechanism also need to be improved. Otherwise, it can not provide a strong external rigid constraint for the corporate governance of public cultural institutions.

### **3. THE COUNTERMEASURES TO IMPROVE THE CORPORATE GOVERNANCE OF PUBLIC CULTURAL INSTITUTIONS IN CHINA**

Establish and improve the corporate governance structure of public cultural institutions is a significant reform of the governance system and operation mechanism of public cultural institutions, involving legal system, organizational structure, division of responsibilities, operating rules and so on. In the previous parts, we already conclude the existing issues and analyze the causes. In this part, we would draw favorable experience from other public cultural institutions in foreign countries. On this basis,

gradually boost the reform of corporate governance of public cultural institutions in China.

#### **3.1 Deepen the Understanding of the Importance of Corporate Governance and Confirm the Scientific Orientation of Corporate Governance**

Confirm the scientific orientation of corporate governance and clarify the relevant key issues is the basic premise for promoting the corporate governance construction in public cultural institutions. First of all, the purpose of implementing corporate governance is to truly achieve the separation between the administration authority and ownership. The governance subjects should shift from governments to council. As a result, the public cultural institutions can exercise their functions as an independent corporation. At the same time, the governments undertake their safeguard role in this process. Secondly, avoid automatically copy company corporate governance mode. Although they two have commons in governance concept and institutional arrangement, as well as are similar in the basic structure of corporate governance, decision-making mechanism, implementation mechanism and supervision mechanism, they are quite different in the wanted interests and governance functions. Public cultural institutions are pursuing the maximization of public services. Their behaviors reflect the common governance from all the stakeholders. However, company corporate governance is in pursuit of the maximization of enterprise property, as well as manifests their ownership. Thirdly, establish corporate governance structure doesn't simply equal set up a council. The relationship between council, supervision committee and administration layer should be clarified. To make sure that decision-making authority is operating scientifically, the execution authority coordinates with each other and the supervision authority is effective (Li, 2013).

#### **3.2 Strengthen Laws Construction and Improve Legal and Policy Systems**

To promote the smooth operation of the corporate governance structure of public cultural institutions, the relevant laws and regulations should be made and issued, especially in the field of corporation status, rights and obligations, and supervision and management of public cultural institutions. In view of the China's legal construction of cultural system is lagging behind the reality needs. They should rely more on legal means rather than administrative means. Strengthen the legal construction becomes very important. Therefore, promote the *Public Culture Service Security Act* and *Public Library Law* which are under legislation issued as soon as possible. In addition, the relevant public policies are in great need of formation. Some studies need to be conducted to set standards for corporate governance in public cultural institutions. These standards should provide guidance for public cultural institutions to establish and perfect the corporate governance structure.

These standards should make specific regulations on the composition of council and administration layer, duties and authorities of administration layer, the formation approach of council and administration layer and their interrelations and so on.

### 3.3 Deepen the System Reform and Realize the Standardization of Governance and Operation

Improving the relevant system is the important guarantee for the good operation of corporate governance structure. Therefore, establishing and improving the rules and regulations to promote the council to exercise their functions in a democratic, open and efficient manner. Different types of public cultural institutions should establish their own council's articles of association. Meanwhile, regulate the issue of council members' composition approach, council's corresponding responsibilities and authorities and the rules of procedure. In addition, consider and design the relevant supporting systems, such as annual report system, information disclosure system, performance evaluation system and audit supervision system, etc.. Further deepen the reform of personnel system, wage system and social security system within public cultural institutions, making them indeed adapt to the requirement of establishing corporate governance. At the same time, establish an effective internal and external supervision mechanism and urge public cultural institutions to obey conduct rules and follow service standards. Further improve the information disclosure system, as well as refine the announcement system concerning major social and public affairs. Make public cultural institutions accept social supervision actively and improve the transparency of their work.

### 3.4 Build Scientific and Reasonable Evaluation Mechanism and Stimulate the Development Vigor of Corporate Governance

To establish and improve the corporate governance structure is a systematic work. It requires the government to delegate power and grant the public cultural institutions more specific administrative authority. Thus, the public cultural institutions are able to manage the micro operational affairs independently. Also, the macro management of public cultural institutions should be strengthened. Pay more attention to performance management and target assessment, as well as improve the quality and efficiency of public culture service constantly to ensure the realization of citizens' cultural interests and rights (Qi, 2013). Therefore, it is urgent to develop a set of performance evaluation criteria for public cultural institutions, and gradually establish a comprehensive index system combining quantitative and qualitative analysis. Give a comprehensive assessment on service efficiency, financial condition and the realization of the purpose of public welfare. Regard the evaluation results as the important references to

a series work, such as select council members, make budgets, appoint and dismiss managers, as well as adjust personnel structure. Make the value of the council is recognized from top to bottom within the public cultural institutions. Execute the decision made by council and coordinate with the council consciously. By putting the autonomy into practice to activate public cultural institutions and motive staffs initiatives. Thus, the public cultural institutions would make every effort to provide more and better cultural products and services to the public.

Shifting existing governance structure to the corporate governance structure in public cultural institutions is a kind of changes and reforms of system. It is a difficult, complex and long-term work. By establishing the corporate governance structure, the independent corporation status of public cultural institutions will be confirmed. The interrelation between the government, council and administration layer and execution layer will also be recognized, especially in the authority and duty, plus the relationship of interest distribution and mutual balance. Ensure the public cultural institutions in China conduct their work in accordance with normative systems and operational mechanisms, improving the public service ability and public service level of public cultural institutions.

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