An Analysis of the Path of the Reform of Mixed Ownership in State-owned Enterprises

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Abstract: The report of the 19th National Congress pointed out that it is necessary to develop a mixed ownership economy and cultivate world-class enterprises. This paper analyzes the history, background and significance of the reform of state-owned enterprise mixed system with the aim of exploring the path of mixed ownership reform of state-owned enterprises. Based on the analysis of the existing problems, some suggestions are proposed.

1. Introduction

Since the reform and opening up, China's economy and science and technology have made great progress. The development of social productivity has brought about technological innovation, and state-owned enterprises are also facing the challenges brought by change. At this stage, in order to better support the development of other related industries, state-owned enterprises must assume greater responsibilities, and should have more efficient production and operation modes and more complete production and operation concepts. The history of China's state-owned enterprise reform can be traced back to 1978. The implementation of reform and opening up brought the idea of mixed ownership. The party's 15th National Congress officially promoted the concept of mixed ownership on the theoretical level. In this period, the concept of a mixed-ownership economy that actively develops non-public capital, collective capital, and state-owned capital is proposed. In 2014 and 2015, Premier Li Keqiang emphasized the importance of the reform of state-owned enterprise mixed ownership in the "Government Work Report". The purpose is to enable state-owned enterprises to develop faster and better under the new situation, so that China's economic level can be further improve.

In 2013, the "Decision" of the Third Plenary Session of the 18th CPC Central Committee proposed "actively developing a mixed-ownership economy." The 2017 report of the 19th Party Congress pointed out that it is necessary to deepen the reform of state-owned enterprises, develop a mixed-ownership economy, and foster a world with global competitiveness. After the pilot system of mixed ownership of state-owned enterprises such as China Unicom, the reform of mixed ownership has entered the actual operation stage. The reform of mixed ownership is an important breakthrough for the reform of state-owned enterprises. The purpose of the reform of state-owned enterprises in mixed ownership is to improve the performance of state-owned enterprises. Under the new situation, state-owned enterprises should actively deepen reforms and promote the development of mixed ownership. Only in this way can they occupy a place in the new market competition.

The following chart illustrates the course of mixed system reform of state-owned enterprises in China with the example of mixed system reform of Unicom.
2. Overview of the reform of mixed ownership of state-owned enterprises

2.1 Scientific connotation

The mixed ownership economy has been developing for 25 years in the long history. As a relatively new type of ownership, mixed ownership is a product that conforms to China's economic development trend and has certain historical inevitability. A mixed-ownership economy refers to an economy that has both market regulation and government interference. In a sense, it is a mixture of a completely free economy and a planned economy. It is characterized by a market economy and regulates the overall process of social production through a price mechanism. Combined with the current economic form in China, it can be understood that mixed ownership is a mixture of public and non-public ownership, with the characteristics of two ownership systems and integration. On this basis, the adjustment of the mixed ownership economy also presents a pluralistic and integrated form, which includes the planned economy and the market economy. The two adjustment methods cooperate to promote economic development. With the continuous deepening of the reform of state-owned enterprises, the development of China's mixed ownership economy has made great progress in these years.

In the narrow sense, the mixed ownership economy can be understood as a certain degree of integration of the original state-owned economy and the collective economy, so that they can promote each other and complement each other. Mixed ownership is characterized by diversity, openness, compatibility and transition, and is well adapted to the economic development under the new situation, which also determines that it will play an important role in the future economic system. First, the diversification of a mixed-ownership economy means that this form of economics applies not only to the state-owned economy and the collective economy, but also to the private economy and the foreign economy. Its openness enables it to better adapt to the trend of large-scale production in today's society, thus continuously injecting new vitality into the country's economic development. Secondly, the characteristics of compatibility allow mixed ownership to protect the interests of different levels of society and owners of different economic components to the greatest extent, so that the property of owners of different economic components can be protected and the individual's production enthusiasm can be fully mobilized. Finally, the transitional nature of mixed ownership has enabled it to generate new economic systems in the existing economy and to adapt to new situations.
2.2 Significance
At present, state-owned enterprises still play a leading role in China's economic development. The reform of state-owned enterprises in mixed ownership is conducive to the realization of cross-shareholding and mutual integration of all types of capital, thereby promoting state-owned enterprises to improve corporate governance structure and improve the efficiency of state-owned capital investment and operations. It is of great significance to carry out the reform of mixed ownership of state-owned enterprises. First of all, the reform of state-owned enterprise mixed ownership is a necessary means to integrate the advantages of state-owned capital and private capital. It can give full play to the comprehensive advantages of state-owned enterprises' brands, talents, technology, capital, and policies, and further generate the endogenous driving force for enterprise development. Secondly, the reform of state-owned enterprise mixed ownership is an effective way to introduce social capital and amplify the function of state-owned capital. On the one hand, it can drive a large amount of social capital into state-owned enterprises and promote social capital to achieve common development; on the other hand, it can increase state-owned capital. We will invest in areas of priority development and fulfill the strategic mission of state-owned capital to serve social and economic development. Finally, the reform of state-owned enterprise mixed ownership is a feasible way to realize the shared fate of private capital and state-owned capital. Mixed ownership can make the state-owned economy and the private economy integrate at a deep level. In the mixed-reform enterprises, state-owned capital and private capital are an organic whole, fully realizing the rise and fall of state-owned capital and private capital.

| Project                     | Number of enterprises | Growth rate of main business (%) | Growth Rate of Lost Enterprises (%) | Gross loss growth rate (%) |
|-----------------------------|----------------------|---------------------------------|------------------------------------|---------------------------|
| Total number of industrial enterprises | 372698               | 7                               | 12.2                               | 23.8                      |
Total number of state-owned industrial enterprises | 4536 | 10 | 18.6 | 43.6
---|---|---|---|---
State-owned holding Industrial Enterprises | 23018 | 2 | 8.1 | 23.6
Collective Enterprises | 4522 | 5 | 11.8 | 29.7
Joint-stock Industrial Enterprises | 23689 | 3.9 | 14.6 | 26

Figure 3. The Nature and Growth of State-owned Enterprises in 2017

3. Corporate governance and related research
Corporate governance is the foundation of the modern enterprise system. Understanding the meaning of corporate governance is the cornerstone of exploring the corporate governance model of mixed ownership. At present, there is no consistent definition of corporate governance at home and abroad. From a theoretical point of view, the current mainstream views include: from the perspective of organizational structure, the corporate governance structure is composed of the owner, the board of directors and the manager. The three organizations have a triangular relationship in the organizational structure, forming a kind of mutual Check and balance. From the perspective of institutional economics, ownership, control and residual claims are the core content of corporate governance. Corporate governance is the arrangement of the company's control and residual claims. In practice, many scholars pay attention to corporate governance and internal control of enterprises, perfecting independent director system and equity structure.

For the state-owned enterprises after the mixed reform, how to build the governance system, and in what direction, it also directly determines the effectiveness of the state-owned enterprises. Corporate Governance For mixed-ownership enterprises, especially for state-owned enterprises with mixed ownership, good corporate governance can attract private capital to participate in the reform of state-owned enterprise mixed ownership. Good corporate governance system can make mixed ownership enterprises establish modern Enterprise system. What kind of governance is more suitable for corporate governance of mixed ownership in China, Zhang Wenkui has established a SOCRE framework including equity structure, agreement between shareholders and government, executive position allocation, government regulation and employment relationship. Qiao Huibo believes that it should be analyzed and constructed from four perspectives: shareholder development goals, shareholding structure, board operation mechanism and external governance environment. Liu Jiejiao believes that the central-level governance model of the board of directors is more suitable for the development of mixed-ownership enterprises in China at present than the central government-type and manager-centered governance models.
In the 1990s, scholars began to pay attention to the combination of party organization leadership and modern corporate governance in state-owned enterprises. Lu Changchong’s key issue in the reform of state-owned enterprises is to deal with the relationship between the shareholders’ meeting, the board of directors, the board of supervisors, the workers’ congress, the party committee, and the trade unions, and to clarify the position of the party committee in the corporate governance structure. There are still many scholars who explore the influence of state-owned party organizations’ participation in corporate governance from an empirical perspective. Ma Lianfu found that there is a "U" relationship between the degree of entry of the party organization and the level of corporate governance. Wang Yuanfang believes that party and government unity can help solve the problem of insider control. Chen Shihua and others believe that the participation of party organizations in corporate governance can help to suppress the loss of state-owned assets. Cheng Bo pointed out that the participation of party organizations in corporate governance can effectively curb the "short-selling" behavior of major shareholders. Chen Hong and others found that the participation of party organizations in corporate governance can inhibit the expansion of the executive-employee pay gap. From the macro-level perspective, it is generally believed that party organization participation is not necessarily conducive to corporate governance, or there are checks and balances. Generally speaking, the academic circles used to analyze the corporate governance model of mixed ownership enterprises have their own merits. They also have mixed opinions on the issue of party organizations participating in corporate governance.

4. Problems in the reform
At this stage, the reform of state-owned enterprises in China has not yet been completed, and there are still many problems that hinder the reform. Specifically, there are the following problems.

4.1 Mixed companies face the problem of financing difficulties.
Some large state-owned enterprises have long-term technological monopoly, and many mixed-ownership enterprises may face difficulties in financing due to high thresholds such as technology and management. After the mixed reform of state-owned enterprises, there may still be widespread irrational ownership structure and the phenomenon that state-owned shares are “one big share”. At the same time, mixed ownership reform may result in unreasonable property rights structure, loss of state-owned assets, mistakes in decision-making integration, and failure of mixed ownership.
4.2 The ownership and protection system of property rights is not perfect.
Diversification of property rights is the core of the mixed reform of state-owned enterprises. China's state-owned enterprises are completely occupied by the state for a long time, the state has the control of the enterprise, and the will of the government determines the development direction and production mode of the enterprise. From the perspective of the state to control the enterprise, it will ignore the self-interest of the enterprise. At the same time, due to the absence of the owner of the state-owned enterprise, the equity is prone to monopoly. This has led some insiders to use their powers to seek personal gain, to make the will of insiders become the will of the enterprise, to break away from the control of the economic system and endanger the national economy. For example, in 2014, Gree Electric Appliances carried out the problems caused by the mixed reform.

4.3 Ineffective management level.
Mainly reflected in the "three sessions" between the board of directors, the board of supervisors and the shareholders' meeting. The management mode of the "three sessions" has completed a reasonable division of labor to a certain extent. However, in the actual enterprise management process, the cooperation between the three is still there is a problem. First of all, the authority of most boards of directors is directly designated by government agencies or countries. Without the market, it is impossible to grasp the market dynamics in the first place. Secondly, the board of supervisors does not have the power to make decisions. Therefore, in the course of business operations, the power of the board of supervisors is actually limited, and it does not play the role of supervising the rest of the "two sessions."

4.4 Lack of incentives and constraints.
At this stage, most of the decision-making power of state-owned enterprises is still in the hands of the government. The progress of ownership reform is not matched with the upgrading of high-level enterprises. A considerable part of the inflow of private capital will drastically dilute equity. Still following the management model of the past, the evaluation of the contribution of managers is not objective, which largely dispels the enthusiasm of the individual and cannot form an effective incentive mechanism.

5. Analysis of the path of mixed ownership reform in state-owned enterprises
In the process of mixed reform, state-owned enterprises should focus on “four adherences”. First, adhere to the leadership of the party and give play to the leading role of the party committee in the reform of mixed ownership. Second, adhere to the development orientation and adhere to the combination of promoting the reform of mixed ownership and promoting the transformation and development of enterprises. The third is to adhere to the bottom line thinking, comprehensively analyze the risk factors that may exist in the mixed reform and make a good response plan to ensure the rights and interests of employees. Fourth, adhere to the steady advancement, adhere to one enterprise and one policy, first easy and then difficult, mature one to advance one, and complete the mixed reform work in a solid and orderly manner.

5.1 Adhere to flexible management.
To strengthen the role of the government in the development of mixed ownership, we should flexibly grasp the strength of the market and the government in the process of reform and development, and resolutely prevent state-owned enterprises caused by inadequate supervision or reform of governance mechanisms. Loss of assets. For the next step of the reform of state-owned enterprises, we can promote mixed reforms in local state-owned enterprises, formulate some reform strategies suitable for local state-owned enterprises, and realize comprehensive state-owned enterprise reforms. From the perspective of non-public enterprises, we can try to inject state-owned capital into private capital and introduce relevant policies to promote the common development of non-state-owned enterprises.
5.2 Create an optimized reform environment. The government should further decentralize and divest its administrative functions from enterprises, so that the role of the market's main business operators can be fully utilized. In the process of high quality development, the government should strengthen service and protection and emphasize the decisive role of the market in resource allocation. It is necessary to clarify the positioning of the state-owned enterprise mixed ownership reform, clarify that it is not to undertake a single function, but also to undertake social and economic functions, not only to pursue benefits, but also to achieve social functions.

5.3 Standardize corporate governance structure and achieve equity diversification through multiple channels. The mixed ownership of state-owned enterprises can also introduce a small number of strategic investors through private placement, forming a market-oriented management management and board decision-making mechanism to avoid “one big share”. It is necessary to introduce external forces to improve the governance structure and create an environment in which state-owned shareholders and small and medium-sized shareholders exercise equal rights and achieve a win-win situation. State-owned enterprises can be the largest shareholder, but it is best not to have absolute control to improve the decision-making and operational efficiency of state-owned enterprises. It is necessary to explore the establishment of market-based incentive and restraint mechanisms, formulate implementation rules for fault-tolerant and error-correction mechanisms, and protect the enthusiasm, initiative, and creativity of local and departmental promotion of mixed reform.

5.4 The concept of inequality between state-owned and non-state-owned capital is to be changed. It is necessary to establish the idea that the state-owned assets and non-state-owned assets are equal, reduce the threshold for entry, and ensure the smooth progress of the reform work. We should follow the principle of mutual benefit and voluntariness, establish an equal mindset, and allow non-state-owned economies to enter or withdraw from state-owned enterprises by virtue of their own interests and market needs. It is necessary to give full play to the characteristics of the non-state-owned economy, use its flexibility and market adaptability to help state-owned enterprises to integrate with the market, continuously expand the scale of state-owned enterprises, and improve the innovation capacity of state-owned enterprises.

5.5 Promote the reform of the management system of state-owned enterprises. To promote the two-way mixed development of state-owned enterprises, state-owned enterprises should actively introduce non-public ownership of the economy, and non-public enterprises should also allow state-owned enterprises to participate in shares. In response to the problems in the development of two-way hybrid development, the government should do a good job in propaganda work, liberate people's ideas at the root cause, give full play to their advantages, and jointly contribute to China's economic construction. In the management of state-owned enterprises, corresponding reforms should be carried out. It is necessary to reform the management system, actively integrate with the market, determine the management mechanism by feedback of market benefits, and gradually dilute the government functions of state-owned enterprises.

5.6 Mobilize social forces to participate actively. It is necessary to fully mobilize the enthusiasm of the people and encourage people to bring capital and technology into the reform of state-owned enterprises. For enterprises, it is possible to absorb the public funds as a capital for the transformation of state-owned enterprises by reforming the shareholding system. For zombie enterprises, the government should optimize the financial aid system and allocate some funds to buffer the social impact caused by the collapse of “zombie enterprises”, and also do relevant propaganda and guidance work to solve psychological problems from the root of ideas.
6. Conclusion
The current reform of state-owned enterprise mixed ownership has urgency and complexity, and China's reform has entered the “deep water zone”. China's state-owned enterprise mixed ownership reform is still in the development period. The development of science and technology today makes state-owned enterprises face challenges again. Under the new situation, the reform of state-owned enterprises should be promoted. State-owned enterprises should emancipate their minds, according to the regulatory environment, the current development of enterprises, and strategic planning. As well as the wishes of shareholders and the expectations of the incentive targets, we will integrate non-public enterprises, learn from each other's strengths, and make unremitting efforts to promote China's economic construction.

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