Dilemmas and Optimisation Countermeasures of Mixed Ownership Reform of Local State-owned Enterprises

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Abstract: In recent years, local governments have been actively promoting the reform of mixed ownership in local state-owned enterprises. This requires seizing opportunities and taking the initiative to change, allowing state-owned enterprises that encounter difficulties in transformation and upgrading and development bottlenecks to regain vitality, achieve self-transcendence, and promote socio-economic development. This paper focuses on the reform of mixed ownership in local state-owned enterprises, analyzes the difficulties faced by the reform of mixed ownership in local state-owned enterprises, and proposes corresponding optimization strategies, with a view to providing reference for similar research.

Keywords: Local State-Owned Enterprises; Reform of State-Owned Enterprises; Mixed Ownership; Difficulties and Strategies.

1. Introduction

As an important part of our national economy, local state-owned enterprises are also a strong support for the leading industries of the local economy. These enterprises are directly regulated and managed by the state, and play an important value and role in promoting local economic construction and social progress. Under the social background of deepening reform of China's economic system, local state-owned enterprises need to adjust and optimise their economic system according to the operating rules of the whole market. Mixed ownership mode is regarded as the key development path of China's state-owned enterprise reform. This reform mode can effectively make up for the shortcomings of traditional state-owned enterprises in the economic model. In order to further deepen the mixed ownership reform of local state-owned enterprises, state-owned enterprises need to put forward targeted measures to solve the dilemmas and problems faced at the current stage.

2. Difficulties Faced by the Mixed Ownership Reform of Local SOEs

Irrational ownership structure

In the process of implementing mixed ownership reform in local state-owned enterprises, there exists a situation where state-owned shares have 'a dominant position yet absent owners' [1]. State-owned shareholders have absolute control over the enterprise, but fail to effectively exercise the responsibilities and rights of ownership, leading to the easy occurrence of insider control phenomena in local state-owned enterprises. This phenomenon refers to the situation where internal management or related parties control shares to pursue private interests. At the same time, insider control brings moral risks and conflicts of interest [1]. Insiders may abuse power, diverting enterprise resources for personal gain rather than creating value for the enterprise and shareholders. They may obtain personal benefits through malicious manipulation of financial statements or inflating performance, thereby harming the interests of the enterprise and other shareholders. Some local state-owned enterprises' approaches to mixed ownership reform merely involve restructuring or investing in new projects, clearing out one batch and establishing another, engaging in a 'shifting but unchanged' pattern, or indirectly issuing debt through financing platforms to pay off old debts, without fundamentally improving the enterprise's ownership structure and corporate governance structure, remaining stuck in the past mode of 'land, money, and personnel enclosure.' Additionally, under the dominance of state capital, there has not been sufficient classification management or differentiated mixed ownership reform measures according to different circumstances. Currently, the main tendency is to implement mixed ownership reform at the project or subsidiary level, while maintaining state-owned sole controlling positions at the main business or group company level, resulting in unresolved problems of unreasonable corporate ownership structure and governance structure defects.

Insufficient incentives for parties to participate in mixed reform

Due to the insufficient supply of systems and conflicting policies, the supporting policies for the mixed reform of local state-owned enterprises are imperfect, especially the lack of a clear supporting policy support system for the risks and liabilities that may be faced in promoting the reform, which to a certain extent reduces the motivation of the parties to the mixed reform to promote the mixed reform work [2].

Firstly, the path of mixed reform and operational rules are not clear. Although the central government and local governments at all levels have issued a number of mixed reform policies, but only at the macro level requirements of mixed reform, supporting documents are not coordinated, the lack of implementability. The path of mixing and reform is not clear, and many local State-owned enterprises have no path to follow in the process of mixing and reform, often needing to feel their way across the river, affecting the orderly progress of mixing and reform work.

Secondly, the parties to the mixed reform do not know enough about the mixed reform, and the reform momentum is insufficient. Some local state-owned enterprises and corporate executives are not fully prepared for the ideological preparation, the lack of mixed reform of the clear objectives, the spirit of innovation and reform momentum is not enough, insufficient understanding of mixed reform. Even some state-
owned enterprises think that mixed reform is not necessary, they have enough resource advantages, to maintain the status quo is the best choice, hold a conservative wait-and-see attitude. Although many state-owned enterprises have participated in the mixed reform team, but mixed reform often stays in the capital mix of the "shape mix" level, the mechanism of reform level of the "God mix" is not in place, the group level of the mixing of the degree and strength of the obvious insufficient [3]. The prevalence of one share of state-owned equity, the low status of private capital and the insufficient ability to participate in decision-making have led to insufficient incentives for private capital participation.

Thirdly, local mixed enterprises have not yet established a truly modern corporate governance system, and still generally use administrative management methods. At present, many local mixed-reform enterprises are basically "old wine in new bottles", operating according to the old mechanism and the old way, which has dampened the enthusiasm and initiative of the executives of SOEs to promote reform. Because there are many risks and uncertainties in the process of mixing and reforming enterprises themselves, managers need to invest a lot of energy in mixing capital and attracting investors outside their own work, but the effect of mixing and reforming is unsatisfactory, and due to the lack of fault-tolerance mechanism, the process of mixing and reforming the staff layoffs and diversion, loss of state-owned assets and other issues may lead to the accountability of the managers.

Difficulty in adjusting employee stock ownership plans

The difficulty in adjusting the employee equity distribution plan in the mixed ownership reform of local state-owned enterprises is a complex and challenging issue. This issue involves multiple aspects such as policy, economy, society, and management, and requires comprehensive consideration and analysis.

Firstly, the mixed ownership reform of local state-owned enterprises is one of the important contents of China's economic system reform, aiming to enhance the competitiveness and efficiency of state-owned enterprises by introducing private capital and market mechanisms. In this reform process, the employee equity distribution plan is a key link, which involves many aspects such as employee interests, corporate governance, incentive mechanisms, etc.

Secondly, the adjustment of the employee equity distribution plan involves the coordination of multiple interests. On the one hand, as important stakeholders of the enterprise, employees should have their rights protected, but on the other hand, the operation and development of the enterprise also need to consider market competition and economic benefits. Therefore, finding a balance between employees, businesses, and government is a challenging issue.

In addition, the adjustment of the employee equity distribution plan also involves multiple constraints such as laws and regulations, financial taxation, etc. Under the legal framework in China, the design and adjustment of employee equity incentives need to comply with relevant laws and regulations, while also taking into account factors such as tax policies.

Difficulty in implementing local policies

In the process of mixed ownership reform, some state-owned enterprises have a lack of in-depth and inadequate understanding of mixed ownership reform policies. They simply understand mixed ownership reform as a financing behavior of state-owned enterprises. Some "mix ownership reform for the sake of mixed ownership reform", while others remain at the level of "mixed capital", wearing new shoes and following the old path, which goes against the essential requirements of mixed ownership reform. Many enterprises and their leaders only regard mixed ownership reform as mixed capital, without reforming the system and mechanism, treating mixed ownership reform as a general investment and financing behavior, and ignoring the reform behavior of mixed ownership reform. It is not difficult to understand the unsatisfactory effect of mixed ownership reform.

Currently, the vast majority of mixed and ongoing enterprises have only completed one or two tasks related to mixed ownership reform, while neglecting that mixed ownership reform is a systematic project. Missing one task can greatly reduce the overall effectiveness of mixed ownership reform, while missing two tasks may lead to unsatisfactory results, even worse mixed ownership reform.

Meanwhile, the imbalance in the process of mixed ownership reform is also a significant issue, as there are differences in the intensity, progress, and effectiveness of mixed ownership reform due to regional and industry differences. Some places and industries have achieved good results in mixed ownership reform, but there are also some places and industries where mixed ownership reform has not been effective, leading to problems. The main reasons for the difficulty in implementing local policies are as follows:

1. Unclear policies have affected some state-owned enterprise mixed ownership reform projects due to the uncertainty of the policy environment. Policy adjustments and changes may prevent the originally feasible mixed ownership reform plan from continuing, leading to difficulties for the project.

2. The lack of capital and the search for suitable mixed ownership reform capital have always been a challenge faced by state-owned enterprises in mixed ownership reform. There may be disagreements between the capital and state-owned enterprises regarding their interests, industry positioning, and other aspects, leading to a deadlock in negotiations.

3. The changes in the market environment and economic situation, as well as the intensity of industry competition, will have an impact on the mixed ownership reform of state-owned enterprises. If the market environment is unfavorable, the mixed ownership reform process of state-owned enterprises may face setbacks.

High burden of historical legacy

High-quality development is the overall requirement and standard for future socio-economic development. In the context of high-quality development, the requirements for economic development have gradually changed from the simple pursuit of quantity and growth rate to the pursuit of quality and efficiency. As one of the policies to consolidate and improve China's basic economic system, under the background of high-quality development, the mixed reform of state-owned enterprises has put forward high requirements for the quality and efficiency of policy implementation.

As the policy of mixed reform of state-owned enterprises continues to promote, the problems faced by state-owned enterprises are constantly complicated, and the internal and external environment of enterprises is changing in a complex way, one of the difficulties is the excessive historical legacy problems and the difficulty of policy implementation.

1. Few follow-up supporting policies

The promotion and implementation of state-owned enterprises mixed reform policy needs policy support, in order to promote the further development of the local
economy, in response to the national policy, local governments have introduced relevant supporting policies. However, according to the current policy, mixed reform is concentrated in the field of weak competitiveness, the monopoly industry is still very much restricted to private capital [4].

(2) Too much pursuit of efficiency and neglect of employee rights and interests

In June 2020, after the release of the "Three-Year Action Program for State-owned Enterprise Reform (2020-2022)", the mixed reform of state-owned enterprises has entered a new round of speed and upgrading, and the release of the guiding program has put forward further requirements for the restructuring process of local state-owned enterprises, and the establishment of economic mechanisms to improve the adaptation to the development of the market is a long process, and the top-level reform design is too fast, leading to blind pursuit of the restructuring speed of the local state-owned enterprises and thus ignoring the restructuring of the fairness of the process of employee transfer. In the process of the fair rights of employees after the transfer, so that the implementation of new policies encountered resistance, leaving employees with low motivation to work, the follow-up rights and interests of employees are difficult to protect, social conflicts are intensified and other issues.

(3) Docking disorganization of state-owned enterprises leading to rising costs

In the process of mixing and reform, the number of state-owned enterprises in some areas declined in size, in order to accelerate the reform of the sound market-oriented business system, relying on state-owned enterprises manufacturers due to a variety of problems can not go bankrupt, had to pass the debt to the main state-owned enterprises, resulting in the process of mixing and reform of the debt redundancy, docking disorganization, resulting in the impact of the subsequent implementation of the policy of the historical legacy of the problem.

3. Optimising Countermeasures for the Mixed Ownership Reform Efforts of Local SOEs

Accelerate the promotion of equity and governance structure reforms

The primary principle in setting up equity is to control when necessary and participate when appropriate [5]. The evaluation of whether to maintain controlling interests in local state-owned enterprises can be based on two aspects: their social function positioning and strategic importance. For state-owned enterprises that fulfill public welfare functions or possess special functions crucial to local livelihoods or important safeguarding tasks, state capital should maintain appropriate control. In terms of strategic evaluation, factors such as industrial synergy benefits, market driving forces, operational performance, and profit conditions need to be comprehensively considered. Before implementing mixed ownership reform, comprehensive sorting of plans is necessary, and for enterprises of relatively low strategic importance, withdrawing from controlling positions is advisable. Even with partial ownership, influence on the enterprise can be sought through the appointment of directors to pursue investment returns. If maintaining a controlling interest, the influence of strategic investors should be taken into account, with equity ratios set between 40% and 65%, and inclusion in consolidated financial statements. However, space should be left for state-owned enterprises to go public, employee stock ownership incentives, and investor attraction. If choosing to withdraw from a controlling interest, equity ratios can be set between 20% and 40%. Attention should be paid to the arrangement of voting rights in the board of directors, the arrangement of management, and the scientific and reasonable planning of internal functions and regulations to avoid losing internal control. Additionally, a balance needs to be struck between controlling rights and the diversification of equity goals, conducive to the formation of standardized and efficient corporate governance structures [6]. At the current stage, the widespread requirement for social capital participation in mixed ownership reform is for controlling stakes in mixed ownership enterprises. The main reason is the concern that the method of partial ownership may not alter the current institutional mechanisms of enterprises and may fail to promote the market-oriented operation of enterprises through board decisions. Parent companies should fully understand investors’ demands and concerns and ensure that investors have sufficient decision-making power in shareholder meetings and board meetings through equity design. By expanding the openness of monopolistic competitive industries and improving mechanisms for the entry of private capital, efforts should be made to accelerate the formation of effective checks and balances in corporate governance structures.

Standardise the operation process and improve the mixing mechanism

First, standardise the operation process. Standardised operating procedures can ensure that the mixed reform of local state-owned enterprises is carried out in an orderly manner and create a good property rights market environment. Local state-owned enterprises need to formulate a reasonable mixed reform programme, pay attention to the top-level design, combined with their own operating characteristics and future development direction and goals, and fully draw on the successful experience of mixed reform to ensure that the programme is feasible and operable, so that the mixed reform of local state-owned enterprises towards standardization, health, and the correct path.

Secondly, to raise the awareness of senior executives of state-owned enterprises to seize the opportunities of mixed ownership reform. We have set up training courses related to the mixed reform of local state-owned enterprises and established an advisory committee of experts on the mixed reform of state-owned enterprises to introduce the relevant policies of governments at all levels to promote mixed ownership reform, the relevant knowledge of equity financing and governance structure and the successful experience of typical mixed reforms nationwide, so as to build up the awareness of the executives of local state-owned enterprises of seizing the opportunities of the mixed reform of state-owned enterprises [3].

Third, improve the mechanism of mixed reform. Improve the system for safeguarding the rights and interests of private capital, formulate fairer policies, safeguard the legitimate rights and interests and decision-making rights of local private capital participating in state-owned enterprises, and enhance the sense of security of private enterprises participating in the mixed reform of state-owned enterprises. Improve the pricing mechanism of state-owned assets, implement information disclosure, strengthen supervision of enterprises after mixing and reforming, detect and prevent...
risks in a timely manner, and prevent the loss of state-owned assets due to insider control and transfer of benefits. Establishing a sound fault-tolerance mechanism in accordance with market rules, scientifically defining the boundaries of fault-tolerance and correction, strengthening the leading and protecting role of the system, and encouraging enterprise executives to be innovative and resolute in reform.

Optimize employee stock ownership plans

The difficulty in adjusting the employee equity distribution plan in the mixed ownership reform of local state-owned enterprises is a comprehensive issue that requires comprehensive consideration and coordination in policy, economy, society, and management. In practical operation, it is necessary to conduct thorough research, analysis, and negotiation to find the most suitable solution for the interests of all parties. Optimizing employee stock ownership plans is an important part of the mixed ownership reform of local state-owned enterprises, which involves multiple aspects such as employee incentives, corporate governance, and economic benefits. In response to this issue, I believe the following measures can be taken to optimize the employee stock ownership plan:

1. Develop flexible and diverse incentive mechanisms

The employee stock ownership plan should have a certain degree of flexibility, and different incentive mechanisms can be designed based on the different positions, contributions, and performance of employees. For example, stock options, stock incentive plans, and other methods can be adopted to encourage employees to participate in the development of the company and share the dividends of its growth.

2. Strengthen the mechanism for employee participation in decision-making.

The employee stock ownership plan should not only be a distribution of economic benefits, but also a mechanism for participating in corporate governance and decision-making. By establishing employee representative meetings, employee supervisory boards, and other forms, employees can play a role in major issues of the enterprise, enhancing their sense of belonging and responsibility.

3. Strengthen information disclosure and communication

Enterprises should strengthen information disclosure and communication with employees, enabling them to understand the company's operating conditions, development strategies, and future plans, thereby enhancing their sense of identification and trust in the company.

4. Establish exit mechanisms and risk sharing mechanisms

The employee stock ownership plan should take into account the issue of employee exit and risk sharing. A reasonable exit mechanism can be established to allow employees to realize their shareholding rights when needed, while also allowing employees to fully understand the risks and responsibilities of shareholding.

5. Combining employee development planning

The employee stock ownership plan should be integrated with the employee's career development plan, making it a part of their career and stimulating their motivation and creativity. Optimizing employee stock ownership plans requires comprehensive consideration of employee incentives, corporate governance, information disclosure, and risk management. Through flexible and diverse incentive mechanisms and good governance mechanisms, the maximum benefits of employee stock ownership plans can be achieved, promoting sustainable development of the enterprise.

Sound local supporting policies

The key to realizing the effectiveness of mixed ownership reform lies in designing it from the perspective of market-oriented management, supporting market-oriented management mechanism reform while carrying out mixed ownership reform, stimulating enterprise vitality, and truly involving private shareholders. In fact, due to various factors, many state-owned enterprises have not deepened their mechanism reforms after the mixed ownership reform, or in other words, the intensity of mechanism reforms is not significant. In the end, except for changes in shareholders, everything else remains unchanged and it is difficult to promote the development of the enterprise. Therefore, this article proposes the following three strategies for readers to refer to:

1. Strengthening policy guidance

Government departments should issue clear policy guidelines to provide a stable policy environment and legal protection for the mixed ownership reform of state-owned enterprises. With the basic guidance of protecting property rights, maintaining contracts, unifying markets, equal exchange, fair competition, and effective supervision, we will effectively protect the property rights and interests of various investors in mixed ownership enterprises, and mobilize the enthusiasm of various types of capital to participate in the development of mixed ownership economy.

2. Optimize financing channels

State-owned enterprises can seek suitable mixed ownership reform capital through diversified financing channels to promote the smooth progress of projects. Faced with the dilemma of mixed ownership reform, state-owned shareholders and private capital should establish a coordination mechanism, smooth communication channels, based on cooperation and win-win, continuously improve plans in accordance with the spirit of state-owned enterprise reform, and deepen institutional and mechanism reforms. Instead of following conventional business practices, simply communicating based on the terms of investment agreements and other legal documents can affect the final outcome.

3. Adapt to market demand

With the continuous development of the economy, if state-owned enterprises want to occupy a place in the market, they must start from market positioning and deepen the reform of state-owned enterprises. In the process of state-owned enterprise reform, it is necessary to fully utilize market demand, properly positioning state-owned enterprises, adjusting their business objectives, and enhancing their competitiveness in the market. In terms of market demand, state-owned enterprises need to continuously expand their product categories to meet the needs of social and economic development. At the same time, state-owned enterprises need to clarify their positioning during the reform process, constantly adjust their positioning and industrial structure according to market needs, in order to occupy an important position in the market economy. If the positioning of state-owned enterprises is unclear, it will make their product structure unable to meet the needs of the market.

Properly resolving historical legacy issues

1. Updating follow-up policies and regulations

Improve supporting policies and add institutional documents as soon as possible to further optimize the binding mechanism for mixed-ownership transactions in line with the context of high-quality development, protect the healthy development of the economy under all ownership systems.
through a sound system, enable the smooth integration of private enterprises and state-owned enterprises, optimize the economic structure, and promote high-quality development of the economy.

(2) Emphasis on employee rights and interests
Research the plight encountered by employees of local state-owned enterprises, combined with local realities, the introduction of follow-up policies to protect the relevant rights and interests of employees. Adjust and integrate the resources, benefits and responsibilities of the employees of state-owned enterprises, properly balance the level of social equity and welfare, in order to further deepen the reform of state-owned enterprises and accelerate the reform of the economic system.

(3) Regulate the merger of state-owned enterprises
Through the system, institutional mechanism innovation, the introduction of relevant policies, a clear delineation of the scope of the main responsibility of state-owned enterprises, to reduce the phenomenon of shirking each other.
Build a modernized governance system. Standardize the procedures for mergers of state-owned enterprises, and regulate the merger behavior of enterprises by dividing the main responsibilities. Establish a mechanism of checks and balances on powers and responsibilities, reduce the burden of the main state-owned enterprises, reduce the "pain" of reform, and solve the historical problems in an alternative way.

References