

Research on the Path of Mixed Ownership Reform of State-owned Enterprises

--Case Study based on China United Network Communications Limited, Yunnan Baiyao Group Co. Ltd. And China Merchants Bank Co. Ltd.

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Abstract

At present, the reform of mixed ownership of state-owned enterprises in China is at a critical stage, and many substantial achievements have been made, but what are the effects of different mixed reform models? What are their characteristics? These have not formed a systematic conclusion. In this paper, China United Network Communications Limited, Yunnan Baiyao Group Co. Ltd. And China Merchants Bank Co. Ltd. which are typical in implementing path reform, are selected as research objects. Combined with relevant theories, this paper sums up and compares several models and feasible paths of mixed ownership reform of state-owned enterprises in contemporary China, in order to provide experience, basis and enlightenment for further deepening the reform of mixed ownership of state-owned enterprises.

Keywords

State-owned Enterprises; Mixed Ownership Reform; Mixed Reform Mode; Mixed Change Path.

1. Introduction

The report of the 19th National Congress of the Communist Party of China clearly pointed out that it is necessary to promote the reform of state-owned enterprises to develop in depth, promote the mixed ownership economy, and cultivate world-class enterprises with global competitiveness. Through the reform of mixed ownership, economic factors can be freely combined and effectively gathered, thus realizing the optimal allocation of various resources. Through the reform of mixed ownership, State-owned enterprises can improve their internal governance structure and management mechanism, and further improve their operational efficiency and marketization, so as to become bigger and stronger and consolidate the micro-foundation of China's economic development. At present, the reform of state-owned enterprises in China is at a critical stage, and many substantial achievements have been made, but what are the effects of different mixed reform models? What are their characteristics? These have not formed a systematic conclusion. Therefore, this paper attempts to compare and analyze several cases by selecting China United Network Communications Limited, Yunnan Baiyao Group Co. Ltd. And China Merchants Bank Co. Ltd. which are typical in implementing path reform, and summarize several models and feasible paths of mixed ownership reform in contemporary Chinese state-owned enterprises. With a view to seeking experience, basis and enlightenment for further deepening the reform of mixed ownership in state-owned enterprises, and playing a leading role in the practice of mixed ownership reform in other state-owned enterprises.

2. The Introduction of Mixed Ownership Reform Cases

2.1 China United Network Communications Limited

2.1.1 Overview And Mixed Reform Ideas

China United Network Communications Limited mainly involves communication services, broadband services and various telecom value-added services, and it is the first pilot enterprise of mixed reform of state-owned enterprises in China from the group level. China United Network Communications Limited adheres to the principle of "same shares and same rights", and introduces strategic investors who are in the leading position in the industry and have synergy with the company. Committed to the construction of 5G and related innovative businesses to promote the strategic transformation of the group. At the same time, the implementation of equity incentive plan for core employees will enable employees to participate in corporate governance more actively and improve the operational efficiency and market competitiveness of enterprises.

2.1.2 Mixed Reform Path

China United Network Communications Limited mainly uses three paths: capital increase and share expansion, equity transfer and employee stock ownership. China United Network Communications Limited issued 9.037 billion shares to strategic investors including BATJ, the four major Internet companies, signed a plan agreement with the structural adjustment fund to transfer 1.9 billion shares, and granted 8.48 restricted shares to 7,500 middle-level cadres at the group company level. Generally speaking, China United Network Communications Limited has realized the diversification and balance of ownership structure.

2.2 Yunnan Baiyao Group Co. Ltd.

2.2.1 Overview And Mixed Reform Ideas

Yunnan Baiyao Group Co. Ltd. focuses on pharmaceutical products, and many of its products occupy the first place in the sales volume of similar products in China for a long time, which is the leader in China's pharmaceutical industry. Yunnan Baiyao Group Co. Ltd. has experienced two reform modes: top-down and bottom-up. Yunnan Baiyao Group Co. Ltd. first introduced strategic investors through multiple selections at the group level. With a view to greatly expanding the business map and eliminating the problem of "owner offside" in enterprise operation, the company absorbed and merged the parent company Baiyao Holdings Co. Ltd. by issuing shares, greatly reducing agency costs, and merging the original two-level subjects into one level to realize the optimal allocation of resources.

2.2.2 Mixed Reform Path

In December 2016, New Huadu Co. Ltd. increased its capital by RMB 25.37 billion to Baiyao Holdings Co. Ltd. the parent company of Yunnan Baiyao Group Co. Ltd. In June 2017, Jiangsu Yuyue Co. Ltd. invested RMB 5.638 billion in Baiyao Holdings Co. Ltd. So far, Baiyao Holdings Co. Ltd. is held by the State-owned Assets Supervision and Administration Commission of Yunnan Province, New Huadu Co. Ltd. and Jiangsu Yuyue Co. Ltd. In February 2019, Yunnan Baiyao Group Co. Ltd. absorbed Baiyao Holdings Co. Ltd. to realize the overall listing and further deepen the reform. Private capital has gained full voice in Yunnan Baiyao Group Co. Ltd. and the "Baiyao Model" has become a model for the reform of mixed ownership in state-owned enterprises.

2.3 China Merchants Bank Co. Ltd.

2.3.1 Overview And Mixed Reform Ideas

China Merchants Bank Co. Ltd. is the first joint-stock commercial bank in China, with more than 1,800 domestic and overseas branches and more than 70,000 employees. China Merchants Bank Co. Ltd. a A-share and H-share company listed in Shanghai and Hong Kong, has been deeply involved in the employee stock ownership plan, and implemented the equity incentive plan three times in 2007, 2008 and 2015. The target of its award has been broadened from core professionals to senior management and then to key employees, and a capital element interest community of "shareholders + companies + employees" has been established, which has greatly stimulated employees' work enthusiasm and made the endogenous driving force of bank development stronger and stronger.

2.3.2 Mixed Reform Path

China Merchants Bank Co. Ltd. mainly practices management equity incentive and employee stock ownership plan. In 2017, the H-share stock appreciation rights incentive plan for core professionals was launched, and in 2008, the restricted equity incentive plan for core management talents was launched. On April 10, 2015, China Merchants Bank Co. Ltd. announced that it would launch an employee stock ownership plan within the range of no more than 8,500 people. By the end of 2015, The total number of employees of China Merchants Bank Co. Ltd. is 75,109, and the number of employees who can participate in the equity incentive plan accounts for 11% of the total number.

3. Case Discovery And Comparison

3.1 The Reform Model

The mixed ownership reform of state-owned enterprises can be divided into two modes: one is the top-down reform mode at the group level, and the other is the bottom-up reform mode at the professional platform.

3.1.1 Top-down Reform Model

Top-down reform mode introduces external capital from the group level, and by granting external shareholders the right to supervise and speak, it can break through the institutional constraints of the original state-owned shareholders, and then comprehensively promote the reform of mixed ownership, and realize the market-oriented operation and sustainable development of the group. However, this model involves extensive reforms and huge funds, a little carelessness will affect the overall mixed reform effect of the enterprise.

3.1.2 Bottom-up Reform Model

The bottom-up reform mode refers to the introduction of specialized external capital at the subsidiary level of state-owned enterprises, and the formation of "catfish effect" and "reverse mechanism" through the pilot test at the subsidiary level to promote the marketization and transformation of other businesses of enterprises, thereby enhancing operational efficiency and economic benefits to support the development of enterprises. By introducing professional management, this model can help improve the market competitiveness of enterprises, and at the same time reduce the risks and potential negative impacts that may be caused to the whole enterprise in the reform exploration. But this model also has its own limitations. If the local reform does not touch the inherent management and control mode of group subsidiaries, it will be difficult to implement the reform in place. Therefore, the reform of state-owned enterprise group can not be forced, and the reform effect will be affected.

3.1.3 Case Analysis

China United Network Communications Limited is mainly involved in the telecommunication business, and its business types are relatively concentrated. The reform from top to bottom will help to release the vitality of the enterprise to the maximum extent, and then change its weak position in the competition with China Mobile Communications Group Co.Ltd. and China Telecom Corporation Limited in recent years.

The business types of China Merchants Bank Co. Ltd. are multifarious, involving many sub-sectors. By constructing a professional financial control platform, the bottom-up reform mode can be carried out. On the one hand, the professional financial holding platform can be used to meet the diversified financial needs of enterprises and promote the coordinated development of various businesses. On the other hand, the subsidiaries of the financial holding platform are independent of each other. Strong autonomy in business management, high flexibility in system innovation, and at the same time help to avoid the adverse impact of reform mistakes on the whole group level.

Different from China United Network Communications Limited and China Merchants Bank Co. Ltd. Yunnan Baiyao Group Co. Ltd. has undergone a mixed reform from top to bottom and from bottom to top. According to comprehensive cases, enterprises should choose their own reform mode based on their own operating conditions and business concentration, combined with future development goals, weigh the advantages and disadvantages, and consider comprehensively.

3.2 Mixed Reform Path

China's mixed ownership reform mainly includes mergers and acquisitions, listing, introduction of strategic investors, employee stock ownership, introduction of funds and PPP project cooperation. In practice, the above-mentioned mixed-reform modes are used in combination to maximize the market competitiveness of mixed-ownership enterprises. The following is an analysis of the specific paths involved in the selected cases.

3.2.1 Listing

Securitization of enterprise assets by listing. Listing is a way for state-owned enterprises to introduce non-state-owned capital. After listing, enterprises are under the supervision of the public, and the information disclosure is more complete, which is helpful to improve the corporate governance system, enhance the mutual checks and balances of management, make management decisions more market-oriented and modernize the corporate governance structure. Therefore, For state-owned enterprises with excellent assets, strong strength, strong management and standardization, listing is the best choice for mixed reform.

3.2.2 Introducing Strategic Investors

Capital increase and share transfer are two common ways to introduce strategic investors. Equity transfer is stock capital flow, while capital increase and share expansion is incremental capital flow. In the case of abundant capital, enterprises can choose the way of equity transfer, and then use the recovered capital for other investments to realize the reallocation of resources. At the same time, enterprises can also choose the way of increasing capital and expanding shares, introducing capital at the same time as introducing new shareholders, and injecting new development momentum for enterprises.

3.2.3 Employee Stock Ownership

Employee stock ownership (ESOP) is based on the company's equity, which binds the interests of employees, especially the interests of core employees, with the interests of the company. By sharing development achievements and benefits, ESOP helps enterprises to establish a community of essential interests, and stimulates the enthusiasm and initiative of employees to the maximum extent. Employee stock ownership can improve the creativity and competitiveness of enterprises. It is of great significance to speed up the transformation efficiency of state-owned enterprises.

3.2.4 Summary

Choosing the path of mixed reform should be results-oriented and focus on achieving the best effect of reform. There are no advantages and disadvantages in the reform path, and enterprises can choose multiple paths at the same time according to their different mixed reform goals. China United Network Communications Limited, Yunnan Baiyao Group Co. Ltd. have chosen a variety of mixed reform paths, while China Merchants Bank Co. Ltd. is committed to the equity incentive plan based on employee stock ownership. Their goal is to maximize the reform effect.

4. Conclusion and Enlightenment

By selecting three typical cases of China United Network Communications Limited, Yunnan Baiyao Group Co. Ltd. And China Merchants Bank Co. Ltd. this paper compares and analyzes the reform mode, implementation path and corporate governance structure of mixed ownership reform in state-owned enterprises, and finds that mixed ownership reform is helpful to release the vitality of enterprises, optimize the allocation of resources and establish a more efficient corporate governance structure. Improve the operational efficiency of enterprises. However, different enterprises have different reform models, different reform paths and different mixed reform effects. Based on this, this paper draws the following enlightenment:

4.1 The Choice of Mixed Reform Mode Should Be Combined With Its Own Situation And Dare to Delegate Power

The reasons for the success of China United Network Communications Limited and Yunnan Baiyao Group Co. Ltd. are that the state-owned capital dares to decentralize, and by introducing strategic

investors, the vitality of enterprises is released, thus improving the operational efficiency of the company. Therefore, all state-owned enterprises should set out from the internal and external environment of enterprises when formulating a mixed reform plan. In order to achieve the best effect of the mixed reform, we should choose the appropriate reform mode and strategic investors in combination with the mixed reform machine and the company's operating objectives.

4.2 Improving Corporate Governance Mechanism in Mixed Reform

Introducing strategic investors and giving them full voice in corporate governance is conducive to integrating into the excellent management mode of private capital, changing the inherent situation of "one share is dominant" of state-owned capital, realizing the "de-administration" of state-owned enterprise reform and improving the operational efficiency of the company. Therefore, in the reform of mixed ownership, State-owned enterprises should pay attention to the establishment of a professional and market-oriented board structure, appropriately expand the board size, and increase the supervision and discourse power of non-state-owned capital at the group level, so as to fully mobilize the enthusiasm of non-state-owned capital to participate in the mixed reform and effectively improve the corporate governance efficiency of enterprises.

4.3 The Enthusiasm of Employees Should Be Fully Mobilized in The Mixed Reform

Employees are the cornerstone of enterprise development, and letting employees hold shares is conducive to binding the interests of employees, especially the interests of core employees, with the interests of the company. By sharing development achievements and benefits, it helps enterprises to establish a community of essential interests, and stimulates the enthusiasm and initiative of employees to the maximum extent, thereby enhancing the creativity and competitiveness of enterprises and speeding up the transformation efficiency of state-owned enterprises.

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