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A Review and Prospect of Research on Reverse Mixed Ownership Reform

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Abstract: The mixed ownership reform, as an important practice of the socialist market economy system, has expanded its connotation from the initial one-way model of "state-owned enterprises introducing private capital" to the reverse mixed ownership model of "private enterprises introducing state-owned capital". Despite the fact that a relatively systematic research framework has been established for the mixed ownership reform of state-owned enterprises, the theoretical exploration remains inadequate when it comes to private enterprises proactively incorporating state capital as a novel reform approach. This paper, employing the literature review methodology, systematically reviews existing research on mixed ownership reform, with a focus on the connotation, motivations, and economic consequences of such reforms within private enterprises, aiming to provide valuable references for the mixed ownership reform of private firms.

1. Introduction

As a crucial aspect of China's economic system reform, mixed ownership reform has been recognized as a pivotal pathway for fostering the coordinated development of state-owned enterprises (SOEs) and private enterprises, as well as optimizing resource allocation, ever since the Third Plenary Session of the 18th Central Committee of the Communist Party of China in 2013 explicitly advocated for the active promotion of a mixed ownership economy. As the reform has progressed, the scope of mixed ownership reform has gradually expanded from the traditional model, which involves SOEs introducing private capital, to the reverse mixed ownership reform approach. In this approach, private enterprises achieve equity diversification and optimize their governance structures by incorporating state-owned capital. The mixed ownership reform achieves complementary advantages among different types of capital through the restructuring of property rights, and is capable of generating a synergistic effect that results in "1 + 1 > 2" by integrating and unleashing such complementary strengths (Li et al., 2020)[1]. After the mixed ownership reform, private enterprises established a modern enterprise system with Chinese characteristics, which achieved complementary advantages between state-owned capital and private capital through the dual empowerment of institutional advantages and market vitality (Mao et al., 2023)[2]. This, in turn, promotes their high-quality development and aligns with national strategic objectives. Based on research concerning the connotation, motivations, and other aspects of mixed ownership reform in private enterprises, this analysis examines the achievements and existing problems, and proposes suggestions to provide references for mixed ownership reform in private enterprises.

2. The Connotation of Reverse Mixed Ownership Reform

The mixed ownership reform is designed to achieve the organic integration of various forms of capital, encompassing cross-shareholding and collaborative development among state-owned capital, collective capital, and private capital, among others. This reform model establishes a more scientific corporate governance system by optimizing market-oriented equity structures, thereby effectively enhancing business operational efficiency and market adaptability (Li et al., 2020)[1]. Unlike previous mixed ownership reforms in SOEs that absorbed private capital, reverse mixed ownership reform refers to an approach where private enterprises introduce state-owned capital, with the latter acting as minority shareholders while private capital retains the controlling stake. One of its key features is that it does not affect the controlling position of private capital, thereby fully tapping into the vitality of the private economy and integrating the strong capital strength of the SOEs to promote the healthy and orderly development of non-state-owned enterprises (Xu et al., 2024)[3]. Its core lies in optimizing the equity structure of enterprises through market-oriented mechanisms, improving the modern corporate system, and stimulating operational vitality and competitiveness. The mixed ownership reform breaks down the barriers of single ownership, promotes efficient allocation of capital, strengthens incentive and restraint mechanisms, ensures the preservation and appreciation of state-owned capital, and unleashes the potential of non-state-owned ownership economy, forming a governance system with multiple checks and balances, ultimately building a market ecology of fair competition and efficiency improvement, injecting new momentum into high-quality economic development.

3. Relevant Theories on Reverse Mixed Ownership Reform

3.1. Principal-Agent Theory

The separation of ownership and control, as proposed by Jensen and Meckling (1976)[4], inevitably gives rise to principal-agent conflicts. When there is information asymmetry and a divergence of objectives between owners (principals) and managers (agents), governance dilemmas such as moral hazard and adverse selection may emerge, posing significant institutional challenges that constrain the sustainable development of enterprises. It is further highlighted that conferring a portion of residual claimancy upon agents can align their interests with the long-term value of the enterprise, thus curbing short-term behaviors. Empirical evidence demonstrates that after state capital acquires an equity stake, by fortifying the governance structure and devising incentive and restraint mechanisms, it can effectively alleviate agency problems and enhance the efficiency of enterprise resource allocation (Zhao et al., 2023)[5].

3.2. Resource Dependence Theory

The resource dependence theory emphasizes that organizations, due to their inability to be self-sufficient, must rely on external resources, and this dependency influences organizational behavior through power negotiations, strategic collaborations, and dynamic management (Jeffrey and Gerald, 2003)[6]. In the practice of state-owned assets participating in private enterprises, private enterprises make up for their resource shortcomings by leveraging the advantages of state-owned capital in financing, policies, and other aspects, while state-owned assets use the market flexibility of private enterprises to achieve industrial chain integration or strategic layout, forming complementary resources and coordinated development (Zhao et al.,2024)[7]. However, the excessive dependence of private enterprises on the resource advantages of SOEs may lead to the symbolization of innovation in private firms or corporate rigidity(Xiao et al, 2022)[8].

4. Motivations for Reverse Mixed Ownership Reform

4.1. Technological Enablement Needs for Digital Transformation

According to the China Digital Economy Development Report (2024), the scale of China's digital economy expanded to 53.9 trillion yuan in 2023, accounting for 42.8% of GDP. The importance of digital economy in promoting high-quality development of China's economy and accelerating the path to Chinese modernization is becoming increasingly prominent. Private enterprises play a crucial role in the national economy, and their ability to effectively implement digital transformation strategies is pivotal for both their own long-term development and that of the country's digital economy. Scholars mainly divide the role of state-owned equity in private enterprises into two aspects: resource provision and governance. From the perspective of resources, SOEs through their strategic positioning in new infrastructure construction, have amassed digital infrastructure such as cloud computing platforms, industrial internet, and big data centers, along with core resources like government data and industry data. These resources exert a significant pull on private enterprises that lack scale advantages and financial muscle (Dou et al., 2023)[9]. By introducing state-owned capital, private enterprises can break through technological barriers. Meanwhile, they can leverage the advantages of state shareholders in policy support and external financing to reduce the trial and error costs of digital transformation (Wang et al., 2022)[10].

From the perspective of governance, the standardized institutional framework, rigorous risk control mechanisms, and long-term strategic perspective of SOEs can foster effective oversight and balance within private enterprises (Yang and Zhang, 2024)[11]. Consequently, they positively impact enterprises by elevating their risk-taking capacity (Niu et al., 2022)[12] and enhancing their social responsibility (Yu et al., 2022)[13]. Zhang et al. (2022)[14] argue that the involvement of state capital can encourage enterprises to establish a more comprehensive data governance framework and integrate the role of "strategic investors" to drive digital planning in private enterprises. Consequently, mixed ownership reform essentially builds a digital innovation community with complementary advantages of public and private capital. This not only alleviates the technological bottlenecks faced by private enterprises but also provides a market-oriented pathway for the value transformation of data resources held by SOEs, ultimately propelling the overall digital transformation of the industrial chain.

4.2. The Inherent Drawbacks within Private Enterprises

Private enterprises have significant deficiencies in management level, corporate governance, and financing capabilities. In terms of operational management, private enterprises typically display characteristics of small scale, numerous entities, and rapid growth. However, most of these enterprises still suffer from significant shortcomings in operational management. Constrained by traditional management models, insufficient strategic planning capabilities have become a key factor restricting the sustainable development of enterprises, and a large number of private enterprises rely on experience for decision-making. In terms of corporate governance, the majority of private enterprises in China are family-owned. On one hand, these enterprises are often bound by kinship relationships, featuring a single shareholding structure. This structure easily leads to insider control, ultimately impairing the interests of certain individuals and significantly increasing turnover rates (Shao, 2021)[15]. On the other hand, the high concentration of equity can easily lead to the phenomenon of "one dominant shareholder" and "authoritarian decision-making", and employees' discourse power is severely lacking. This power imbalance directly weakens the sense of identification of enterprise members with the company's values (Liang and Zhao, 2023)[16]. In terms of financing acquisition, private enterprises often encounter significant development bottlenecks in the financing process. These bottlenecks are primarily manifested as increased financing costs stemming from information asymmetry or agency problems. Such costs hinder the stable funding of enterprises' R&D investments, ultimately posing a persistent obstacle to their development (Cheng et al., 2024)[17].

5. The Economic Consequences of Reverse Mixed Ownership Reform

5.1. Positive Effects of Reverse Mixed Ownership Reform

In terms of innovation level, financing constraints is a critical bottleneck restricting the innovative development of the private economy (Brown et al., 2009)[18]. This is due to the characteristics of innovation activities, such as their long cycles, high capital demands, high risks, and low success rates. Additionally, private enterprises in China have long faced institutional financing discrimination in the allocation of credit resources (Liu and Jiao, 2022)[19]. From the perspective of resource acquisition, private enterprises establish equity relationships with the government by introducing state-owned capital and integrating policy resources of state-owned capital. This not only significantly enhances the confidence of financial and government institutions in cooperating with these enterprises but also promotes a virtuous cycle of bank-enterprise cooperation and government-enterprise collaboration, effectively expanding the channels for enterprises to acquire resources. From the perspective of market signal transmission, state-owned equity participation sends a positive signal of risk-sharing between government and enterprises to external investors, serving as a form of reputation guarantee or political endorsement (Yu et al., 2017[20] ; Deng and Wang, 2021[21]). This effectively enhances the investment willingness of external investors, shapes a favorable corporate image, thereby alleviating the financing constraints faced by private enterprises, encouraging them to increase R&D investment, and ultimately elevating their innovation capabilities (Chen and Chen, 2021[22] ; Li et al., 2021[23]). Through their research on the mixed ownership reform of family businesses, Luo et al. (2019)[24] found that the participation of state-owned equity enhances the willingness of family businesses to invest in innovative activities, increases the resources available for such activities, and ultimately promotes their innovation investment. Li et al. (2021)[23] discovered that the participation of state-owned equity significantly influences the innovation of family businesses by increasing government subsidies and enhancing innovation management capabilities.

From the perspective of corporate performance, Hao et al. (2017)[25] found that state equity participation alleviated the tax burden and financing constraints of private enterprises, thereby improving corporate performance. Shen et al. (2024)[26] found that private enterprises improve their financing constraints, reduce financing costs, and obtain financial subsidies by introducing state-owned capital, optimizing their relationships with financial institutions and the government, resulting in a "resource effect" that enhances operational performance.

From the perspective of ESG performance, most scholars believe that state-owned capital participation enhances the ESG performance of private enterprises. Compared with private enterprises that prioritize short-term profits, SOEs generally exhibit more remarkable ESG performance. By introducing state-owned capital, private enterprises establish a symbiotic relationship with state-owned equity (Song et al., 2014)[27], which enhances the execution effectiveness of their ESG practices and ultimately improves their ESG performance. Qian et al. (2024)[28] analyzed the sample of private A-share listed companies in Shanghai and Shenzhen from 2011 to 2021, and found that state-owned capital participation has improved the ESG performance of private enterprises mainly by strengthening the governance participation of minority shareholders and enhancing the ability of enterprises to obtain resources. Wei et al. (2023)[29] found that state-owned capital participation enhances the ESG performance of private enterprises through a dual approach of governance and resource effects, with this effect being particularly pronounced in private enterprises characterized by strong government intervention, intense industry competition, high supply chain concentration, and high media attention.

5.2. Negative Effects of Reverse Mixed Ownership Reform

However, some scholars are skeptical about the positive role of state-owned equity participation, believing that the positive effects of state-owned equity participation rely on a reasonable equity structure. If private enterprises lose their decision-making power, it will further exacerbate the principal-agent problem within them, increase their costs, and raise the possibility of them becoming "zombie enterprises" (Xiao et al, 2022)[8], thereby damaging their operational efficiency and reducing their profitability (Dong et al., 2021)[30]. From the perspective of operating performance, although state-owned capital enables private enterprises to gain more preferential policy support, it also imposes more social functions on them, which has a negative impact on their operating performance. For instance, when the government acquires shares in private enterprises to alleviate employment pressure, it leads to problems such as labor redundancy and increased labor costs, resulting in a decline in the profitability and productivity of private enterprises (Li et al., 2016)[31]. Luo et al. (2009)[32] found that state-owned capital has failed to eliminate credit discrimination for private enterprises. Instead, it has increased their dissipative expenditures, reduced their cash flow capabilities, and sent a negative signal to the capital market, lowering investors' expectations of future earnings. This further exacerbates the credit financing constraints on private enterprises and ultimately suppresses their technological innovation. There is also research showing that private enterprises with state-owned equity participation may experience a decrease in the allocation efficiency of the economic market due to government attention and intervention, which is not conducive to the healthy development of the entire economic market (Hao et al., 2018)[33].

6. Conclusion

By reviewing existing research, we can draw the following three conclusions. First, with the strategic status of mixed ownership reform continuously rising, the academic community has paid significantly more attention to the mixed ownership reform of private enterprises. Systematic research has been carried out on the connotation, motivations, and economic consequences of the reform. Second, there is no consistent conclusion on the economic effects of state-owned capital participation in private enterprises, which may be due to differences in research sample selection, measurement methods, or behavioral heterogeneity of state-owned shareholders at different levels. This offers an academic pathway for further in-depth and comprehensive research. Third, existing literature shows a clear tendency towards the construction of theoretical explanation frameworks, with research focusing on external transmission mechanisms such as political connections and resource acquisition being relatively mature. However, research on internal governance effects such as optimizing corporate governance structures and improving decision-making mechanisms suffers from insufficient theoretical explanation and weak empirical support.

Based on the above, this paper puts forward three improvement suggestions. First, it is essential to continuously deepen the theoretical research and practical verification of the mixed ownership reform of private enterprises. Compared with the reform model where SOEs introduce private capital, the overall development level of the reform process where private enterprises absorb state capital participation still has significant room for improvement. Moreover, relevant theoretical research is not yet comprehensive, and there is ample space for innovation in practical approaches, institutional design, and coordination mechanisms. It is urgent for the academic community to conduct systematic research. Second, we should attach great importance to the multidimensional heterogeneity of state-owned equity participation entities. Existing research indicates that there are significant differences in the impact of state-owned equity on corporate performance, and the fundamental reason may lie in the systematic differences in equity structure, intervention methods, administrative hierarchy, and regional attributes among different state-owned capital entities. In the practice of promoting mixed ownership reform, private enterprises should break through the single-dimensional reform thinking. They should not only focus on the overall goal of equity mixing, but also systematically examine the differentiated characteristics of strategic investors in terms of shareholding ratio, capital injection route, power allocation and other factors. Third, we should focus more on the differentiated development background of private enterprises. There are significant differences in the internal and external environments faced by different private enterprises, and some enterprises may be in special business situations such as economic cycle fluctuations, institutional constraints, or industry transformation periods. These complex factors will directly affect the strategic choices and operational stability of enterprises. In view of this, it is suggested that future academic research on the mixed ownership reform of private enterprises should focus on samples of private enterprises in specific contexts, and provide replicable theoretical frameworks and practical insights for similar enterprises to break through development difficulties and construct sustainable growth models through in-depth analysis of the challenge response mechanisms and adaptive strategies in the mixed ownership reform process.

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