

## **Analysis of Total Shareholding and Asset Structure Optimization of State-owned Enterprises based on Mixed Ownership Reform**

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**Abstract:** As for the mixed ownership reform of state-owned enterprises, the corresponding requirements have been put forward several years ago. Under the leadership of the State Council, all parts of the country have responded to the new chapter of the mixed ownership reform of state-owned enterprises. Due to the special structure of mixed ownership, corporate governance faces great challenges. The promotion of employee stock ownership in the reform of the mixed system of state-owned enterprises is conducive to the transformation of government functions, the maintenance and appreciation of state-owned assets, and the increase in the vitality of enterprises. In promoting the mixed ownership reform of state-owned enterprises, how to scientifically, objectively and fairly evaluate the value of enterprise assets is of great significance. Only by fully optimizing the ownership structure of the state-owned enterprises can the state-owned enterprises gain new impetus for development, bring more taxes to the country, provide better services to the people and bring certain benefits to private investors. From the perspective of mixed ownership reform, this paper analyzes the path to optimize the total shareholding and asset structure of state-owned enterprises.

### **1. Introduction**

The mixed ownership reform is the inevitable result of the establishment of the state-owned enterprise system. The mixed ownership reform requires state-owned enterprises to introduce private enterprise investment and foreign investment to form a diversified pattern. The reform of mixed ownership requires enterprises to standardize the enterprises with the company law and construct a modern corporate governance structure [1]. In the process of the development of China's capital market, for the purpose of seeking self-interest, the phenomenon of state-owned enterprise management using asymmetric information and adopting various ways to manage earnings emerges one after another [2]. Shareholders spend time and money to hire professional managers to run and manage the company through a series of processes such as shareholders' meeting and board of directors. Shareholders expect the management to be responsible and diligent, and to create maximum returns for shareholders' capital investment with low cost and high efficiency. For nearly 40 years since China's reform and opening up, state-owned enterprises have developed rapidly in the spring breeze of policies and favorable official background. In some major fields related to national security and people's lives, most of them are operated by state-owned enterprises [3]. For the state-owned enterprises, the capital market continuously evaluates the company's value, which makes it possible to use the incentive mechanism directly linked to the company's value [4]. Due to the existence of supervision costs, shareholders' constraints on management and supervision are always limited. The essence of resolving the principal-agent conflict between shareholders and management is to resolve conflicts of interest between shareholders and management [5].

The existence of state-owned enterprises is an economic operation model with socialist characteristics in China, and it also reflects the superiority of socialism with Chinese characteristics. With the development and improvement of China's market economy, some state-owned enterprises have gradually become unsuitable for the development of the market economy due to their

long-term dominance or even monopoly status. If the state-owned enterprises are not reformed, the state-owned enterprises are likely to be eliminated [6]. Under the assumption of an efficient market, for stock prices to rise, managers must work hard to increase the intrinsic value of the business. The initial completion of the split share structure reform has cleared the barriers to the sale of restricted shares for state-owned enterprises. The reform of state-owned enterprises must adopt market-oriented methods and actively attract private capital and management methods, so that the reform of state-owned enterprises can be carried out smoothly [7]. The equity value of non-tradable shareholders is directly related to the secondary market price of stocks, which has led to a substantial leap in the equity incentive system of state-owned enterprises in China [8]. Only by fully optimizing the shareholding structure of state-owned enterprises can state-owned enterprises gain new momentum for development, bring more taxes to the country, provide better services to the people, and bring some benefits to private investors.

## **2. Problems Existing in Optimizing Ownership Structure of State-owned Enterprises in Mixed Ownership Reform**

### **2.1 Imbalance of Ownership Structure in State-owned Enterprises**

In our country, the primary problem facing the state-owned enterprises is the imbalance of ownership structure. The impact of such problems can often be large or small, and the importance can be imagined. Consisting of public, collective and mixed economy, like state-owned enterprises and collective enterprises, it is an integrated form of multiple ownership and an enterprise development model. There are always two sides to things. For the relevant units of the state-owned enterprises' government departments, the operation is beyond their capacity. Mixed ownership takes public ownership as the main body and various economies develop together. It is the development of diversified enterprise ownership with diversified and mixed management trends [9]. In the new round of state-owned enterprise reform, mixed ownership reform is an important direction, and equity of property rights and market pricing are the keys to mixed ownership reform. Compared with single asset appraisal business, the idea of enterprise value appraisal is not only to simply summarize the appraisal values of various assets and liabilities on the balance sheet, but also to emphasize in-depth analysis of the driving factors of enterprise value. Because there is no direct relationship between the operating efficiency and the staff in the enterprise, and their fundamental interests are even more irrelevant, some decision-making issues in the shareholders' meeting are always not based on reality and essence, which results in serious lag in decision-making and huge economic losses.

### **2.2 Serious Internal Personnel Control**

The arrangement and appointment of all kinds of managers, leaders and board members of state-owned enterprises are basically decided by the relevant departments of our government. These direct and non-procedural delegations have had a serious impact on their implementation. Through the mixed ownership reform of employee stock ownership, the ownership of state-owned enterprises has changed from pure state-owned to shared ownership by the state and other shareholders. The relationship between the government and the state-owned enterprises has changed from the previous administrative relationship between higher and lower levels to the relationship between macro-regulators and micro-managers. The evaluation of enterprise value in mixed ownership reform should fully consider the ability of state-owned enterprises to develop in a sustainable and healthy way in the future. Implementing effective means to carry out management integration is a problem that needs to be considered at present. Under the mixed ownership reform, various economic forms have intensified market competition, changed the management malpractice of state-owned enterprises, and well solved the single and deep-rooted operation mode of enterprise investment structure under the state-owned system [10]. The relationship between employees and enterprises is closer after holding shares, in order to fully safeguard their shareholders' rights. They not only have the power to participate in the supervision of the enterprise's internal management

behavior, but also have the right to supervise and correct the government's improper interference in the enterprise.

### 3. Measures to Optimize Ownership Structure of State-owned Enterprises through Mixed Ownership Reform

#### 3.1 Establish a Multi-shareholder Equity Structure with Checks and Balances

In our country's state-owned enterprises, the state-owned shares have always maintained their own uniqueness and monopoly, which not only brings serious obstacles to the governance of state-owned enterprises in all aspects, but also directly reduces the state-owned enterprises' overall mental outlook to the outside world. Due to institutional inertia and historical factors, there is currently no unified technical specification in China. The marketization of state-owned enterprise assets and the strength of the capital market are prerequisites for the mixed ownership reform of state-owned enterprises in China. In the reform of mixed ownership economy in state-owned enterprises, a multi-level supervision system should be established, property rights relationships should be clarified, asset evaluation should be strengthened, and capital operation should be standardized. The leadership in the state-owned enterprises should also be improved. The election recommendation should be carried out in a necessary and reasonable way to avoid the possibility of only government officials. Only by truly understanding the operation and management of enterprises can they set sail in a better direction. Perfecting the system through reform and establishing an open property rights exchange market can promote the flow and optimization of property rights of state-owned enterprises under mixed ownership, thus improving operating efficiency and establishing clear and definite rights and responsibilities. Prior to exercise, the holder of stock option does not have any cash income. The exercise of stock option is limited in time and quantity, and the incentive object should pay cash for exercise. The property right of human capital can internalize human capital and thus produce an incentive effect. At the same time, the subject of human capital property right has the right to obtain income. In general, state-owned enterprises can obtain shares in three ways: first, through private placement, second, through transfer by major shareholders, and third, through repurchase from the open market. For example, Table 1 shows the source distribution of equity incentive stocks.

Table 1. Distribution of Equity Incentive Stocks

Sources of Incentive Stock	Quantity	Proportion
Private placement	112	92.6%
Open market repurchase	4	3.3%
Transfer of major shareholders	3	2.5%
Not involved	2	1.7%
Total	121	100%

Enterprise managers need to understand the internal and external factors that affect the financial risk of enterprises and their importance. After the control activities evaluate the financial risk, the management should first take the risk response plan, and the information and communication information used to control the financial risk of the enterprise include not only financial information, but also non-financial information. Enterprise financial risk control system usually needs continuous self-monitoring, as shown in the Fig. 1.

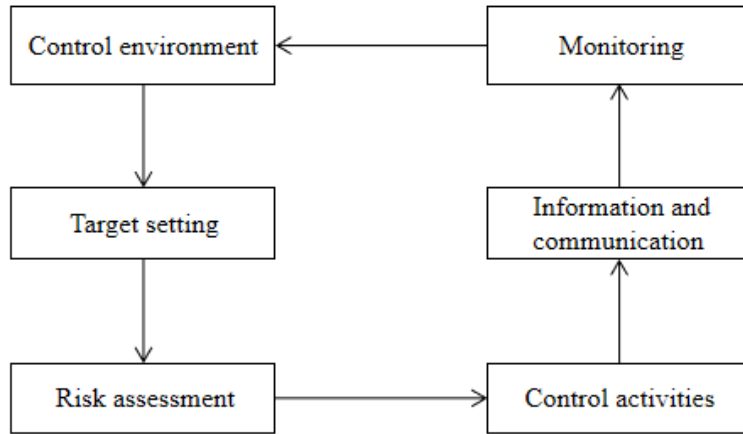


Fig.1. Enterprise Financial Risk Control Framework

At present, most of the state-owned enterprises in our country use cost method to evaluate in the process of merger and acquisition, but the evaluation value obtained by using this method cannot fully reflect the value of intangible core competitive ability such as enterprise brand and reputation. The mixed ownership economic reform of state-owned enterprises is a protracted war. It is necessary to correctly handle the relationship between state-owned and non-state-owned capital, enhance the economic vitality of state-owned enterprises under mixed ownership and realize their better and faster development. The reform of state-owned enterprises under mixed ownership should attract foreign capital to enter and expand the scope of the capital market so as to achieve win-win benefits at home and abroad and promote ownership reform. On the premise of ensuring that the government's control will remain unchanged, state-owned enterprises can actively expand their enrollment, introduce more advantages of foreign shareholders, grasp the development of the current situation, and realize a great and long-term new journey.

### 3.2 Establishing a Market for Corporate Control

With the advancement of the attitude of the CPC Central Committee and the State Council towards the reform of mixed ownership, the government's control over the decentralization of ownership has gradually decreased. For employees of state-owned enterprises, the attraction of the stock ownership system with freedom of advance and retreat is far greater than that of the stock ownership system with only advance and no retreat or with easy advance and easy retreat. As can be seen from Fig. 2, the financing costs of enterprises include loan interest, mortgage assessment cost, guarantee cost, risk margin interest and so on.

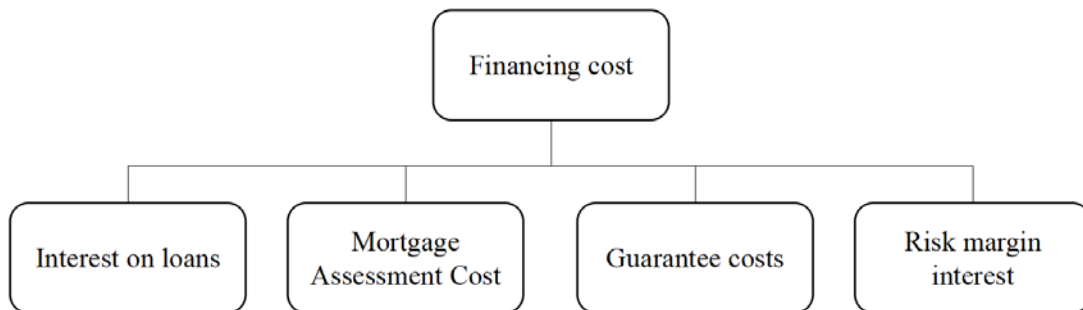


Fig. 2 Composition of Financing Cost

Performance appraisal must rely on the enterprise and the general public to jointly manage the administration. Fig. 3 reflects the main structure of performance appraisal.

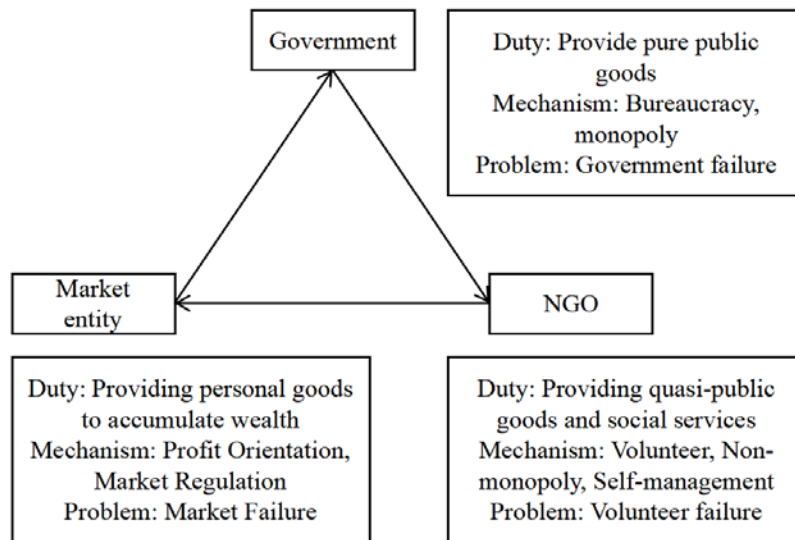


Fig. 3 Schematic diagram of the main structure of performance appraisal

To a large extent, the loss of state-owned capital is due to the imperfect internal asset appraisal management system of state-owned enterprises and the inappropriate use of appraisal conclusions given by appraisal institutions, which leads to the systematic and corrupt loss of state-owned capital [11]. State-owned enterprises must establish a stock ownership structure with multiple shareholders balancing each other and promote the diversification of the shareholder structure, so as to stimulate the development vitality of state-owned enterprises. In order to encourage the enthusiasm and initiative of employees in generate, it is necessary to ensure that employees' shares have the right to advance and retreat freely and can be disposed of according to the wishes of employees [12]. From the point of view of the market, the share circulation of state-owned enterprises in our country is only 25% in the market, which also shows the reason why the shares of state-owned enterprises have been stable for a long time. In order to do a good job in the evaluation of state-owned capital and improve the overall efficiency of the mixed ownership reform of state-owned enterprises, we should speed up the improvement of the evaluation and management system of state-owned capital. The leaders of state-owned enterprises are often government officials within the system. They are not good at the management of enterprises, but only rely on the support of policies to develop. Therefore, state-owned enterprises must strive to adapt to a market-oriented economy and actively attract private capital and shareholder advantages while maintaining government control. Only in this way can they be truly reborn and achieve long-term development.

#### 4. Summary

The mixed ownership reform of state-owned enterprises is imperative, and the optimization scheme of its ownership structure must be reasonable and implemented in place. The various problems currently existing in state-owned enterprises mainly lie in the lack of external competitive pressure of state-owned enterprises within the system. The mixed ownership reform of state-owned enterprises is a necessary process, and it is especially important to optimize the ownership structure. The connection between the two must be in place. After the mixed ownership reform of state-owned enterprises, they have continuously developed and implemented new development strategies. Under the strategic deployment of deepening reform and major transformation and upgrading, the strategy makes great efforts to promote the transformation and upgrading of state-owned enterprises, and constantly improves and innovates the development strategy as the traction to promote the adjustment of industrial structure, market optimization and talent structure of state-owned enterprises. The reform of state-owned enterprises must adhere to the market-oriented, the leadership of the party, and the socialist road in order to achieve the success of the reform. In the process of reform, the state-owned enterprises should actively innovate, constantly improve the service quality, improve the management mode and treatment of employees, and adapt to the

marketization.

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