Optimization of Control Structure Based on Case Study of China Unicom Mixed Ownership Reform

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Abstract. Optimization of control structure in mixed ownership reform is of vital importance to improvement of corporate governance, realization of marketization, and improvement of market competitiveness. From August 21, 2017 to February 11, 2018, China Union subsequently published the mixed ownership reform plan, leading to significant changes of its equity structure and board structure, and achieving periodical achievements top down. This paper takes China Union for a case stud. To start with, the introduction method of non-state-owned strategic investors, such as BATJ, and motivation of non-state-owned enterprises, such as Baidu and Alibaba, to join it are introduced. Following that, it is pointed out that the state-owned enterprise mixed ownership reform has been ushered into a new stage, and the policy that transforms enterprise management to capital management has been implemented. Meanwhile, the role of non-state-owned strategic investors in checking and balancing the daily operation decision-making of China Unicom Board of Directors under the condition of above-quota appointment of directors is analyzed. Meanwhile, that the control of state-owned capitals should be maintained when non-state-owned strategic investors are introduced is emphasized at an attempt to promote joint progress of nationals.

1. Introduction

In recent years, mixed ownership reform has made outstanding achievements, but there are still some problems that have restricted deepening of the mixed ownership reform, including theoretical problems, mixed ownership reform model, path selection and optimization. As an important “breakthrough” of stated-owned enterprise (SOE) reform, SOE mixed ownership reform has, since the holding of the 18th National Congress of the Communist Party of China (CPC), entered a new stage, marked by the constant deepening of reform measures, acceleration of the pace of reform, expansion of channel expansion, mutual promotion of state-owned capitals and capitals of other ownerships, and improvement of the joint development status. At the level of central companies, listed companies have become operation subjects of central enterprises, and the SOE mixed ownership reform at the local level has also become increasingly vigorous. The report of the 19th National Congress of the Communist Party of China proposes, “deepening SOE reform, vigorously developing mixed ownership economy, and develop a batch of world-class enterprises with international influence”. Wang Yong, a State Councilor, points out, “First-class enterprises should provide first-class products, adopt first-class financial management, maintain first-class performance and first-class control.” Mixed ownership reform is a main channel to deepen SOE reform and cultivate world-class enterprises. The Third Plenary Session of the 18th CPC Central Committee puts forward, “positively developing the mixed ownership economy.” In August 2015, the “Guiding Suggestions of the CPC Central Committee and the State Council on Deepening SOE Reform” clarifies the direction and requirements for comprehensive deepening of SOE reform. China Unicom is the first and also the only central enterprise in China which has implemented mixed ownership reform at the group level. All reform plans disclosed by China Unicom so far have been relatively complete, and the effects following implementation of the reform plan have been significant, and can provide favourable implications for mixed ownership reform of SOEs in China. The government work report of 2019 clearly points out the necessity of “actively and steadily promoting mixed ownership reform”. China Unicom introduced non-state-owned strategic

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investors, such as Baidu, Alibaba, Tencent and Jingdong, whose business can achieve a synergistic effect with that of China Unicom. All these non-state-owned strategic investors are leading enterprises of relevant industries. China Unicom increased share issuance for these leading enterprises, and provided seats for them in the board of directors. Following the mixed ownership reform,in terms of equity, the state-owned asset shareholding proportion between the former China Unicom and China Life Insurance would still maintain at more than 50%, which reflected the control of state-owned capitals. In terms of corporate governance, the non-state-owned strategic investors were introduced to the board of directors, who had the right to decide and vote on major events within the company. This effectively safeguarded the interests of minority shareholders, such as non-state-owned strategic investors.The equity and the board structure endowed non-state-owned strategic investors with the right to participate in deciding and voting on the company's daily operation.Under the background, China Unicom sought in-depth cooperation with privately-employed enterprises to promote in-depth integration of different business sectors, and lead to a significant increase in the number of users. The Q1 financial report of 2018 demonstrated significant achievements.

This paper adopts a single case study method, which is conducive to further investigation and analysis (Buckley et al.,2005). In selecting cases, attention should be paid to the extreme and inspiring nature of the cases (Eisenhardt,1989; Eisenhardt and Graebner, 2007). China unicom, as a typical central enterprise, started to announce the introduction of strategic investors in August 2017, which is complex and representative. Therefore, it is of theoretical and practical significance to analyze the selection purpose and enlightenment of strategic investors in China unicom's mixed ownership reform.

Innovation points of this case study are mainly reflected as below: Equity and board control structure optimization of China Union has safeguarded the control of state-owned capitals and the decision-making right of privately-employed enterprises, thus effectively avoiding the negative consequences, including loss of state-owned assets or non-public-assets' loss of the right of speech. Theoretically, this research can provide case support for the future research of above-quota appointment of directors. Meanwhile, this research can provide implications for other SOEs' introduction of non-state-owned strategic investors for the control structure design.

2. Relevant theories and literature review

2.1 Principal-agent theory and the theory of over-appointment of directors

In accordance with the principle of "just, fair and open" three publics, shareholders holding and sent is proportional to the number of directors, but the major shareholders by board of directors of the organization's process of nomination exceed the proportion of shares held by the directors, the formation of major policy decisions by the board of directors of the actual control with its stake reflects responsibility ability "separation" phenomena of corporate governance, known as the big shareholder "super delegate directors" (Mr. Cheng, 2017).Under the dual principal-agent system, minority shareholders are in a disadvantaged position, whose interests can be easily corroded by controlling shareholders and the management (Zheng, et al., 2016). Under the condition of scattering equity, the separation between the company's ownership and management prompts to the management to pursue their private gains and embezzle the scattering interests of shareholders (Jensen and Meckling, 1976). Under the condition of concentrated equity, controlling shareholders usually capitalize on their above-quota control right to damage minority shareholders' interests (Li, et al., 2004). The "Company Law of the People's Republic of China" has made certain restrictions on the over-appointment of directors, of which Article 106 stipulates, "In the case of directors and supervisors of a general meeting, the cumulative voting system may be implemented in accordance with the provisions of the articles of association of the company or the resolution of the general company." This stipulation is for the purpose of preventing major shareholders at a controlling position from employing directors of their own based on their higher shareholding percentage, thus damaging interests of minority shareholders. Under the system, minority shareholders can use their voting right as a consistent actor to enhance the possibilities for their candidates to enter the board of directors (Zhang & Zhang, 2012). Nevertheless, under the monopolistic or oligarchic equity structure, a majority of minority shareholders have resort to “hitchhiking” due to information asymmetry and the principle of cost efficiency, and can hardly get involved in corporate management (Wang & Yuan, 2002).

To sum up, directors should represent the interests of all shareholders, but more often than not they just speak for shareholders who recommend them to be directors. Under the condition of above-quota director appointment, responsibilities and powers of directors are asymmetric. As a result, when exercising their rights, they tend to safeguard interests of shareholders recommending them. Consequently, interests of the company’s external and scattering shareholders might be get damaged, thus forming the so-called “negative externality” in economic terms (Zheng, 2018).

2.2 Synergy theory

The concept of synergy originates from systems science and refers to the process of introducing a mechanism or element into the whole system so that each subsystem produces a better state in the interaction (Herman haken, 1971).The American management scientist of the 1960s, H. Igor Ansoff introduced the concept of collaboration into the field of enterprise management, which became the theoretical basis and important basis for enterprises to adopt diversification strategy.Ansoff (1965) for the first time put forward the concept of cooperative strategy in company's practice, he thinks that synergy is in recognition of its own ability and facing the opportunity of matching relations on the basis of a new business, collaborative strategy can integrate the enterprise resources, the diversification of business, namely the enterprise in sales, operating, investment and management make strategic arrangement, to their own conditions for factors of production and business units and the environment to carry on the reasonable collocation, to achieve a similar to the synergistic effect of increasing returns, the company can more fully use the existing advantages, and explore the new space for development.

Andrew Campbell et al. (2000) believe that synergy is “free riding”.Synergies occur when resources accumulated from one part of a company that can be used for horizontal correlation are applied to other parts of the company simultaneously and inefficiently. He also explained from the perspective of resource form or asset characteristics that “synergies are mainly achieved through the use of hidden assets”. As for the classification of synergies, Rumelt (1974) divided them into two categories: financial synergies and operational synergies, while Weston (2006) indicated that management synergies were also one of them.

2.3 The literature review

Through the above theoretical analysis, we can find that the stakeholders in the mixed ownership reform mainly refer to strategic investors. Among them, this kind of strategic investor is called “complementary strategic investor” again. Although for a long time, the reform of state-owned enterprises have been facing with resistance in the process of introducing strategic investors, non-state investors worried that after taking a stake in unable to obtain appropriate information, supervision and decision-making and other legal rights, while the state-owned shareholders may be weakened because of its control and worried (regard good east, etc., 2017), but at the same time multiple large shareholders can reduce agency problems. In order to prevent their own interests from being infringed upon, shareholders will strive to improve the corporate governance mechanism, so as to improve the overall interests of shareholders (Casado et al., 2016). The introduction of private capital will bring about changes in the board structure, which will endow strategic investors with corresponding decision-making rights and form an effective balance on the former state-owned shareholders. Meanwhile, the introduction of complementary strategic investors is usually conducive to the establishment of long-term cooperative relations, and the proportion of such investors to the board of directors is positively correlated with corporate performance (sheng yuhua, 2014). Further, enterprises can achieve synergy by sharing skills, sharing tangible resources, coordinating strategies, vertical integration, negotiating with suppliers and combining forces (Hindle, 2004).

3. Analysis of control structure optimization of China Unicom mixed ownership reform

China United Network Communications Group Co., Ltd. (hereinafter abbreviated as “China Unicom”) is set up based on the combination between the former China Netcom and China Unicom. As the only one Chinese telecommunications company which has listed itself in New York (stock code: CHU. N), Hong Kong (stock code: 00762) and Shanghai (stock code: 600050), China Unicom specializes in providing communications services and telecommunications value-added services.

3.1 Background of China Unicom’s mixed ownership reform

China Unicom started late to provide 4G network services, and paid inadequate attention to network construction and marketing. This could also explain backwardness of China Unicom 4G network services, users, and income scale, compared with China Mobile and China Telecom. To change the disadvantageous situation, China Unicom should seek cooperation with technologically advanced non-state-owned enterprises strategically to complement each other’s advantages. In particular, China Unicom could introduce the flexible market response mechanism and innovational management system of these non-state-owned enterprises into its own business. Therefore, to introduce privately-employed enterprises as non-state-owned strategic investors constituted an important part of this mixed ownership reform. China Unicom could make use of user, technologies, data, talents, funds and other resources of these Internet companies. Cooperation between China Unicom and these companies could boost optimization of equity structure, improve corporate governance, and transform the operation mechanism, thus finally improving the market competitiveness and operation performance of China Unicom.

In 2016, China Unicom signed a strategic cooperation agreement with the Internet company, “BAT”, and got listed by the Chinese government into the first batch of mixed ownership reform experimental sites on September 28 of the same year. On April 5, 2017, A-share market was made the platform for mixed ownership reform. On August 21, 2017, a specialized announcement on mixed ownership reform was published. On September 20, 2017, the private offering plan was approved on the general meeting. On January 24, 2018, the number of board members of China Unicom increased from 7 to 13. On February 11, 2018, the company published the restricted ballot plan, which symbolized the end of China Unicom’s mixed ownership reform at the institutional level, and realized evolution from management collaboration to governance collaboration.

3.2 Changes of equity structure and board structure before and after China Unicom’s mixed ownership reform

The mixed ownership reform between China Unicom and the introduced non-state-owned strategic investors directly resulted in substantial changes of China Unicom’s equity structure and board structure.

3.2.1 Equity structure

Before the mixed ownership reform, China Unicom’s equity structure is shown as in Fig. 1. As to the A-share company listed by China Unicom in Shanghai, the other initiators and public shareholders just held 37.26% of shares, while China Unicom held 62.74% of shares., indicating an absolute shareholding of state-owned capitals. Besides, as to the red-chip company listed by China Unicom in Hong Kong, China Unicom held 63.48% of shares , which was also an absolute control of the company shares.

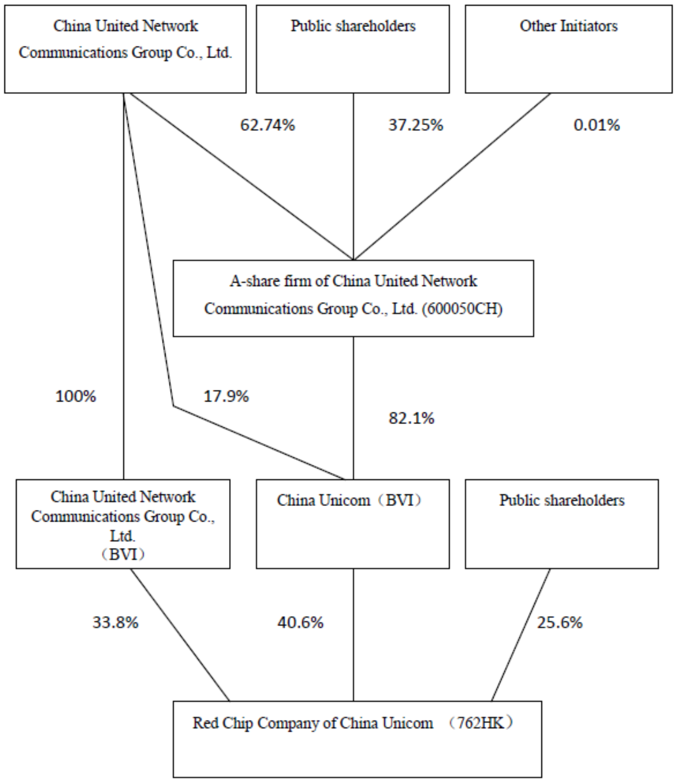

Fig. 1 China Unicom's equity structure diagram before mixed ownership reform

By combining stock transfer with private offering, China Unicom decreased its shareholding from 62.74% to 36.67%, whose absolute shareholding was replaced by relative shareholding. Non-state-owned strategic investors jointly took a stake of 35.19% in China Unicom. Finally, a diverse equity structure which is state-owned but has multiple non-state-owned strategic investors. (See Fig. 2.)

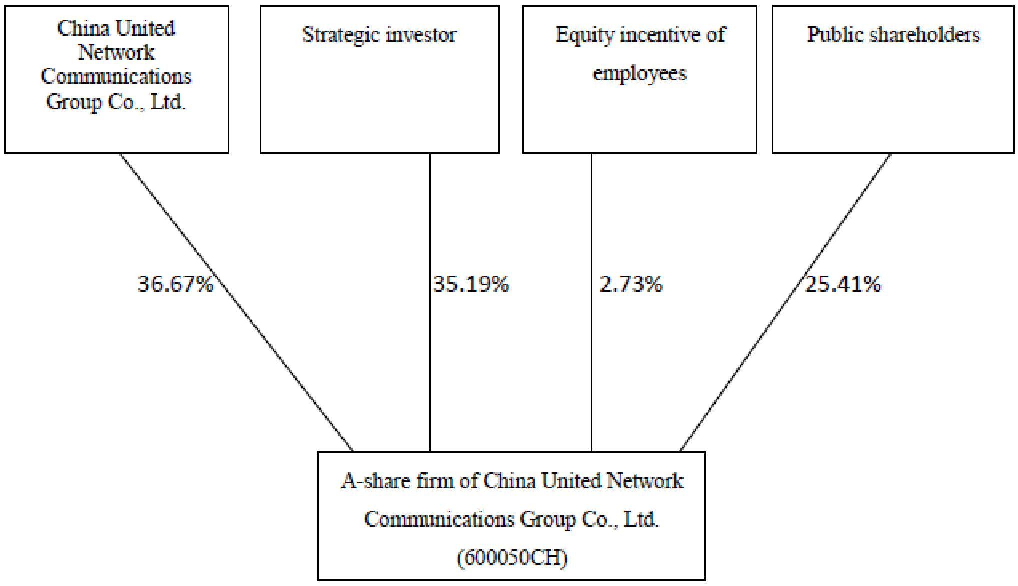

Fig. 2 China Unicom's equity structure diagram after mixed ownership reform

According to the principal-agent theory, when the original equity is highly concentrated, chances are high for controlling shareholders to designate directors of their own side beyond the quota. China Unicom issued 9.037 billion shares to dilute the shareholding percentage of the first majority shareholder to form a scattered equity structure, which could, to some extent, weaken the voting right of China Unicom. Besides, through share issuance, China Unicom raised around 61.725 billion yuan, transferred 1.9 billion shares through the structural adjustment fund agreement, and given no more than 848 million restricted ballot to core senior managers. Finally, 16 billion yuan was raised in total for 4G and 5G construction, which could, to some extent, enhance the company’s core competence on the market.

3.2.2 Board structure

Apart from targeted issuance increase and share transfer for non-state-owned strategic investors, China Unicom also introduced non-state-owned strategic investors to the board,Significant changes have taken place in the new board structure, with the share of independent directors having been reduced from 43 percent to 38 percent, the share of China Unicom from 57 percent to 23 percent and the share of non-State strategic investors 39 percent. Five non-state-owned strategic investors, including Baidu, Alibaba, Tencent, Jingdong and China Life Insurance designated a non-independent executive director to enter the board, respectively, thus increasing the number of China Unicom’s board members from 7 to 13. Among them, the number of independent directors expanded from 3 to 5, and that of non-independent directors to 8. The board seats for privately-employed strategic investors accounted for 50% of non-independent directors.

The decreasing number of board members suggested that China Unicom had a weaker say in the company following the mixed ownership reform. After introduction of non-state-owned strategic investors, issues related to major decision-making, major personnel appointment and dismiss, major project investments and large-amount fund use might be faced with a joint veto. This changed the situation in the traditional SOE where the Chairman alone had the say, improved reasonability and validity of China Unicom’s board decision-making, and gave full expression to the national government’s determination to establish a complete mixed ownership enterprise governance mechanism.

3.3 The effect of China unicom's choice of strategic investors

3.3.1 Maintain the control of state-owned capital

Mixed ownership reform after the first big shareholder unicom group stake from 62. 74% dropped to 36. 67%, while no longer holds more than 50% of the equity, according to agency theory, the original equity concentration, the controlling shareholder excess to delegate the probability, director of China unicom by issuing 90. 3.7 billion diluted shares the first big shareholder's stake, formed a relatively decentralized equity structure, to some extent weaken the voting rights of the first big shareholder unicom group. In addition, China unicom raised about 617.25 billion yuan by issuing shares, transferred 1.9 billion shares to the structural adjustment fund by agreement, and granted no more than 848 million restricted shares to core executives, which raised about 16 billion yuan for the construction of 4G and 5G, enhancing the market competitiveness of the enterprise to some extent. In addition to the directional issuance and transfer of shares to strategic investors, the strategic investors and independent directors introduced by China unicom in the board of directors balance but do not replace the former state-owned shareholders of China unicom and maintain the control of state-owned capital to some extent.

3.3.2 Governance synergy is achieved

By introducing complementary strategic investors, on the one hand, China unicom has laid a good foundation for its future development direction of Internet high-tech; On the other hand, it improves the governance structure of the board of directors. Generally, the principal-agent relationship in state-owned enterprises is as follows: sasac -- -- board of directors -- -- managers. This principal-agent relationship is not substantially different from that in ordinary private enterprises. Theoretically speaking, sasac appoints the board of directors and supervises and evaluates it, and the board appoints managers to carry out daily management and supervision and assessment of the company. However, in fact, managers are appointed by sasac and need approval from sasac in making decisions on major issues, which will greatly weaken the independence of the board of directors. The powers and responsibilities of corporate governance subjects are not clear enough, and the original decision-making power of the board of directors has not been fully exercised. The original 4 non-independent executive directors of China unicom are all directly appointed by state-owned institutions, and the board of directors lacks enough independent decision-making power. All major decisions concerning enterprises need to be reported to relevant government departments, making it difficult for enterprises to become independent market entities. In addition, the appointment and removal of senior management personnel should be reviewed by the competent government departments, especially the “top leader” of the enterprise, which is basically directly appointed by the competent government departments. It is difficult for the company's business decisions to be fully and effectively implemented through the management activities of the managers. In addition, it is difficult to ensure the supervision effect of the board of directors on managers.

As an important stakeholder of the company, BATJ holds a large number of shares in the company for a long time, and holds a certain seat on the board of directors through the design of the board structure of over-appointment of directors, which has a significant impact on the company. In order to protect their own rights and interests from being damaged, they will put forward Suggestions on the company's strategic decisions such as production and operation, investment and financing, dividend distribution, and timely communicate and coordinate with other shareholders. Finally, by improving the corporate governance structure of the company, governance synergy is achieved and the corporate goal of maximizing the interests of stakeholders is achieved.

4. Positive advances of SOE reform

4.1 Subsequent implementation of policies

4.1.1 Subsequent implementation of SOE reform3 policies from the central level to the local level

Since 2018, SOE reform policies have been subsequently introduced. Xiao Yqing, Director of the State-owned Assets Supervision and Administration Commission (SASAC), once mentioned on the Annual Meeting of Bo’ao Forum 2018 that central enterprises had mostly realized their corporate system reform, and that mixed reform was an important breakthrough of our reform, which should mean not only the increasing number of enterprises turning to mixed ownership reform, but, more importantly, deepening of the connotation. In terms of mixed ownership reform, recombination, supply-front structural reform, industrial transformation and upgrade, and so on, SOEs have many opportunities to cooperate with privately-employed enterprises and foreign-invested enterprises. In July 2018, the State Council issued an announcement, which appointed Liu He as the Head of SOE Reform Leadership Group. On the National SOE Reform Seminar held in October of the same year, Liu pointed out that China’s SOE reform had been at a “critical stage”, which had risen from “SOE reform as the central link of the whole economic system reform” to “deepening the central position of SOEs in the new era and from a strategic position”. Liu also put forward the guideline, including “improvement of governance, strengthening of incentives, highlight of main industries, and improvement of efficiency”, and emphasized that the SOE reform could “support and drive” non-public economic development, give full play to the role of “SOE entrepreneurs”, draw up a detailed blueprint, set up the professional manager system based on the principle of “market-oriented recruitment, contractual management, differentiated salary, and market-oriented withdrawal”, and stick to the principle of “productivity first” for state-owned assets monitoring. On the Two Sessions of March 2019, Premiere Li Keqiang underlined again in the “Government Work Report” that acceleration of SOE reform relies on “strengthening and improvement of state-owned assets monitoring, promotion of state-owned asset investment, operation of company’s reform pilot projects, strengthening of value maintenance and increase of state-owned assets, active and steady promotion of mixed ownership reform, improvement of corporate governance, improvement of market-oriented operation mechanism, establishment of the professional manager system, and disposal of zombie enterprises”. Meanwhile, to deepen reform of the field of electricity, oil and gas, railway and so on, the natural monopoly industries should implement separate network operation according to different industrial characteristics, and comprehensively launch competitive business on the market. SOEs should constantly strengthen their development vigor and core competitiveness through reform, innovation and enhancement.

Lian Weiliang, Deputy Director of the National Development and Reform Committee, emphasized on the press conference of the Two Sessions, saying that the fourth batch of mixed ownership reform experimental sites, including more than 100 enterprises, would be launched this year, and that the mixed ownership reform would be organized in the field of complete competition, allowing social capitals to take a stake in SOEs.

Since the beginning of 2019, SOE reform has also been progressing steadily at the local level. A majority of Chinese provinces mentioned SOE reform in their public reports on the Two Sessions. "Adjust the SOE capital layout, enhance SOE strategic reorganization, conduct mixed ownership reform, launch state-owned investment and operation platform and company experimental sites, realize securitization of state-owned assets, control and resolve debt risks of SOEs, dispose of zombie enterprises, introduce the bankruptcy reorganization, technological innovation and professional managers"-all these have emerged as a consensus of local governments. As a local state-owned province, Shandong Province has set up a high objective for SOE reform in 2019, particularly in terms of "confirming and publishing provincial enterprises' main business, and leading enterprises to develop their main business", and "highlighting the mixed ownership reform, and implementing the three-year mixed ownership reform of provincial enterprises".

4.1.2 Gradual improvement of policy framework

More importantly, a series of important documents has been promulgated since 2018, leading to increasing completeness of the policy framework of SOE reform, and accelerate SOE reform. First, in May 2018, the SOE published the "Suggestions on Reforming the Salary Decision-making Mechanism of SOEs", aiming at improving the personnel salary decision-making, management and distribution mechanism in SOEs. Second, in May 2018, the SASAC, the Ministry of Finance and the CSRC jointly published the "Methods on Management and Monitoring of Listed Companies' State-owned Equity" to clarify the bases for SOE shareholders' transfer and receiving of equity from listed companies. Third, in July 2018, the State Council published the "Opinions on Promoting State-owned Asset Investment and Operation Company Reform Experimental Sites" to pinpoint the functional positioning, organizational mode, authorization mechanism and governance structure of two types of experimental sites. Finally, in March 2019, the SASAC introduced the "Methods on Assessment of Operation Performance of Central Enterprises" to set down the principles for heads of central enterprises to adhere to during operation performance assessment.

4.2 Entry of mixed ownership reform into a new stage, and transformation of SASAC monitoring from enterprise administration to capital administration

Data of SASAC suggest that there were more than 700 equity transfer, investment increase and share issuance increase projects with central enterprises on the property market from 2013 to 2018, which attracted more than 260 billion yuan of social capitals. During the same period of time, more than 400 IPO, shareholding listed companies' share issuance increase and asset reorganization projects were launched on the securities market, attracting more than 1 trillion yuan of social capitals. Among the nearly 13,000 legal persons thus reduced, a large number of them transferred their equity to privately-employed enterprises. China Unicom's mixed ownership reform symbolized SOEs' mixed ownership reform had entered a steady stage. First, since 2013, SOE mixed ownership reform has experienced iterations twice. China Unicom's mixed ownership reform might indicate the arrival of the second iteration. At Stage 1, the mixed ownership reform was confined to the level of central enterprises' subsidiaries. Though the state-and wholly-owned enterprises introduced non-public ownership, privately-employed enterprises, and foreign investments, the state-owned assets of the company still accounted for higher than 50%, suggesting an absolute shareholding position. At Stage 2, relative shareholding. Finally, non-share-holding. The evolution of China Unicom's ownership was not inconsistent with the requirement of the 19th National Congress of the CPC on "strengthening, optimization and enlargement of state-owned assets", because this round of SOE reform aimed at realizing transformation from "enterprise administration to capital administration". The "Government Work Report" published on the Two Sessions in early 2019 also emphasized the necessity of "promoting state-owned capital investment, operating company reform experimental sites, and promoting the value increase and maintenance of state-owned assets”. According to the Temasek Model, the government organizes the state-owned assets to operate the company and does not intervene in the company’s operation or business decisions so that the company can fully organize its business in accordance with the correct business principles and promote the transformation from enterprise administration to capital administration in the real sense. In other words, the SASAC focuses on managing the state-owned capital layout, standardizing capital operation, improving capital efficiency, and maintaining capital security.

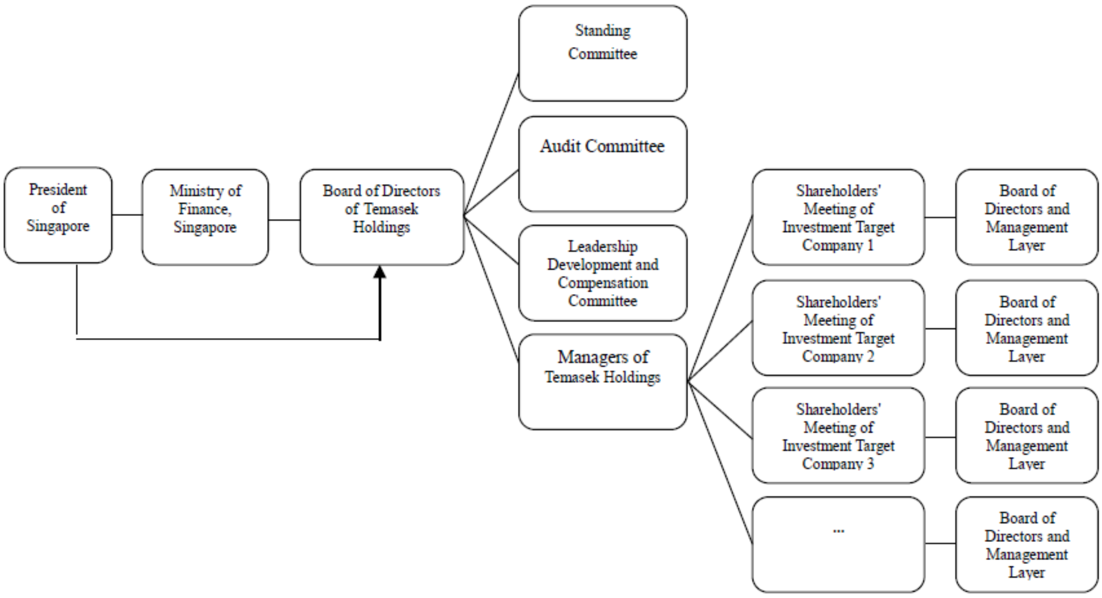

Fig.3 Management Structure of Temasek Holdings

5. Implications of China Unicom’s control structure optimization via mixed ownership reform

5.1 Maintenance of state-owned capitals’ control and influence after mixed ownership reform

Since the 18th National Congress of the CPC, General Secretary Xi Jinping has repeatedly emphasized “strengthening, optimizing and expanding” SOEs confidentially. The report of the 19th National Congress of the CPC stresses again that “SOEs lay an important material and political foundation for China’s development of socialism with Chinese characteristics, and they are the pillar of the socialist economy with Chinese characteristics.” Therefore, to maintain the control and influence of state-owned assets is the prerequisite for introduction of non-state-owned strategic investors. Nevertheless, unreasonable structural design of the mixed ownership reform might result in a long-term game between two sides on the asset control, thus finally impairing the company’s operation performance. In selecting non-state-owned strategic investors, attention should be paid to not only ensuring the right of non-state-owned enterprises to participate in deciding major affairs of SOEs, but also identifying the shareholding percentage of non-state-owned enterprises according to market regulations. Hence, it should be made a rule to keep the shareholding percentage of state-owned assets to be higher than that of non-state-owned assets without ruining their mutual check, balance and promotion.

5.2 Guarantee for SOEs’ control and non-state-owned strategic investors’ decision-making right

Under general conditions, non-state-owned strategic investors tend to lose their say in corporate governance due to the pressure from major shareholders. Therefore, one important prerequisite for the full play of non-state-owned strategic investors is to guarantee adequate right of decision-making and voting thereto. If a non-state-owned strategic investor has no say in a company’s operation decision-making and can just enjoy earnings based on its shareholding percentage, then the investor is the same to the general financial investor. In 2018, Wanda chose Tencent as a major state-owned strategic investor. Though Wanda just gave 14% of shares to Tencent, the former promised the latter seats in the board. Meanwhile, on the basis of equity cooperation, the two sides could organize strategic integration and innovation of corporate models. This was a case in point of the above-quota director appointment. On the basis of the cooperation agreement signed between Wanda and Tencent, the two sides cooperated with each other smoothly.

The mixed ownership reform of China Unicom was similar to that between Wanda and Tencent. According to the principal-agent theory, major shareholders will designate personnel of their own above the quota as directors to participate in the company's decision-making. However, there are some Chinese enterprises have appointed the non-state-owned strategic investors above the quota and given them authorization to realize in-depth cooperation with non-SOEs and introducing advanced management methods and innovation concepts therefrom. In this way, non-state-owned strategic investors will take a stake in the company to gain the right to decide the company affairs, and join the company's board to play a bigger role. The mixed ownership model of China Unicom can be summed up as dominance of state-owned assets in equity, guarantee for the full play of the role of non-state-owned strategic investors in the board structure, and joint veto on decisions which might impede bilateral win-win cooperation. All in all, successful mixed ownership reform relies on joint guarantee for the decision-making right of SOEs' control and non-state-owned strategic investors' decision-making right. The case study of China Unicom's mixed ownership reform can provide implications for other SOEs' introduction of non-state-owned strategic investors to their mixed ownership reform to boost development of the national economy.

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