

Research on the Reform of State-owned Enterprises Based on the Supply-side Background

Lu Zheng^{1, 2}

¹Department of Business Administration, Shandong College of Economics and Business, Weifang, Shandong, China

²Shinhan University, Seoul 11655, Korea

Keywords: Supply-side, Reform of state-owned enterprises

Abstract: The supply-side reform aims to finally realize the strategic objective of overall stable and constant macroeconomic development. State-owned enterprises are the hard core and backbone of our national economy, so they must be under good operation. Under the background of supply-side reform, the reform of state-owned enterprises will bring extremely important significance to economic development. This article, based on basic requirements for supply-side reform, demonstrates new opportunities brought by the supply side to the reform and development of state-owned enterprises from three aspects, including supply-side non-rigidity, the promotion of mixed operation and management, the deduction of monopoly and market opening. Besides, by combing with the current problems in the reform of state-owned enterprises, reform suggestions are put forward from two aspects, including economic structure and governance structure.

1. Introduction

Chinese economy has been through a rather long comprehensive reform and development, with increasingly obvious structural irrationality, wherein surplus productivity is a relatively highlighted phenomenon. The Ministry of Industry and Information Technology directly affiliated to the State Council eliminated backward productivity as per 18 industrial requirements, including coke, iron smelting, printing and dyeing, cement, petrification, real estate and other traditional industries as well as emerging industries like PV, polysilicon and wind power (as shown in Table 1). Along with the synchronous slowdown of both the external demand and the internal demand, conflicts over surplus productivity are increasingly highlighted. In fact, productivity is mostly backward and invalid, with an extremely low utilization rate. Therefore, the essential difficulty faced in the reform of state-owned enterprises is how to avoid investment risks under the background of supply-side reform, solve surplus productivity problems in state-owned enterprises, improve production efficiency, and make investors and consumers know more about the industrial information, and improve the market vigor [1-3].

Table 1 List of Industries with Surplus Productivity.

Industry	Subdivided industries or products	2015	2016	2017	2018
Electricity, heat energy production and supply industry	Electricity production	Normal	Surplus	Surplus	Mild surplus
Coal mining, washing and preparation	Coal	Surplus	Surplus	Mild surplus	Mild surplus
Civil engineering construction industry	Building construction	Surplus	Surplus	Surplus	Surplus
Ferrous metal smelting and rolling industry	Steel	Surplus	Surplus	Surplus	Surplus

Chemical raw materials and chemical products	Three-acid and two-alkali, fertilizer and other low-end varieties	Surplus	Surplus	Surplus	Surplus
Non-metallic mineral products	Cement and plate glass	Surplus	Surplus	Surplus	Surplus
Non-ferrous metal metallurgy, and rolling industry	Electrolytic aluminum and refined copper	Surplus	Mild surplus	Mild surplus	Mild surplus
Automobile manufacturing industry	Complete vehicle	Normal	Normal	Mild surplus	Surplus
Others	Shipbuilding	Surplus	Surplus	Surplus	Surplus

Supply-side reform emerges at the right moment. Supply-side reform interprets that the main conflict under the current economic downturn impact is the disadvantages in supply structure. The overall supply-side reform should focus on improving the available efficiency of basic production elements, realize the optimal configuration of basic elements, and improve economic operation quality largely. State-owned enterprises in our country should focus on reform opportunities and improve in both the economic structure and the governance mechanism.

2. Situation and Challenges Faced by State-owned Enterprises

2.1 The Reform of State-owned Enterprises Has Gained Obvious Achievements as a Whole

As the reform and opening-up policies are released, our country starts to explore the reform of state-owned enterprises. The reform of state-owned enterprises can be summarized as five phases, i.e., expanding rights and transferring profits, changing enterprise operation mechanism, establishing modernized enterprise system, implementing strategic regrouping for large and middle-sized state-owned enterprises, and leading the development of state-owned enterprises. State-owned enterprises have constantly reinforced their strength, enterprise influence and control force [4]. State-owned enterprises have reflected their social responsibilities in big projects, and made major contributions to national taxes. Meanwhile, they have also provided major support to the stable operation of the society in our special economic periods.

2.2 Improvement Made by State-owned Enterprises in Operating Management Revenues

According to statistics, the output value of state-owned enterprises in our country accounts for about 1/3 of GDP. Profits and taxes handed over to the state account for above 60% of the national financial incomes, wherein Chinese large and medium enterprises account for 85% of the profits and taxes handed over by state-owned enterprises, which are far higher than other features of enterprises (as shown in Table 2). Meanwhile, state-owned enterprises have participated in lots of national major projects and major scientific and technical projects, such as breakthroughs in manned space flights and lunar exploration projects, and the construction of major projects, such as Three Gorges Project, West-East Natural Gas Transmission, West-to-East Power Transmission Project, South-North Water Transfer Project, and Qinghai-Tibet Railway.

Table 2 Main Economic Index of State-owned Enterprises in China Kept a Growing Trend in 2019.

Classification	State-owned enterprises (hundred million yuan)	Year-on-year growth	Central enterprises (hundred million yuan)	Year-on-year growth	Local state-owned enterprises (hundred million yuan)	Year-on-year growth
Gross operating	625520.5	6.9%	358993.8	6.0%	266526.7	8.2%

incomes						
Total operation costs	609066.1	7.1%	344900.0	5.9%	264166.1	8.6%
Total Profits	35961.0	4.7%	22652.7	8.7%	13308.3	—1.5%
Taxes payable	46096.3	—0.7%	32317.1	—0.7%	13779.2	—0.6%
Ratio of profits to cost	6.0%	—0.1%	6.7%	0.2%	5.1%	—0.5%
Asset-liability ratio	63.9%	—0.2%	67.0%	—0.4%	61.6%	0.1%

2.3 Changes of State-owned Enterprises in Economic Development Structure

State-owned enterprises have completed the adjustment of economic structure, which mainly includes two aspects: I. The economic development form of state-owned enterprises has realized a qualitative change from quantitative change; II. The distribution of state-owned assets has realized inter-industry balanced development.

2.4 Highlighted Problems in the Current Reform of State-owned Enterprises

Employees are lack of vitality and effective external management mechanism in state-owned enterprises over the recent two years. Monopoly industry is slow in reform, with big economic downturn resistance, and the total profits of transportation, chemical industry, mechanical design, etc. are increased fast on a year-on-year basis, while the production capacity is way too excessive in coals, crude oil, construction materials, petrochemical industry, etc. During the period, steels and non-ferrous industries are under bad management. Large and medium-sized state-owned enterprises are descended to "worst-hit areas" under bad economic operation, and show a constant drop in operation management performance.

3. New Opportunities are Provided at the Supply Side for the Reform of State-owned Enterprises

The core of supply-side reform is to promote the adjustment of economic structure and realize the conversion of economic development mode. The supply-side reform and the reform of state-owned enterprises are consistent in both the direction and reform subject, and their development phases are identical, with the same reform objective. With the constantly deepened supply-side reform, only by improving the reasonable configuration of production elements in enterprises can the development of reform for state-owned enterprises step into a new phase and forge enterprises to reform their ways of survival and governance. The government has constantly issued and carried out policy documents specific to the reform of state-owned enterprises over the recent two years, as shown in Table 3.

Table 3 Reform Policy Documents of Main State-owned Enterprises over Recent Two Years.

Time	Document name
January 2018	Opinions of the CPC Central Committee about Establishing the Report Mechanism of the State Council about the State-owned Asset Management Conditions to the Standing Committee of the National People's Congress
May 2018	State-owned Equity Supervision and Management Methods for Listed Companies
May 2018	Opinions of the State Council about the Reform of Salary Determination Mechanism for State-owned Enterprises
May 2018	Opinions about Further Promoting the Innovative Development of Central Enterprises

June 2018	Guiding Opinions about Perfecting State-owned Financial Asset Management
July 2018	Guiding Opinions of the CPC Central Committee and the State Council about Perfecting State-owned Financial Capital Management
July 2018	Notice of the General Office of the State Council of the People's Republic of China about Adjusting Members of the Reform Leading Group for State-owned Enterprises under the State Council
July 2018	Implementation Opinions of the State Council about Promoting State-owned Capital Investment and Reform Pilots at Operating Companies
July 2018	Implementation Methods for Investigating Illegal Operation and Investment Liabilities of Central Enterprises (Trial)
August 2018	Key Working Points To Lower the Leverage Ratio of Enterprises in 2018
August 2018	Notice about Further Specifying Matters Related To the Guiding Opinions for Asset Management Business in Financial Institutions
September 2018	Guiding Opinions about Reinforcing Restrictions on Assets and Liabilities in State-owned Enterprises
September 2018	Administrative Regulations about Leaders of Central Enterprises
November 2018	Guidelines for the Compliance Management of Central Enterprises Trial
January 2019	Management Methods for Total Salaries of Central Enterprises
March 2019	Evaluation Method for the Operational Performance of Principals for Central Enterprises
April 2019	Notice of the State Council about Printing and Issuing the Reform Plan for the Authorized Operational System of State-owned Capital
June 2019	List of Decentralization Authorized by the State-owned Assets Supervision and Administration Commission of the State Council (2019 Version)
June 2019	Notice about Matters Related To the Construction of the Working System To Investigate Illegal Operation and Investment Liabilities of Central Enterprises
October 2019	Tentative Methods for Executing Supervision and Management on the Operating Budget Expenditures of State-owned Capital in Central Enterprises
November 2019	Operational Guidelines for the Reform of Mixed Ownership in Central Enterprises
November 2019	Notice about Matters Related To the Further Stock Ownership Incentive Work in Listed Companies Held by Central Enterprises
November 2019	Implementation Opinions for Reinforcing the Construction and Supervision Work of Internal Control System in Central Enterprises
November 2019	Implementation Opinions of the State-owned Assets Supervision and Administration Commission of the State Council about Accelerating the Transformation of State-owned Assets Supervision Function by Focusing on Capital Management
January 2020	Notice about Matters Related To the Reinforced Management of Equity Participation in Central Enterprises
January 2020	Notice about Practically Reinforcing the Management of Financial Derivative Business
January 2020	Notice about Printing and Issuing the Management Methods for Information about the Personnel Prohibited and Restricted by Central Enterprises (Trial)
February 2020	Notice about Printing and Issuing Operating Guidelines for Carrying Out Tenure System and Contracting Management for Members of the Manager Layer in "Double-hundred Enterprises" and Operating Guidelines for Carrying Out Professional Manager System in "Double-hundred Enterprises"

3.1 Supply-side Reform is Beneficial to Cut Overcapacity, Excess Inventory of State-Owned Enterprises, and Accelerate the Reform of State-Owned Enterprises

The supply-side reform plan has given clear suggestions to governmental departments to constantly and timely innovate the economic system and mechanism of state-owned enterprises as the controller of policies related to state-owned enterprises, and regard market demands as the decision maker to reform state-owned enterprises. Supply-side reform is good for separating social responsibilities of state-owned enterprises, accelerating industrial regrouping and the removal of "zombified state-owned enterprises", removing the inventory of state-owned enterprises optimally, and perfecting the mechanism for state-owned enterprises to enter and exit the market.

3.2 Supply-side Reform is Good for The Mixed Reform of State-Owned Enterprises, and Magnify the Asset Function of State-Owned Enterprises

Supply-side reform is good for the comprehensive listing of state-owned enterprises, and providing full support to listed state-owned enterprises to introduce outstanding strategic business partners. The reform of mixed ownership can make private enterprises, foreign-funded enterprises and other types of enterprises to participate, and then promote the development of production and operational activities and improve the competitiveness of state-owned enterprises in the consumer market [5-6]. Therefore, the reform of state-owned enterprises can be promoted by further speeding up the introduction of strategic business partners into state-owned enterprises and implementing mixed supervision. The supply-side reform has given state-owned enterprises an objective request to take the initiative to carry out mixed supervision.

3.3 Supply-side Reform Can Promote to Adjust the Structure of State-owned Enterprises, and Speed up the Market-oriented Reform of State-owned Enterprises

Supply-side reform can promote governmental departments to take the initiative to adjust the enterprise structure, promote state-owned enterprises as independent management subjects and separate management right from ownership. Supply-side reform can promote state-owned enterprises in fund planning, and make them contact with the consumer market directly, assume sole responsibility for their profits or losses, and seek for self-development. Establish post, performance and salary hooked distribution system, and industrial salary performance index. Build sound leading cadre selection and employment supervision network system.

4. New Thoughts on the Reform of State-owned Enterprises under the Environment of Supply-side Reform

By analyzing the form, challenge and new opportunities faced in the reform of state-owned enterprises, it can be seen that the reform of state-owned enterprises should be promoted from both macroscopic and microscopic perspectives.

4.1 Suggestions For Improvement in Economy

Supply-side reform can promote the optimal configuration of production elements and the comprehensive improvement of economic operation quality. The reform of state-owned enterprises carries out resource configuration by the market and then reinforces their power to develop constantly. As the principal force of supply-side reform, state-owned enterprises should take the initiative to solve surplus productivity, speed up the upgrading of technologies, products, formats, etc., and escort the supply-side reform.

4.1.1 Technical Innovation

Keep a foothold in the market economic system, increase the new field of enterprise investment, improve the technical innovation capacity of enterprises, focus on intellectual property protection, list the technical innovation achievements of enterprises into the core contents of the performance

evaluation of operators in state-owned enterprises, while establishing a long-acting performance tracking and evaluation mechanism. Rebuild the incentive system for technical innovation, integrate various incentive measures into the incentive system of technical innovation, to improve the actual incentive effect, and build up a sound income distribution standard of scientific and technical achievements. Adopt "Internet +" mode, promote the transformation and upgrading of traditional industry and realize informatization and networking in technologies.

4.1.2 Change the Supervisory Mode

Change government functions, and realize the idea of "external macro-control of the government, the capital-led configuration of the market". Adhere to the principle of "managing enterprises according to laws", restrict the operation and management subject, and ensure that supervision activities are carried out legally. Effectively separate responsibilities and administrative functions of the contributor; the State-owned Assets Supervision and Administration Commission should effectively supervise state-owned assets as shareholders. Besides, it is requested to announce supervision institutions, to supervise the performance conditions of the State-owned Assets Supervision and Administration Commission, in respect of its relevant responsibilities, realize the mutual check and balance of rights and reach to the supervision effect. Besides, it is also requested to reinforce the use ratio of audit result, reinforce the force of audit and supervision and improve the audit quality.

4.1.3 Change the Operating Mode

State-owned enterprises should know about clear strategic division and cooperation of labor, closely combine basic functions and key functions of different state-owned enterprises in sustainable economic development, divide state-owned enterprises into enterprises of public welfare and commercial orientation, while setting suitable state-owned capital financing companies and operating companies by capital operation approaches, and then further include state-owned enterprises into work type of financing operation and management.

4.2 Suggestions for Improvement in Governance Structure

By implementing internal control, state-owned enterprises can reinforce their internal control management effect, improve their asset management quality, prevent from operational risks, improve their project completion quality and escort for performance improvement.

4.2.1 Improve the Internal Control Awareness of Enterprise Managers

Enterprise managers must increase their internal control awareness, understand that internal control systems in enterprises are set to realize the scientific management of modernized enterprises, so it's necessary for an enterprise to set Shareholders' Meeting to execute the voting right to select directors, and then further define functions and powers of independent directors and supervisors and avoid power overlapping. Meanwhile, make each employee willing to follow relevant rules and regulations, and then exert the biggest effect of internal control management in enterprises.

4.2.2 Build a Sound Internal Control Evaluation System

While carrying out the internal control evaluation, state-owned enterprises should optimize internal control evaluation procedures, compile evaluation reports, communicate with the evaluation subject, and confirm that the contents are specific and normalized, with high evaluation quality. Meanwhile, it is also requested to focus on the selection of internal control evaluation methods, which mainly include detailed evaluation method and basic risk evaluation, to ensure the effectiveness of internal control evaluation.

4.2.3 Sound Internal Control Risk Warning

Consolidate theoretical knowledge about the internal control of employees, exert big force in infusing risk awareness, and ensure obvious improvement in fund utilization rate. Improve the capacity to solve actual problems, define subject responsibilities, coordinate and unify rights and

liabilities, separate incompatible positions, define authorized approval rights, and ensure that enterprises can be successfully operated and produce accordingly.

4.2.4 Implement the Trial of Employee Shareholding Policies

As a major topic of mixed ownership reform, employee shareholding involves the interests of employees, enterprises and relevant parties. It is guaranteed to implement in a stable and comprehensive mode when the legislative system for employee shares is still unsound. As an encouragement to employees in the form of shares, state-owned enterprises should consider comprehensively in combination with the structure and quantity of shareholding employees, the development objective of the target company, and the implementation purpose of the shareholding plan, etc., and then select the shareholding implementation mode suitable for the company in the favor of shareholding employees.

5. Conclusion

In this paper, it provides a comprehensive comprehension about difficulties in the reform of state-owned enterprises based on the cognition on recent development conditions of state-owned enterprises, significance of supply-side reform to the reform of state-owned enterprises and studies on tests faced by state-owned enterprises in the new era, and then puts forward new ideas for the reform of state-owned enterprises, and reinforces the comprehensive adjustment of state-owned enterprises from two structures, i.e., the external economic structure and the internal governance structure of enterprises; Focus on promoting the strategic transformation of state-owned enterprises in innovative development.

References

- [1] Jing GAO, Chunlei GAO. Research on the Development Routes of State-owned Enterprises under the Background of Supply-side Reform. Market Modernization. December 2018.
- [2] Na ZHOU, Lingling ZHUANG. New Thoughts about the Reform of State-owned Enterprises under the Background of Supply-side Reform. East China Economic Management. February 2017.
- [3] Shuchang FU. Reflections on the Achievements, Problems and Countermeasures for the Reform of State-owned Enterprises in Our Country. Economic and Social Development. August 2015.
- [4] Xin LI. Discussion on the Incentive Mechanism for the Technical Innovation of State-owned Enterprises under the Background of Supply-side Reform. Science and Technology & Innovation September 2019.
- [5] Peiyan ZENG. Leaders and Practitioners Promoting the Success of Reform and Opening-up in China. Qiushi. June 2011.
- [6] Hua ZHANG. Brief Discussion on the Construction of Internal Control Evaluation System for State-owned Enterprises. Accounting Learning. February 2020.