

# The Effect of Mixed Ownership Reform on Chinese State-Owned Enterprises' Innovation and Financial Performance

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**Abstract:** This paper studies the main effect of mixed ownership reform on financial performance innovation of state-owned enterprise in China. This paper's indicators are collected from Asian Development Bank and organized as charts. The linear graph was drawn, which presents the trend of each indicator in each year. In conclusion, that the financial performance and innovation has shown significant increments, but SOEs still need to pay attention to the decline of gross domestic savings and development of medium and high technology industry.

**Keywords:** Increment; Financial performance; Innovation, state-owned enterprise; Reform

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## Introduction

In transformation of the economic structure of Chinese state-owned enterprise (SOEs), state-owned enterprises have gone through five stages, decentralization, separation of powers, modernization, shareholding system, and mixed-ownership reform. Due to the overlapping in the mixed-ownership reform stage, China's economic development faces unprecedented challenges. Most state-owned enterprise are in traditional industries, their proportion in the secondary industry is decreasing, making it more difficult for enterprises to operate. In addition, the problem of environmental pollution has intensified. In the context of these problems, there are few papers about the effect of mixed ownership reform on financial performance and innovation of all Chinese state-owned enterprises, which is very critical for the study of the transformation of state-owned enterprises and can also provide insights for the problems in the mixed reform.

## 1. Problems related to Chinese SOEs

### 1.1 Uneven allocation of resources

State-owned enterprises (SOEs) are an significant part of the Chinese economy. Despite the widespread perception that SOEs operate inefficiently, the Chinese economy has relied heavily on SOEs and has achieved great success over the past forty years (Lin et al., 2020).

However, Liao(2021) points out that the policy burden of State-Owned enterprises increases the cost of management agency, reduces financing constraints and reduces the efficiency of resource allocation. Jefferson(2016) further revealed the relationship between monopoly and resource allocation. Specifically, the government's allocation of resources leads to market monopoly. State-owned enterprises and an uneven playing field. State-owned enterprises expand their operations to generate excess capacity, and their operations squeeze the activities of private enterprises. This reduces the efficiency of resource use, thus causing huge losses to China's economy.

### 1.2 Historical background of Chinese SOEs

#### 1.2.1 Ownership Reforms

In order to deal with the above issues faced by Chinese SOEs, the domination within SOEs gradually moves from totally government-controlled enterprises to the private-owned enterprises. During Post-Mao era, Mao launched the economic reforms. Reforms were aimed at transforming the centrally planned economic system into a market economy (Shi&Sun, 2015). And under the Xi Jinping administration, instead of privatization, mixed-ownership reform is being promoted in the form of injecting private capital into state-owned enterprises (Kwan, 2020). However, until the late 1970s, China adopted the reform and opening-up policy, private

enterprises have been risen to surpass the state-owned enterprises in terms of revenue and employment (Kwan, 2020).

### **1.3 Critiques after reforms**

#### **1.3.1 Governance**

Kwan (2020) stated that SOEs reform create a level and competitive environment by minimizing government intervention in business activities. This is also necessary to promote the growth of private enterprise. Chow(2005) proposes that reducing the size of government departments is the basic way to solve the problem of corruption in China, and attention should be paid to the problems that may involve corruption in the process of privatization.

On the other hand, the shareholding reform has empowered opened the door for the secondary market in China. The expectation of privatization quickly increased output, profits and employment of SOEs, but did not change their operating efficiency (Li et al., 2013). Apart from the operating inefficiency, a greater distance between the government and the enterprise should lead to a higher likelihood of decentralization(Huang et al., 2015). Hence, the reform severed the symbiosis relationships through the introduction of banking and corporate governance.(Xu et al., 2005).

### **1.4 Summary & Research Gap**

The above studies gives this research a significant view through the lenses of flow of resources and operation within SOEs during the first four stages of reform. However, little research contribute some perspectives related to financial performances and the innovation of SOEs during the Chinese mixed ownership reform Methodology.

## **2. Sample**

The indicators of financial performance and the innovative ability are collected from Asian Data Bank(ADB). The indicators of financial performance are stock market capitalization, liabilities excluded from and included in broad money, gross domestic saving and gross national saving and net factor income. As for the indicators of innovation. There are three indicators, research development expenditure, which can measure the main contribution to the research abilities in the form of expenditure, researchers, proportion of high technology in China. These indicators are found from the year of 2013 to 2020, as a total of 12 years. In order to make the changes of innovation and financial performances be clear, 3 years before mixed ownership reform (2011 to 2012) are collected.

## **3. Procedure**

These indicators about financial performance and the innovative ability are collected to the Excel for presentation. Each year has its own indicators of financial performance and innovation. Those data are listed clearly in the chart. And then the main indicators are selected from ADB, the line graph is drawn from automatic graph generator in Asian Development Bank. The growth and decline trend of various indicators of financial performance and innovation since the reform can be seen from the current statistical chart and raw data collected from Excel.

## **4. Discussion**

From the graph above, it is clear that the indicators measuring the innovation and financial performance has been increased and two of the indicators has shown a little and constant decline and stable trend of increment.

### **4.1 Financial performance**

#### **A. Gross capital formation**

During the mixed ownership reform, the gross capital formation at current prices from the first column has increased from 19186690000000 to 44240060000000 Yuan. The total is equal to the sum of fixed capital formation. Gross fixed capital formation is the value of fixed assets purchased, transferred and produced by producers for their own use during the accounting period less the disposal (sale and transfer out) of fixed assets. The rise in total capital formation can be seen as a rise in total capital, and the survival of Chinese enterprises has also risen. Gross national saving at current prices has increased from 20791000000000 Yuan.

#### **B. Gross domestic and national saving**

Gross domestic saving at current prices has increased from 20692400000000 to 46237120000000 Yuan, and it shows the similar increment as gross national saving does. National saving represents the deduction of disposable income from final consumption expenditures. The upward trend means that unused disposable national income must be used to acquire assets and reduce liabilities of Chinese SOEs

#### **C. Net current and foreign transfers**

Net current transfers from abroad at current prices has increased from 275100000000 to 64500000000 Yuan. Net foreign current transfer said the increase in the national income increase, residents property income, therefore must be done to ensure the national

debt reduction, make a failed companies can get reasonable disposal in accordance with the law, fully safeguard the interests of all parties, make entrepreneurs and professionals to be able to quit in time, new opportunities. Gross domestic saving (% of GDP) has decreased from 50.20973296 to 46.15517415 percent of GDP. The decline of total domestic savings indicates that the deposit capacity of Chinese enterprises decreases after the mixed-ownership reform stage .

## 4.2 Innovation

### A. Research and development expenditure

Research and development expenditure as a proportion of GDP (%) has increased from 1.71372 to 2.14058 as a proportion to GDP, it has doubled as proportion to GDP. It's obvious that that the money spent for doing research or developing an academic topic has been increased. It means that the support for government for research in academic area and the people's willingness to solve the world or academic problems has been increased, and they spent more energy and attentions on it as a form of expenditure.

### B. Full time equivalent researchers

Full time equivalent researchers in has been increased largely from 884.59337 to 1307.12128 per million habitants, which means that there are more people willing to be the researchers for full time and willing to challenge themselves , contribute their new ideas to new ideas to the confusion or issues or problems of the academic or practical topics around the world. More of them are willing to explore unknown.

## 4.3 Financial performance

The overall living quality of Chinese is improved during privatization of SOEs. Recent decades of privatization have seen tremendous progress in the increase in Chinese per capita GDP. Besides, the increment of foreign capital flow is necessary to ensure the reduction of national debt, fully safeguard the interests of all Chinese parties, and enable entrepreneurs and professionals to resign in time and obtain new opportunities. Moreover, from the drastic improvement of net current transform, it can be seen that the level of Chinese national income and fiscal income has been improved.

However, the ability of domestic saving has been in decline. The transfer of net foreign capital flows indicates the increase of national income and residents' property income, and the decrease of national debt. Also, the decrease of overseas liquidity makes bankrupt enterprises unable to be reasonably disposed of in accordance with the law and fully safeguard the interests of all parties. So, this leads to low entrepreneurial opportunities for entrepreneurs due to the increase of debt.

## 4.4 Innovation

Apart from three indicators, high and medium high-tech industries, the number of researchers devoted to and amount of expenditure spent on research is the point to growth. Besides, proportion of medium and High-Tech industry value added in total value has shown has shown no clear and noticeable trend for stable increment.

## 5. Limitations

Although this paper gives a brief introduction to the improvement or decline of financial performance and innovation ability after the mixed-use reform and some reform suggestions, it lacks the connection and arrangement between the conclusion and previous papers, resulting in a lack of combined analysis of previous studies and this paper. In addition, the analysis of the innovation capability of Chinese enterprises is insufficient, because SDGs indicators often do not reflect the situation of specific Chinese enterprises. This should be further analyzed in the next paper.

## References:

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