

Research on the Forefront Issues of Function-Based Reform of State-Owned Enterprises

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Abstract: The function-based reform has become the key factor for the success of deepening reform of Chinese state-owned enterprises. In practice, local state-owned enterprises and central enterprises', as important branches of state-owned enterprises, evolution of function-based reform mode is an important prerequisite for the scientific and effective development of function-based reform of state-owned enterprises. In theory, the analysis of the effect of function-based reform of state-owned enterprises by relevant scholars can effectively test the correctness and value of function-based reform of state-owned enterprises, and provide a reference route for the subsequent scientific development. In view of this, in this paper, through the collection and study of relevant literature in recent years, the classification methods of state-owned enterprises were elaborated and summarized from two aspects of local state-owned enterprises and central enterprises, and the research status of the effect of the function-based reform of state-owned enterprises in academia was summarized.

Keywords: State-owned enterprises, function-based reform, classification method, reform effect.

1. Introduction

State-owned enterprises refer to solely state-owned enterprises, wholly state-owned companies and state-owned capital holding companies that the State Council and local people's governments respectively perform the responsibilities of investors on behalf of the state, including enterprises at the same level and those formed by investment step by step under the supervision of central and local state-owned assets supervision and administration institutions and other departments.

Since the reform and opening up in 1978, the reform of state-owned enterprises in China mainly involves the reform of replacement of profit by tax, the leasing system, the managerial responsibility system of contracting and so on. However, in the early stage of the reform, due to the absence of relevant regulations to define the functions of state-owned enterprises, many state-owned enterprises were uncertain on both sides of the "profitability" and "public-interest" missions, which seriously affected the efficiency of enterprises. Between the target level and the strategic planning level, the unclear functional boundaries of state-owned enterprises have become the key factors

that hinder the promotion of the deepening reform of state-owned enterprises. The introduction of the idea of function-based reform has become the basic premise to improve the performance of state-owned enterprises, continue to promote the reform of state-owned enterprises and keep the vitality of enterprises alive.

In the past 20 years, the effective implementation of the function-based reform has greatly promoted the pace of deepening the reform of state-owned enterprises in China and has made outstanding contributions to the continuous promotion of the reform of state-owned enterprises. Some scholars have made relevant research on the classification methods of state-owned enterprises, but few have carried out research on the way of function-based reform based on the classification of state-owned enterprises. At the same time, it should also be noted that some problems have also emerged in the process of function-based reform, such as how to prove whether the function-based reform of state-owned enterprises is of value. Does the classification of state-owned enterprises lack corresponding supporting measures? Therefore, in this paper, according to the division of administrative authority of state-owned assets, state-owned enterprises will be divided into local state-owned enterprises and central enterprises, and relevant policy materials will be collected to discuss the specific ways of function-based reform of state-owned enterprises from these two aspects. Meanwhile, the relevant literature on the effect analysis of function-based reform of state-owned enterprises in recent years will be collected, read, classified and summarized, and its specific significance and future development route will be explored, so as to provide reference for scientific research in the direction of function-based of state-owned enterprises [1].

2. Classification Method of Local State-Owned Enterprises

On December 7, 2013, Shanghai announced "20 Articles on the Reform of State-Owned Enterprises", which fired the first shot at the reform of local state-owned enterprises. Since then, all parts of our country have begun to set up management systems suited to local conditions and tried their best to build a management model based on enterprises and policies. The gradual emergence of local samples has contributed features and highlights to the reform and has made useful exploration. It is found in the process of sorting out the reform policies of state-owned

enterprises in various provincial administrative regions that the idea of state-owned enterprise classification has been introduced in some local state-owned enterprise reform paths, and the specific classification basis and classification methods have been clearly standardized.

Different provinces in China have different local policies, culture, functional orientation and economic environment, resulting in different business directions and objectives of state-owned enterprises in different regions. Therefore, the classification methods and basis of state-owned enterprises in different parts of China are varied from each other. The study of relevant literature shows that there are three kinds of classification methods of state-owned enterprises, namely “dichotomy”, “trichotomy” and “pairwise classification” [2].

2.1. Dichotomy

As the name implies, “dichotomy” divides state-owned enterprises into two categories, which serves as the classification basis for their function-based reform and classified governance. Scholars have different opinions on the basis of judging the classification of state-owned enterprises. Zhou Shulian (1992) is the earliest domestic scholar who studies the classification of state-owned enterprises by “dichotomy”. He believed that only by dividing state-owned enterprises into two parts and proposing different enterprise goals and historical missions for different types of state-owned enterprises can the efficiency of enterprise operation be improved, and that only by implementing classified guidance in the reform of state-owned enterprises can we further emancipate our minds and promote the orderly development of national development plans [3]. Lan Dingxiang (2006) divided state-owned enterprises into public state-owned enterprises and non-public state-owned enterprises according to the nature of property rights, so as to promote the establishment of modern property rights system [4]. Shao Ning (2011) believes that the fundamental changes in the development layout of the state-owned economy have led to the major layout of the state-owned economy in large enterprises, and divided the state-owned enterprises into functional and competitive state-owned enterprises according to the different functions of the enterprises [5].

Some provinces, under the guidance of relevant national documents, have fully studied and summarized the research results of relevant scholars, and formulated the function-based reform methods of local state-owned enterprises according to local conditions. In the *Opinions on Classified Supervision of State-owned Enterprises Directly under the Autonomous Region* issued by Inner Mongolia Autonomous Region in 2014, the state-owned enterprises directly under the Inner Mongolia Autonomous Region are divided into two categories: specific functional and commercial competitive state-owned enterprises. In 2016, Zhejiang Province issued the *Opinions on Defining the Functional Orientation of Provincial Enterprises and Implementing Classified Supervision*, which divided 19 provincial enterprises into two categories, i.e., functional category and competitive

category, providing a prerequisite for the subsequent promotion of function-based reform, classified supervision and classified development of state-owned enterprises.

2.2. Trichotomy

As the high-quality development of China’s economy has promoted the increasing variety and quantity of state-owned enterprises in China, some scholars argue that the dichotomy is no longer applicable, and state-owned enterprises should be further subdivided. In Huang Qunhui’s opinion (2022), in order to realize the great rejuvenation of the Chinese nation, Chinese state-owned enterprises should undertake three distinctive historical missions for a long period of time. Correspondingly, there must be three categories of state-owned enterprises, namely, public-interest guarantee category, specific function category and commercial competition category [1]. After Gao Minghua et al. (2014) combined the actual situation in China and the survey data of seven state-owned enterprises, they found that state-owned enterprises can be divided into monopoly, competition and public-interest state-owned enterprises according to their functional orientation [6].

In some provinces of China, the function-based reform of differentiated state-owned enterprises is also carried out by using the method of trichotomy. In the *Implementation Opinions on Defining and Classifying the Functions of State-owned Enterprises in the Autonomous Region* issued by Inner Mongolia Autonomous Region in March 2016, the state-owned enterprises in the autonomous region are divided into three categories: commercial competitive type, specific functional type and public-interest type. The *Implementation Opinions of the Provincial SASAC on Classified Supervision of Funded Enterprises* issued by Heilongjiang Province in 2015 classifies the funded enterprises into commercial and public-interest categories based on the functional orientation and market attributes of state-owned capital and the current reality and development direction of them, among which commercial enterprises are classified into commercial category I and commercial category II. The *Notice of the General Office of Chongqing Municipal People’s Government on Function Definition and Classification of Municipal State-owned Key Enterprises* issued by Chongqing in 2016 clearly defines the classification methods of local state-owned enterprises, and divides municipal state-owned key enterprises into commercial category I, commercial category II and public-interest category, which is consistent with the classification standards of local state-owned enterprises in Heilongjiang Province.

2.3. Pairwise classification

Compared with the other two methods, “pairwise classification” is relatively seldom used, only by a few scholars. Specifically, it refers to the division of non-competitive or public-interest into two categories on the basis of the division of state-owned enterprises into competitive and non-competitive or public-interest and non-public-interest, or the division of one category into

two categories on the basis of the division of state-owned enterprises into two categories.

According to the *Guiding Opinions on Function Definition and Classified Supervision of Provincial Enterprises (Trial)* issued by Sichuan, provincial enterprises are generally defined as commercial enterprises, and specifically divided into functional enterprises and competitive enterprises. At the same time, functional enterprises are subdivided into functional type I and functional type II (with competitive businesses), and competitive enterprises are subdivided into competitive type I and competitive type II (with functional tasks). In 2017, Guangxi promulgated the *Classification Scheme for Enterprises Supervised by the SASAC of the Autonomous Region*, which divided the provincial state-owned enterprises into commercial and public-interest categories. The commercial category is subdivided into commercial category I, II and III, corresponding to competitive enterprises, functional enterprises and financial enterprises. The public-interest category is divided into public-interest category I and II. The former takes safeguarding the people's livelihood, serving the society and providing public products and services as its main objective, while the latter takes providing spiritual products, disseminating ideological information and shouldering the mission of cultural inheritance as its main objective, putting social benefits first and realizing the unification of social benefits and economic benefits.

3. Classification Method of Central Enterprises

On September 26, 2015, in order to further scientifically classify the types, strengthen and improve the assessment of central enterprises, effectively improve the scientific nature and ensure the effectiveness and efficiency of the assessment, the *Implementation Plan on Improving the Functional Classification Assessment of Central Enterprises* was formulated, which took the lead in opening the curtain of the function-based reform of central enterprises and laid a solid foundation for the follow-up and more scientific function-based reform measures and methods of central enterprises. In the plan, the central enterprises are divided into two categories based on their main business areas: commercial enterprises and public-interest enterprises, in which the former is further divided into commercial central enterprises (Commercial category I) whose main businesses are in industries and fields with full competition and commercial central enterprises (Commercial category II) whose main businesses are in important fields related to national security and which mainly undertake major special tasks [7].

To sum up, the plan essentially divides the central enterprises into commercial category I, II and public-interest category.

4. Analysis on the Effect of Function-Based Reform of State-Owned Enterprises

One of the keys to the reform of state-owned enterprises in the new period is to establish an accurate market positioning and functional attributes of them and to solve

the conflict between the dual attributes of them. In August 2015, the CPC Central Committee and the State Council issued the *Guiding Opinions on Deepening the Reform of State-owned Enterprises*, which broke through the ideological shackle of "treating state-owned enterprises equally" in the previous reforms, determined the mission, functional orientation and objectives of enterprises according to the characteristics of different types, divided them into commercial and public-interest state-owned enterprises, and formulated targeted reform measures for differentiated governance. Since the function-based reform has been implemented for several years, it is urgent to conduct an empirical study on the achievements made in the exploration of state-owned enterprise reform in the new period [8].

Lyu Chunyu (2021) studied the policy effect of function-based reform of state-owned enterprises under the background of the function-based reform policy introduced in the second half of 2015, and draw the main conclusions: First of all, the function-based reform has improved the mission conflict in the development of state-owned enterprises. For commercial state-owned enterprises, the function-based reform has strengthened their market orientation, lightened their social public responsibility in pursuit of profit, made the competition more complete, and improved enterprise performance. Secondly, different levels of government intervention in different regions have affected the performance improvement effect of function-based reform. Further analysis shows that management constraint is one of the mechanisms for function-based reform to improve the performance of commercial state-owned enterprises, which shows that function-based reform has alleviated the serious principal-agent problem in state-owned enterprises. Although shareholder governance has reduced the concentration of ownership, it is still not enough to restrain the major shareholders and thus improve the performance of enterprises [8].

Zhu Tao and Zhan Mengting (2021) examined the impact of the function-based reform on the investment efficiency of competitive state-owned enterprises based on the quasi-natural experiment with the function-based reform of state-owned enterprises in 2015. The study found that the function-based reform has significantly improved the investment efficiency of competitive state-owned enterprises, which is mainly manifested in the suppression of over-investment. They also found that the function-based reform can only improve the investment efficiency of competitive state-owned enterprises in low-competitive industries after considering the differences of industry competition, and that it significantly improved the investment efficiency of state-owned enterprises in regions with higher levels of government intervention after considering the regional differences. Analysis on the mechanism shows that the function-based reform has significantly improved the shareholder governance of state-owned enterprises, but no significant improvement has been found in the salary incentive of state-owned enterprise executives [9].

Xie Haiyang et al. (2019) empirically tested the relationship between the embedding of party organizations in the board of directors and investment efficiency through the case study of the A-share state-owned listed companies in Shanghai and Shenzhen from 2010 to 2017, and concluded that in state-owned enterprises, the embedding of party organizations in the board of directors can significantly improve investment efficiency, which is mainly manifested in the suppression of over-investment. Furthermore, according to the function-based reform policy of state-owned enterprises, all the samples were grouped and investigated. The results showed that the embedding of party organization in the board of directors can effectively improve the investment efficiency of state-owned enterprises of commercial competition category, rather than in the specific functional and public-interest state-owned enterprises. The study also found that the governance effect of the party organization embedding in the board of directors on inefficient investment behavior can ultimately improve the performance of state-owned enterprises [10].

In addition, some scholars explored the construction of rules and regulations, reconstruction of relevant models and other issues matching with the function-based reform from the perspective of the function-based reform of state-owned enterprises. For example, Yuan Bihua (2020) believed that the function-based reform of state-owned enterprises is not only to classify the state-owned enterprises, but also to embody the classification concept in all aspects of the operation and management of the state-owned enterprises, especially the investor model which is closely related to the management system of the state-owned enterprises. With the introduction of the function-based reform of state-owned enterprises as an opportunity, in order to realize the "freedom" of party organizations' participation in state-owned enterprise governance, Liu Dahong and Xu Danlin (2017) believed that party organizations can participate in different types of state-owned enterprise corporate governance through indirect guidance and direct intervention [11].

5. Conclusions

The function-based reform of state-owned enterprises is the logical starting point to comprehensively deepen the reform of mixed ownership in China and the prerequisite to promote the function-based, classified development, classified supervision and classified formulation of rules and regulations of state-owned enterprises. The classification method according to local conditions introduced by the state-owned enterprises in various regions is a useful exploration to promote the deepening reform of the state-owned enterprises, which fully reflects the value of "first try" for local areas. From both

theoretical and practical perspectives, local reforms have their own unique significance and value.

Although the academic circles have some differences on the function-based reform of state-owned enterprises, they generally emphasize the necessity and urgency of the function-based reform of state-owned enterprises. Some scholars have also proved that the function-based reform of state-owned enterprises plays an important role in business performance and investment efficiency through empirical tests and other research methods. In addition, the function-based reform of state-owned enterprises not only defines the category of enterprises, but also requires the corresponding legal system, capital contribution model and other supporting measures to keep up in order to maximize the effect of the function-based reform of state-owned enterprises.

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