The Feasibility and Reorganization Mode of Monopoly State-owned Enterprises Reorganized into State-owned Capital Investment and Operation Company

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Abstract. The Monopoly state-owned enterprises are the main components of China's state-owned enterprises. At present, there is still a problem of inefficiency and need to be reformed. The reorganization into state-owned capital investment and operation companies provides a good opportunity for reform. Through research, this paper believes that monopolistic state-owned enterprises have the feasibility of restructuring at the subsidiary level, and proposed three specific reorganization modes.

Introduction

Monopoly SOEs are the main component of China's SOEs, accounting for an absolute proportion in terms of assets scale, profits and other indicators. Their reform is relatively backward, which restricts the further improvement of China's resource allocation efficiency. Yang Jisheng and Yang Jianhui (2015) found that the management efficiency of privately-held enterprises is about three times that of state-owned enterprises, and the sensitivity to the economic environment is 5.5 times that of state-owned enterprises. Therefore, the reform of monopoly SOEs in the future should continue in the direction of marketization, with the goal of improving management efficiency and enhancing market response. At the same time, however, the reform of monopoly SOEs cannot take the wrong path of splitting and privatization. In the future, China still needs to compete with multinational enterprises in developed countries through the organization of large monopoly state-owned enterprises. Yang Huiling (2015) and Jiang Yong (2012) believe that under the background of the global expansion of international monopoly capital, China's state-owned enterprise reform should not only create a competitive environment for the development of the domestic market economy, but also ensure that it is “bigger and stronger” and conducts with multinational companies. International competition.

At present, China is pursuing a new round of state-owned enterprise reform. Among them, the restructuring and formation of state-owned capital investment operation companies (referred to as "two types of companies") became an important part. By establishing state-owned capital investment operation companies, it is conducive to scientifically defining the boundary between state-owned capital ownership and management rights, and reforming the state-owned capital authorization management system based on capital management. At present, the pilots of the two types of companies are still in the exploratory stage. This paper considers the feasibility and restructuring mode of establishing state-owned capital investment operation companies to promote the reform of monopoly state-owned enterprises, thus providing ideas for deepening the reform of monopoly SOEs under the new situation.

Feasibility of Reorganizing Monopoly SOEs into State-owned Capital Investment Operating Companies

The state-owned capital operation company is a company that is mainly based on capital operation and does not invest in industry. The operation target is the state-owned capital (equity) held by the
state, including the property rights of SOEs and state-owned shares in company-owned enterprises. The operation is mainly in capital. Market. The state-owned capital investment company is mainly engaged in investment financing and project construction. It owns shares through investment industry and realizes the preservation and appreciation of state-owned capital through asset management and management markets.

The Monopoly SOEs have important industrial missions and cannot be reorganized into operating companies, It is more in line with the scope of the investment company.

From the group level, in the short term, the reorganization of monopoly SOEs into state-owned capital investment companies is not feasible, mainly because of two aspects. First of all, monopoly SOEs do not belong to the central enterprises of Commercial first-class whose main business is in the field of full competition. At present, the pilot projects of the two types of companies carried out by SASAC are all competitive areas. Secondly, monopoly SOEs are generally diversified in business but have core businesses, different business segments do not belong to an equal relationship, and monopolistic business is a regulated business. If reorganized into an investment company, diversified development may lead to social doubts about fairness, because the monopolistic business is exclusive, and enterprises may use monopoly services to subsidize competitive business, thus creating unfair competition.

However, at the subsidiary level, monopolistic SOEs have the feasibility of restructuring state-owned capital investment companies.

In theory, First, within the monopoly SOEs, the market-competitive enterprises belong to the category of commercial fist-class, which is in line with the characteristics of the current two types of pilot companies in the competitive field. Second, in terms of organizational structure and management, the competitive business of monopoly SOEs generally has a specialized business platform, and initially has the prototype of the second-tier specialized asset layer of the investment company. Third, Many of the competitive businesses of the current monopoly SOEs, although there is no overcapacity. However, there is a need for industrial concentration and optimized layout.

From a practical point of view, there have been attempts by central enterprises to reorganize at the subsidiary level. It is mainly the three central enterprises in the field of telecommunications. For example, at the end of 2016, China Mobile established the “China Mobile Capital Holding Co., Ltd.” and “China Mobile Investment Holding Co., Ltd.”. However, at present, the reorganization attempt of the central enterprises at the second level has not been substantially recognized by the SASAC, nor has it obtained corresponding policy concessions.

The Main Mode of Reorganization of Monopoly SOEs into State-owned Capital Investment Operation Companies

Based on the above analysis, this paper proposes three feasible modes for the reorganization of monopoly SOEs into state-owned capital investment companies.

(1) Mode 1: Establish capital investment company at the subsidiary level

Level 2 subsidiary level: Establishing state-owned capital investment company, as a capital investment operation platform for the main competitive business, the Group implements 100% holding. The group headquarters fully authorizes the investment company except for major issues, and focuses on capital return assessment. The Group does not implement penetration management for investment companies.

Level 3 subsidiary level: Under the investment company platform, establishing the specialized capital layer of each business segment, that is, the group company of each business segment, is responsible for the unified management and control of the business segment. The investment company fully authorizes each business group except for major issues, focuses on capital return assessment, and demand for holdings in equity ratio.

Level 4 subsidiary level: under each business group, it is a business enterprise controlled by a business group.
(2) **Mode 2: Establish both capital investment company and capital operation company at the subsidiary level**

**Level 2 subsidiary level**: Both establishing the state-owned capital investment company and the state-owned capital operation company. The investment company is the capital operation platform of the main competitive business, the operating company is mainly engaged in capital operation. The group company implements 100% control of the two types of companies. The group headquarters fully authorizes the investment company except for major issues, and focuses on capital return assessment. The Group does not implement penetration management for investment companies.

**Level 3 subsidiary level**: Under the investment company platform, establish the specialized capital layer of each competitive business segment. The investment company fully authorizes each business group except for major issues, focuses on capital return assessment, and demand for holdings in equity ratio. Under the operating company platform, each specific enterprise is invested. The industrial significance of each other is not significant. More is the difference in the concept of abstracted capital return. The operating company has relatively controlling or participating in the third-tier subsidiaries. Involved in the specific operation of the company, only as a financial investor.

**Level 4 subsidiary level**: The four levels of the investment company field, there are the business enterprises controlled by the business group. There are no four-tier companies in the operating company field.

(3) **Mode 3: Establish virtual capital investment company at group-level**

**Group-level**: Establish a virtual state-owned capital investment company at the headquarters level, which is similar to the nature of the committee. The members are composed of the company's main leaders and some management talents in the fields of strategy formulation and financial management. The virtual institution is the main competitive business of monopoly state-owned enterprises. Capital investment operation platform. The advantages are that it will not increase the management level, and at the same time isolate the competitive business investment operation from
the functional departments of the headquarters, and it can play a management mode based on “management capital” for competitive business.

**Level 2 subsidiary level:** Under the virtual investment company platform, the specialized capital layer of each business segment is established. The investment company fully authorizes each business group except for major issues, focuses on capital return assessment, and demand for holdings in equity ratio.

**Level 3 subsidiary level:** Under each business group, it is a business enterprise controlled by a business group.

![Figure 3. Establish capital investment company at group-level virtual.](image)

The three models are not absolutely superior and inferior, and are applicable to different stages of development. For this reason, based on the perspective of enterprise development, there is a corresponding reorganization path.

The state-owned capital investment operation company has the meaning of fulfilling the duties of the investor, and needs sufficient management authority to exert the management advantage of the competitive business. This leads to a contradiction, that is, the more effective the management of the investment operation platform, the weaker the control of the investment operation platform by the headquarters. If the headquarters implements a certain degree of control over the investment operation platform, it means that the latter has less authority, it is difficult to give full play to the management advantages of competitive business, and the significance of the reorganization will be weakened. Therefore, this paper believes that the virtual construction of the investment operation platform at the headquarters level, that is, the mode of reorganization of mode 3, is an ideal model, but need a transition process.

This paper believes that we can first transition to Mode 1, and set up an investment company at the level of the second-level subsidiary; then transition to Mode 3, set up a virtual capital investment company at the group level, and cancel the investment company at the second level.

**Main Conclusions**

Monopoly SOEs are the main components of China’s SOEs. At present, there is still a problem of inefficiency and urgent reform. From the perspective of reform, reform should not be split and privatized, but should strive to improve efficiency on the basis of existing scale. From the perspective of the situation, the reform of SOEs is in the period of deepening the promotion, and the reorganization into two types of companies provides a good opportunity for the reform of monopoly SOEs.

From the perspective of reorganization, in the short term, monopolistic SOEs still do not have the feasibility of restructuring at the group level, but at the subsidiary level, they have the feasibility of restructuring into two types of companies. In theory, the competitive business within the monopoly state-owned enterprises belongs to the business first-class, and the corresponding business sector is initially formed on the organizational structure, and there is a need to further optimize the layout. In practice, there have been telecom central enterprises trying to establish state-owned capital investment operating companies at the subsidiary level.

From the perspective of the reorganization mode, this paper proposes three specific reorganization modes. Mode 1 is the establishment of a state-owned capital investment company at the subsidiary level. Mode 2 is to establish a state-owned capital investment company and a
state-owned capital operation company at the subsidiary level. Mode 3 is a state-owned capital investment company with a virtual group level. Moreover, it is recommended that monopolistic state-owned enterprises first transition to mode 1, and then transition to mode 3 to promote reforms in a gradual and steady manner.

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