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Research on the Influence of Mixed Ownership Reform on Financial Flexibility of State-Owned Enterprises

Feng-xin ZHU[1,a], Yu-fang DING[1,b,*] and Ya-ming ZHAO[1,c]

[1]School of Management, Northwest Minzu University, Lanzhou, Gansu, China

[a]2860488145@qq.com, [b]1050761104@qq.com, [c]2601844698@qq.com

*Corresponding author

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Abstract. This paper selects the data of A-share manufacturing enterprises in 2010-2019 as the sample, and the impact of mixed ownership reforms on the financial flexibility of the state-owned enterprises was studied by double differential methods. The results showed that there were differences in the effects of mixed ownership reform on different types of flexible reserves of enterprises. In the reform, the state-owned enterprises have significantly improved the flexibility in the debt, but the flexibility in cash is significantly reduced. Finally, the article puts forward relevant recommendations for state-owned enterprises based on the above conclusions.

1. Introduction

The 19th National Congress of the Communist Party of China further proposed "Deepening the reform of state-owned enterprises, developing the mixed ownership economy, and cultivating world-class enterprises with global competitiveness." The impact of hybrid ownership reform is comprehensive and profound: the degree of equity diversification affects the fact that the business goals and market laws have; the equity concentration affects the discourse rights of small shareholders in the enterprise and the interests of shareholders; the equity balances affect scientific and effectiveness of group decision. The above factors will affect the ultimate decision of the company, including financial flexibility decisions.

Financial flexibility is the ability to quickly mobilize financial resources to prevent and use future uncertainties, thereby achieving maximizing corporate value. Enterprises seek survival in changing environments, and their ability to grasp environmental changes determine the sustainable development of the company. Therefore, the reserve financial flexibility has become an important means of enhancing environmental adaptability in all walks of life. The irreversible trend of global economic integration makes our country's economy is closely related to other countries. The uncertainty of the international environment is increasing, while at the same time, China is in the case of industrial structure upgrade and economic development. Financial flexibility is more strategically important for business in this case. This article will study the following issues: whether hybrid ownership reforms have an impact on corporate financial flexibility, and whether the impact on cash flexibility and liability flexibility are the same.

2. Theoretical Analysis and Research Hypothesis

Financial flexibility can be divided into three different types of liability flexibility, cash flexibility, and equity flexibility. However, in the actual context of my country, the third is to be strictly controlled by relevant departments, lacking the flexibility of the market. Therefore, this paper is studied from two aspects of liability flexibility and cash flexibility, respectively.

2.1. Analysis of the Influence of Hybrid Ownership Reform on Liability Flexibility

The liability flexible refers to the difference between the total borrowing capabilities and the actual borrowing quota. From the perspective of equity, state-owned stocks have a strong political color, making the value goal of state-owned enterprises contain considerable part of social responsibility

[1]. Mixed ownership reform will infuse non-state capital into state-owned enterprises. The diversification of equity nature pushes state-owned enterprises to the market to achieve value added. On the one hand, the improvement of performance can enable the company to have a higher financing quota. On the other hand, the improvement of business capabilities makes the corporate funds gap and the amount of liabilities consumed is reduced, thereby increasing the flexibility of the liability. From the perspective of equity concentration, a large situation of state-owned stocks is weakened. Previously, management is excessively borrowing for their own interests, regardless of enterprises. Now this behavior has been contained, the level of debt is reduced, and the liability flexibility is improved. From the perspective of equity, mixed ownership reforms make the relationship between shareholders becomes reasonable and balance in the proportional structure, so that the internal governance mechanism of enterprises is more sound [2]. With the improvement of internal governance mechanisms, the importance of creditors' external governance effect is weakened. The debt movement is weakened and the liability flexibility is improved. According to this, this article proposes the first assumption:

H1: After mixing the ownership reform, the flexibility in the debt of state-owned enterprises has increased.

2.2. Analysis of the Influence of Mixed Ownership Reform on Cash Flexibility

Cash flexibility is the amount of cash and cash equivalents held by enterprises exceeding the amount required for daily business activities. Cash balances are not easy to be objectively recorded and regulated compared to other payment methods such as bank cards. This provides operational space for the management of the company's overall interests to meet the individual's exclusive behavior [3]. In order to restrict management's improper behavior, companies need to invest more supervision and control cost. With the gradual progress of mixed ownership refeorm, new shareholders as important stakeholders will drive the company's decision-making more in line with the development requirements of market laws. Improvement of resource allocation efficiency can maximize their own interests. Therefore, cash flexibility will inevitably be reduced in the process of mixing all the reforms to reduce idle resources, thus maximizing the resource disk and put into activities that enhance corporate value. Based on this, this paper proposes the second assumption:

H2: After mixing the ownership reform, the cash flexibility of state-owned enterprises is reduced.

3. Research Design

3.1. Sample Selection

This paper selection 2010-2019 manufacturing A-share listed company as a sample, and uses Excel to perform the following screening: (1) Exclude St, * ST Company; (2) Cut off the company that lacks key data; (3) The obvious abnormal value existing in the sample is eliminated. Finally 11,540 non-balanced panel data are obtained.

3.2. Variable Definitions

Explained variable: Refer to the research method of scholars, this paper uses the value of the company's own cash ratio than (or less) the average cash ratio of the industry to measure the cash flexibility of the company. This paper uses the industry average liability ratio than (or less) value of the liabilities ratio of the company itself to measure the liability flexibility of the company.

Explanatory variables: Treat is virtual variables, Treat = 1 and Treat = 0 respectively represent state-owned enterprises (experimental groups) and private enterprises (control group) participating in the reform. POST is time virtual variable, post = 0 and post = 1 indicate before and after the reform. According to the time of Central Government held the relevant conference, this article sets the 2014 as time node.

Control variables: This article selects the growth rate of business income, net asset yield, and whether the director and the general manager are the same one as control variables.

3.3. Model Setting

This paper uses the double differential method. The article puts the mixed ownership reform as a quasi-experiment, and establishes the following two models:

$$DF_{i,t}=\alpha_0+\alpha_1*POST_t+\alpha_2*TREAT_i+\alpha_3*POST_t*TREAT_i+\alpha_4*ONE_{i,t}+\alpha_5*GROWTH_{i,t}+\alpha_6*ROE_{i,t}+\varepsilon_{i,t} \quad (1)$$

$$CASH_{i,t}=\beta_0+\beta_1*POST_t+\beta_2*TREAT_i+\beta_3*POST_t*TREAT_i+\beta_4*ONE_{i,t}+\beta_5*GROWTH_{i,t}+\beta_6*ROE_{i,t}+\varepsilon_{i,t} \quad (2)$$

Model 1 is used to test the impact of mixed ownership reform on state-owned enterprise liability flexibility. The cross-correlation is a double difference statistic. If this value is significantly positive, it indicates that the mixed ownership reform can significantly improve the liability flexibility, and vice versa. Model 2 is used to test the impact of mixed ownership reforms on cash flexibility in state - owned enterprises. The principle is the same as the first model.

4. Empirical Test

Table 1 is the analysis of the double difference regression results of mixed ownership reform and financial flexibility. The coefficient of the diff term in Model 1 is 0.0198, and it is significant at the 5% level, which indicates that the mixed ownership reform has a positive effect on the level of liability flexibility. This verifies the hypothesis H1 of this article. After the mixed ownership reform, the liability flexibility level of state-owned enterprises has been improved. The coefficient of diff in Model 2 is -0.514, and it is significant at the 10% level, which indicates that the cash flexibility level of state-owned enterprises has decreased after the mixed ownership reform. The hypothesis H2 proposed in this paper has been verified.

Table1. Regression result.

	(1)	(2)
post	0.00226	0.622
	(0.0100)	(0.466)
treat	-0.0112	-7.420***
	(0.0110)	(2.215)
_diff	0.0198**	-0.514*
	(0.0115)	(2.197)
one	-0.0101	-9.773**
	(0.00759)	(4.067)
growth	0.000000126	0.0000605***
	(0.00000369)	(0.0000144)
roe	0.0278**	5.394***
	(0.0130)	(1.449)
tat	0.00113	8.103***
	(0.00428)	(1.549)
liq	0.00781***	-0.535***
	(0.00235)	(0.144)
cq	0.0231***	2.845***
	(0.00357)	(0.550)
ctr	-0.000551**	0.0947***
	(0.000227)	(0.0222)
_cons	-0.0278**	-3.977***
	(0.0109)	(1.433)
N	11540	11540
R2	0.050	0.005

5. Research Conclusions and Recommendations

5.1. Research Conclusions

This article uses A-share manufacturing state-owned enterprises and privately-owned listed companies as samples, and uses the double difference method to study the impact of mixed ownership reform on state-owned enterprises' liability flexibility and cash flexibility. The results of the study show that: the mixed ownership reform has different effects on liability flexibility and cash flexibility. After the mixed ownership reform, the liability flexibility level of state-owned enterprises has increased significantly, while the cash flexibility level has decreased. This may be because with the advancement of mixed ownership reform, the entry of non-state capital has not only broadened the financing channels of state-owned enterprises, but also contributed to the improvement of decision-making levels and the improvement of internal governance mechanisms, thereby improving the operational capabilities and market competitiveness. The improvement in operating conditions further enables companies to have higher financing capabilities. The characteristics of cash and its equivalents determine that its profitability is extremely low. Holding too much cash will lead to increased opportunity costs and agency costs, and inefficient resource allocation. The mixed ownership reform has purified the operating objectives of state-owned enterprises, giving them a stronger motivation to curb the self-interested behavior of the management. At the same time, it makes the decision-making of enterprises closer to the goal of maximizing benefits. Therefore, the amount of cash holdings will be reduced accordingly, thereby reducing the level of cash flexibility.

5.2. Research Suggestions

Actively implement mixed ownership reforms to increase the level of liability flexibility. State-owned enterprises must fully understand the economic consequences of the mixed ownership reform and create good conditions for the advancement of the mixed ownership reform. In this way, the mixed ownership reform can play a positive role in the internal governance mechanism, the optimization of the ownership structure, and the improvement of operating performance, thereby increasing the level of liability flexibility and enhancing the environmental adaptability of state-owned enterprises to achieve sustainable development. At the same time, state-owned enterprises must establish a sense of innovation and improve their ability to follow the laws of the market to seize opportunities in order to enhance their financing capabilities.

Improve the corporate governance mechanism, standardize the behavior of the management, and improve the efficiency of resource allocation. Due to the different characteristics of cash and liabilities, the impact of cash flexibility and liability flexibility on state-owned enterprises is also different. A high level of cash flexibility will lead to an increase in opportunity costs, and management's self-interested behavior will induce corresponding agency costs. The high level of liability flexibility will also cause an imbalance in the corporate capital structure and a heavy financial burden. Therefore, a sound corporate governance mechanism is of unprecedented importance in restraining management's improper behavior and improving the scientific nature of decision-making. It makes enterprises possess the greatest competitiveness and efficiency.

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