

# The New Paths of State-owned Enterprises Reforms in the Perspective of the New Public Service Theory

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**Abstract** –State-owned enterprises have gone through four reforms, which are accompanied by the loss of assets, not depth reform and many other issues. The new public service theory shows a new public management idea. It allows us to research the problems in the reform of state-owned enterprises from another perspective. Based on the emphasis of citizens in the theory of new public service, this essay proposes several new paths of the stated-owned enterprises reform.

**Keywords** –State-owned Enterprises; Public Service; public management

## 1. Introduction: Four stages of the reform of state-owned enterprises in China

The first stage lasted from the early 1980s to the early 1990s. During this time, the reform of state-owned enterprises centre around the idea of delegating power and benefits as well as turning companies to the market. It has two major reform initiatives which are expanding business autonomy and implementing contract responsibility system. It should be said that, after this stage of the reform, the vitality of the state-owned enterprises has been greatly enhanced compared to those during the planned economy period. However, due to the reform did not touch on the deep-rooted contradictions of state-owned enterprises, and the reform of external environment of the state-owned enterprise lagged behind, the government and enterprises has always been difficult to separate. Therefore, the loss of state assets began to appear, and the more developed the more serious.

The second stage is held from the 14th NPC in 1992 to the 15th NPC, which lasted about five years. The 14th Party Congress defined that the direction of China's economic reform is the establishment of a socialist market economic system. Then, the Third Plenary Session of the 14th central committee, held in November 1993, to further clarify the direction of the reform of state-owned enterprises is "establishing the modern enterprise system which is characterized by clear property rights, power and responsibility, separation of enterprise and scientific management". This marks the reform of state-owned enterprises turned from delegating power and benefits as well as operating to innovating enterprise

system. Besides, property rights reform began to enter people's vision. This stage of the reform of state-owned enterprises has also been referred to as "restructuring".

The third stage, from 1997 to 2002, lasted for about five years. 1997 15th NPC proposed that national economic layout must be adjusted strategically. It emphasized that state-owned enterprises should be reformed according to "clear property rights, power and responsibility, separation of enterprise and scientific management" requirements, meanwhile, the reform should be combined with their reorganization, transformation and the strengthen of management. It also continued to underline the "retain the large, release the small" reform policy. The objectives of the reform of state-owned large and medium-sized enterprises is taking the capital as the tie to form through the market competitive large business groups in forms of cross-regional, cross-industry, cross- ownership and cross-border operations; As for a large number of small and medium-sized state-owned enterprise, reforms can be undertook in forms of "reorganization, combination, merger, leasing, contract management, stock cooperative system and sold". In 1999, the strategic adjustment of the layout of the state-owned economy was proposed further in The fourth Plenary Session of the 15th central committee. Owing to the series of principles and policies, the reform of state-owned enterprises witnessed new developments which are known as "state retreats" and "government conveyance".

The fourth stage started from the 16th NPC in 2002 up to now. The general direction of the reform of state-owned enterprises was put forward again: We must

vigorously develop mixed ownership economy which is mixed by state-owned, collective and non-public capital to make the shareholding system becomes the major form to achieve the system of public ownership. It marks the goal of state-owned enterprises reform will turn from establishing modern enterprise system to modern property system, and finally realizes the new stage of having clear ownership, specific power and responsibility, strict protection, free transferring; these are undoubtedly pointed the way forward to continue to deepen reform of state-owned enterprises.

The four state-owned enterprises reform brought a huge loss of state-owned assets because there is no substantial separation between government administration and enterprise managements well as the government and the state-owned asset management; the supervise system doesn't work well during the reform and so on. As the fourth stage of the reform of state-owned enterprises has only just begun, it still has a long way to solve the problem of the loss of state assets.

## **2 . The current problems in the state-owned enterprise reform**

### **2.1 The problem of separating government functions from state-owned enterprises**

Separating government functions from state-owned enterprises has been one of the important goals of the reform of state-owned enterprises. It has been proposed from the beginning of the reform. However, it still did not meet the objectives envisaged. Government-enterprise relationship has actually been in a contradictory state: on one hand, out of maintain and increase the value of the state-owned assets, the government still in various capacities (as Chief Executive before restructuring while as state-owned shareholding representative after restructuring)implement administrative intervened with enterprises with various reasons, which results in the popular phenomenon of administration is not separated from enterprises; On the other hand, the government, as the ownership representative of the state-owned assets, subject to the limitations of the information, interests, labor power and other factors, does not fulfill the owner of duties well that a considerable part of the state-owned assets is out of control, the phenomenon of the absence of owners and internal control is serious, and a great deal drain of the state-owned assets is draining away. Through the four stages of reform, the relationship between the government and state-owned enterprises not only has not been separated, in some respects, it even be more closely than the planned economy period.

### **2.2 The problem of the profit whereabouts of state-owned enterprises**

In the ten years after 1993, almost no profit had been turn over to the nation by state-owned enterprises, let alone the dividends to ordinary people. In recent years, the state-owned enterprises are finally turned over state-owned enterprises to the nation, but the profit ratio is 5 %

or 10%. As the case in 2011 for example, those state-owned enterprise which realized a net profit of a total of 1.1115 trillion Yuan, while 82.3 billion Yuan was turned over to the nation, which accounted for 7.4% of the total profit. However, another interesting data is that the net profit of 2011 rose 9.7% from the previous year , but the part of turning over rose only 8.7%. According to many available information, the profits whereabouts can be broadly divided into the following aspects:

(1) Monopoly profits are largely ceded to the dubious authenticity of overseas investors. They issue shares in high price but with low dividends pass dividends at home; and issue cheap but with high dividends abroad. Take Petro China for example, it financed in the United States about \$ 2.9 billion, but the dividends accumulated up to \$ 11.9 billion in four years; the issue price of it in Hong Kong is 1.27 Hong Kong dollars, but the price rose to 16.7 million as a "gift" to mainland investors .

(2) Monopoly profits turns into the high-wage and high welfare within the enterprises, especially of executives. The figures show that 2005 electricity, telecommunications , petroleum , finance , insurance , supply of water, electricity , tobacco, and other industry workers a total of 833 million people , less than 8% of the number of workers , but the total wage and salary income estimate is equivalent to the national workers 55 % of the total wages .

(3) It is a black hole of monopoly duties consumer of corporate executives. This part of the cost so far has no specific figures to be opened.

To some extent, mainland monopoly has become a veritable digger who earns too much from citizens and stifles the growth of SMEs, on the other hand, transfer huge wealth to foreign countries. Fundamentally, breaking the monopoly guarantees the profits of state-owned enterprises can bring real benefits to the people.

### **2.3 The phenomenon of "privatization"of State-owned enterprises**

Due to the state-owned enterprises of monopoly are continuously strengthening their monopoly position, the development of small and medium-sized private enterprises has been deeply hindered. Therefore, nearly all levels of society ask for "privatization" of state-owned enterprises. However, the privatization of state-owned and collective enterprises may course great reduce of the treasury income of the nation, so that the quantity and quality of public services provided by the government will drastically decrease. At the same time, corporate profits originally belongs to the state treasury will become capitalists' possession, and then large social polarization between workers and capitalists would appear.

## **3. Some suggestions of the reform of state-owned enterprises based on the new public service theory**

The new public service theory provides us with a new way to look at the problems in the reform of state-owned enterprises. We can discuss a new path of the reform of state-owned enterprises as the following:

3.1 The public interests are achieved by meaningful contribution of public servants and citizens to society, rather than by the exclusive possession of public funds of entrepreneurs. Actually, at present, the management of state-owned enterprises services for local government, department or even individuals, resulting in large loss of assets and profits. The separation between government administration and enterprise managements well as the government and the state-owned asset management is the primary task to bring real benefits to the people.

(1) The ownership of the state-owned enterprises should belong to local People's Congress at various levels. Under the direct administration by the local people's congresses, the separation between government administration and enterprise managements well as the government and the state-owned asset management can be generally realized. Without the direct intervention of the government to the economic activity, state-owned enterprises can compete with foreign invested and private enterprises fairly, which enhances the vitality and the capability of state-owned enterprise.

(2) Adopting professional manager system. The government should promote the personnel reform of state-owned enterprises to attract professional managers with a market-oriented remuneration. The actual operating rights of state-owned enterprises can be entitled to hire professional managers with good fiduciary responsibility by the people's congresses at all levels. Economist Xiao Zhuoji has pointed out that the most block of the reform is the sense of official standard, which makes a lot of officials, especially the leaders, do not want to change. If the state-owned leaders are taken by professional managers, the thought of official's standard can be eliminated. The people's Congresses (shareholders) in every level, who represent citizens, oversee the professional managers by the shareholders' meeting and the board of directors. Professional managers take charge of the performance of enterprises which decides the contract whether have effect continues. This is another important manifestation of separating government administration from enterprise management, and it is also an important symbol of the modern enterprise system. Hiring professional managers can not only avoid the phenomenon of perusing of sector and local interests, but also eliminate the corruption of corporate leaders.

3.2 The thought of "Citizens First" in the new public service theory shows that ordinary citizens are the communities who focus on the long-term interests. The sense of pursuing their deserved rights has become more and more deep. Therefore, the function of government is helping citizens clearly express their demands and achieving these benefits, rather than trying a new way to control and guide social. Public administration managers must put the production of widespread public service in

the most important position. The best government is that it is not only to achieve the established quantifiable goals, but rather to establish the concept of the public interest and public responsibility. In the present stage of the reform of state-owned enterprises, the profits of state-owned distribution reform is one of the important tasks. According to the new theory of public services, the government should place the creation of public interests in the most important position; however, the creation of the public interest requires government financial expenditures. The profits of state-owned distribution reform are a very important way to enrich government revenue. Except for the necessary fund of expand production, the rest profits need to be turned over to the government to provide more and better public services. Detail actions of the profits of state-owned distribution reform are as following: First, improve the stock bonus system to play fully their role of second distribution to avoid a large loss of state assets and profits outflow to abroad. Citizens share business bonus by holding the shares of state-owned enterprises. It is the core significance of state-owned enterprises to distribute corporate profits to each shareholder, for state-owned enterprises operating results should allow all citizens to share. Secondly, ultimately achieved profits of enterprises should turn over to government finances in full under the supervision of the people's congresses at all levels and of all the citizens. The government should take advantage of the corporate profits outputs to produce public good, such as universal free medical care, direct subsidies to road pricing and lower logistics costs, people are in urgent need.

3.3 Citizens' participation. According to the new public service theory, the role of the government at present is finding solutions for the problems faced by the community together with the private enterprises and non-profit organizations. Their roles have been changed from controlling into setting the agenda, so that the relevant parties can discuss together to promote of solutions of public problems. In such kind of community, the government more and more tends to be the intermediary and even referee rather than the direct service provider. The new public service theory emphasis the importance of citizens' participation and the role of citizens' participation in the reform of state-owned enterprises is prominent.

(1) In accordance with the 16th NPC spirit, in addition to three types of state-owned enterprises -- national security, resource monopolies and the economic lifeline-- still maintain a wholly state-owned; the rest of the enterprises should take the road of diversified equity. Besides, open the industries which are monopolized by State-owned enterprises to private capitals to create a competitive environment. It not only has a positive role in breaking the pricing power, but also help the state-owned enterprises and private enterprises grow and develop in competition.

(2) The establishment of the supervision system with all citizens to participate in. In the procedure of dealing with the corruption problems in reforms, citizens' participation

is so important that the government turns into the negotiator of citizens. Government officials should carry out the supervision of the financial activities of the state-owned enterprises actively with ordinary citizens together; invite non-profit organizations to participate in the audit of the enterprises; accept the reports of the illegal financial actions of the state-owned enterprises from general people. The operating activities of state-owned enterprises completely under the supervision of the citizens, therefore, the transparency of enterprises can be greatly enhanced. Positive response to citizen participation, the government able to return to the masters of the meaning of the citizens of the state-owned enterprises. Besides, in the process of citizens' participation, the relationship of trust and cooperation between the government and the citizens can be established, and the positive image of the government can be set up.

In short, at present and in the near future, more and more reforms will impact state-owned enterprises, and the government's ruling. The new ways of reform of state-owned enterprises calls for more consideration of the public interests and public participation than improvement of the political, legal standards of old

reform goals. We should as soon as possible to establish the focus of our reform the public interest, the concept of public service and civic engagement. Citizens should come first.

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