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The Impact of Mixed Ownership Reform on the Innovation of State-Owned Enterprises

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Abstract: The 20th CPC National Congress emphasized that China's economy and society can only achieve high-quality development by making innovation the primary driving force and fully implementing the new development philosophy. As the stable cornerstone of the national economy, state-owned enterprises (SOEs) must strategically position innovation to drive high-quality development, achieve the goals of expanding scale, enhancing strength, and improving quality, and effectively promote the preservation and appreciation of state assets. Some SOEs currently face shortcomings in governance structures, property rights definition, and innovation efficiency, which constrain their capacity to support the demands of high-quality economic and social development. To fully unleash the vitality of state-owned enterprises, enhance their innovation capabilities, and propel them toward high-quality development, mixed-ownership reform has become particularly urgent. Against this backdrop, this paper focuses on exploring the mechanism through which mixed-ownership reform influences innovation in state-owned enterprises. Drawing on relevant theories, it systematically elucidates the underlying pathways of this impact and proposes countermeasures such as further deepening mixed-ownership reform, optimizing equity structure design, and promoting the introduction and integration of high-quality capital. These recommendations aim to provide reference for the innovation-driven transformation of state-owned enterprises.

1. Introduction

1.1 Research Background

Against the backdrop of China's economy entering a new phase of high-quality development, the reform and development of SOEs face new opportunities and challenges. High-quality development emphasizes not only economic efficiency but also requires SOEs to enhance innovation capabilities and improve operational efficiency to better navigate increasingly fierce market competition. As a key measure in SOE reform, mixed-ownership reform helps SOEs break through the limitations of traditional business models and activate endogenous innovation momentum by introducing non-public capital. This paper aims to conduct an in-depth analysis of the specific impact mechanisms of mixed-ownership reform on innovation within state-owned enterprises. Such an analysis plays a positive role in promoting the high-quality development of state-owned enterprises and building a modern economic system.

1.2 Research Significance

Mixed-ownership reform constitutes a vital component of SOE restructuring, with numerous scholars having conducted extensive research on this topic. However, existing research primarily focuses on aspects such as reform pathway selection, changes in equity structure, and shifts in financial performance. Few studies have examined the specific impact mechanisms and pathways of mixed-ownership reform on innovation activities within state-owned enterprises. Given that innovation serves as an effective driver for enterprises to achieve long-term, healthy development, its importance cannot be overlooked. Therefore, this paper delves into the mechanisms and pathways through which mixed-ownership reform influences innovation activities in state-owned enterprises. This exploration enriches the research perspectives on mixed-ownership reform within state-owned enterprises and provides supplementary insights to related studies.

2. The Challenges Facing Innovation in State-Owned Enterprises

Compared to traditional business operations, innovation—as a management activity involving both time and risk costs—carries a high degree of uncertainty. This uncertainty permeates the entire chain from R&D investment and technology commercialization to market validation, thereby imposing demands on organizational mechanisms that far exceed those of conventional operations. However, due to the unique institutional context, soes face greater constraints than private enterprises, hindering their ability to fully leverage their innovative potential.

From a stakeholder perspective, as vital pillars of the national economy, soes must not only preserve and increase the value of state assets but also fulfill social functions such as employment provision and welfare security [1]. Simultaneously, some soes hold monopolistic positions within specific industries or sectors, characterized by high entry barriers and strong resource control, which to some extent mitigates the innovation pressure driven by market competition. Furthermore, benefiting from implicit government guarantees and lower bankruptcy risks, management tends to prioritize operational stability over risky innovation, resulting in insufficient overall innovation willingness.

From an agency perspective, the absence of actual owners of state assets in China and the existence of government-appointed management systems create a separation between ownership and control in soes, easily leading to misalignment of objectives between principals and agents [2]. Excessively long agency chains and high equity concentration weaken effective oversight of management. Multi-tiered agency relationships not only increase information transmission losses and delays but also make it difficult to clearly assign supervisory responsibilities. Concentrated equity, meanwhile, may allow a minority of stakeholders to exert excessive influence over corporate decisions, diluting the diversity and checks-and-balances of oversight. Furthermore, employee compensation in state-owned enterprises is predominantly based on job level and seniority, with limited flexibility to reflect individual capability and contribution. More critically, incentive and constraint mechanisms for managerial compensation often remain superficial, failing to sufficiently motivate managers or impose rigid behavioral constraints. This directly dampens their enthusiasm for driving innovation activities.

3. The Mechanism of Mixed-Ownership Reform's Impact on Innovation in State-Owned Enterprises

Mixed-ownership reform serves as a key driver for empowering innovation in state-owned enterprises. By introducing market mechanisms, optimizing governance structures, and refining incentive systems through multiple channels, it effectively stimulates corporate innovation vitality, thereby significantly enhancing market competitiveness.

3.1 Introduce Market Competition Mechanisms

Mixed-ownership reform has introduced more dynamic market competition mechanisms into state-owned enterprises, enhancing their innovation drive [3]. For a long time, some state-owned enterprises have enjoyed monopolistic positions, lacking sufficient market competition pressure and thus exhibiting relatively weak endogenous innovation motivation. By introducing non-state capital or non-public economic components, mixed-ownership reform disrupts existing market structures, forcing state-owned enterprises to confront more intense market competition. This competitive pressure compels enterprises to proactively pursue innovative breakthroughs to enhance core competitiveness, fundamentally strengthening their drive for innovation. Simultaneously, the infusion of non-state capital not only provides financial support but also brings advantages such as abundant market resources, advanced technological achievements, and flexible business philosophies. The integration of these high-quality resources broadens the innovation horizons of state-owned enterprises, offers diversified solutions, and effectively stimulates internal innovation vitality. Furthermore, under the mixed-ownership model, collaboration and exchange between state-owned and non-state-owned enterprises become more intensive. Through means such as sharing technological resources, conducting joint R&D projects, and sharing innovation risks, both parties can achieve efficient conversion of R&D outcomes. This, in turn, fosters the formation of collaborative innovation networks across the upstream and downstream of industrial chains, ultimately building a more robust and dynamic innovation ecosystem.

3.2 Improve the Corporate Governance System

Mixed-ownership reform, as the core pathway for restructuring the governance structure of state-owned enterprises, drives the transformation of governance systems from traditional rigid models to market-oriented flexible models by introducing non-state capital and non-public economic components. This significantly enhances operational efficiency and decision-making responsiveness, providing support for unleashing innovation capabilities [4]. The rigid constraints within SOE governance structures and relatively lengthy decision-making processes have led to delayed responses to innovation demands and inefficient advancement of innovation projects. Mixed-ownership reform, through the introduction of diversified capital, not only injects market-oriented management concepts and resources into SOEs but also drives the reconstruction of governance mechanisms. On one hand, non-state capital participation in governance decision-making breaks the inertia of traditional single-ownership decision-making, establishing more flexible market-oriented decision mechanisms. This enables enterprises to shorten response cycles to market dynamics and enhances adaptability for strategic adjustments and innovation trial-and-error. On the other hand, the new governance structure streamlines decision-making tiers and clarifies authority boundaries, significantly compressing decision-making cycles and improving execution efficiency. This ensures the efficient advancement of innovation projects throughout the entire process, from planning to implementation.

3.3 Optimize Incentive Mechanism

Mixed-ownership reform significantly advances the optimization of internal incentive mechanisms within state-owned enterprises, effectively stimulating employees' innovative potential

[5]. Traditional SOE incentive systems lack effective means to motivate innovation, notably characterized by monotonous incentive methods and weak linkage between performance evaluation and rewards. This results in insufficient innovation drive among employees and hinders the effective realization of their innovative potential. Through mixed-ownership reform, market-oriented operational mechanisms are introduced, providing a pathway for restructuring SOE incentive systems. Enterprises can break free from traditional institutional constraints and flexibly design diversified incentive schemes based on market rules. This deeply aligns individual employee development goals with the enterprise's long-term strategic interests, thereby better stimulating employees' initiative and enthusiasm for participating in innovation. Simultaneously, the introduction of non-state capital and non-public economic entities brings advanced market-oriented management expertise and mature incentive models. By absorbing and adapting these external practices, state-owned enterprises can further refine the design logic and implementation pathways of their internal incentive systems. This creates a more attractive innovation environment and enhanced incentive conditions for employees, driving the efficient conversion of their innovative potential into tangible innovation outcomes.

4. Policy Implications

4.1 Continue to Deepen the Mixed-Ownership Reform of State-Owned Enterprises

At this critical juncture of China's economic transformation and upgrading, deepening mixed-ownership reform holds profound significance for advancing the high-quality development of SOEs. The core objective of government-led SOE reform lies in comprehensively enhancing operational efficiency and innovation vitality through institutional and systemic innovation, thereby achieving simultaneous improvements in development quality and efficiency. This will forge sustained competitive advantages for SOEs in the global competitive landscape. Realizing this reform vision hinges on elevating corporate governance standards, and mixed-ownership reform serves as an effective breakthrough point for optimizing SOE governance. Mixed-ownership reform not only drives the transformation of corporate governance systems from traditional models toward market-oriented and modern approaches, but also substantially improves governance effectiveness through diversified ownership structures and standardized decision-making mechanisms, thereby laying a solid institutional foundation for stable enterprise operations. Simultaneously, innovation capacity—as the core driver supporting product iteration and expanding innovation returns—has become a vital pillar for building competitive barriers. By introducing market-oriented elements and reshaping incentive systems, mixed-ownership reform can effectively empower corporate innovation processes, help state-owned enterprises break through development bottlenecks, and integrate more deeply into domestic and international market competition. Therefore, state-owned enterprises should persistently advance mixed-ownership reform to promote efficient synergy between state-owned and non-state-owned capital. While continuously improving governance systems, they should enhance operational decision-making efficiency and drive a closer, more organic integration between state-owned enterprises and the market economy.

4.2 A Well-Designed Equity Structure

Shareholders with different property rights characteristics correspond to distinct corporate governance structures and resource endowments. These differences profoundly impact the scientific nature of corporate decision-making and the effectiveness of execution, ultimately reflecting in decision outcomes. According to property rights theory, the inclusion of non-state shareholders can significantly enhance the decision quality and execution effectiveness of state-owned enterprises through governance effects and resource effects. Under the principle of aligning control with equity structure, a shareholder's stake forms the basis for exercising decision-making and oversight rights. Therefore, in advancing mixed-ownership reform, state-owned enterprises should focus on optimizing equity allocation, maintaining a reasonable range for both state and non-state shareholder stakes to avoid a situation where a single shareholder holds an overwhelming majority. Moderately reducing equity concentration and breaking the rigid patterns of existing equity structures can help form a diversified, balanced, and relatively equitable equity landscape. Optimizing equity structures not only integrates the governance wisdom of shareholders from diverse backgrounds to elevate the overall governance level of SOEs but also facilitates the complementary and efficient integration of various resources, enhancing the enterprise's capacity to acquire and allocate resources. Ultimately, such optimization will effectively boost the enterprise's willingness to bear risks and provide a solid institutional guarantee for stimulating innovation vitality.

4.3 Achieve the Introduction of High-Quality Capital and Heterogeneous Integration

The mixed-ownership reform of state-owned enterprises should focus on introducing high-quality strategic investors. While promoting diversification of equity structures, efforts should be made to enhance the depth of integration among heterogeneous capital sources, thereby consolidating superior resources to foster corporate innovation. It is crucial to recognize that the core of mixed-ownership reform lies not merely in mixing but in integrating. Advancing the depth of mixed-ownership reform is key to maximizing its effectiveness. On one hand, while expanding equity diversity, priority should be given to introducing high-quality capital aligned with mixed-ownership goals, particularly strategic investors offering synergistic effects. Such investors not only meet the strategic development needs of SOEs but also leverage their resource integration capabilities, market-oriented operational experience, and diversified financing channels to aggregate advantageous resources like technology, channels, and management. This aids in implementing corporate strategies, fostering sustainable growth, and enhancing soes' market-oriented operational capabilities. On the other hand, the integration level among heterogeneous capital must be strengthened. Mixed-ownership enterprises should reasonably allocate the proportion of state-owned and non-state-owned capital based on their industry attributes, development stage, and other practical circumstances, promoting the effective integration of capital with different property rights characteristics. By establishing mechanisms for checks and balances and mutual complementarity among heterogeneous capital sources, the high flexibility and efficiency of non-state capital can synergize with the advantages of state capital in resource acquisition and risk mitigation. This approach leverages the incentive role of non-state capital in driving innovation while relying on state capital to ensure strategic stability. Ultimately, it achieves complementary strengths among various capital types, providing both institutional and resource support for corporate innovation and development.

4.4 Tailor Measures to Specific Situations and Adapt Strategies to Individual Enterprises

The mixed-ownership reform of state-owned enterprises should adhere to the principle of tailored approaches and targeted breakthroughs, implementing a tiered and categorized reform model to precisely align with the actual needs of different enterprises. This approach fully unleashes the dividends of reform and effectively drives corporate innovation. In practice, due to differences in industry attributes, functional positioning, and developmental stages, the progress and outcomes of mixed-ownership reform often vary across different categories and tiers of state-owned enterprises. Therefore, deepening mixed-ownership reform must be grounded in the actual circumstances of each enterprise, designing differentiated implementation pathways. Reforms should be advanced in an orderly manner according to industry characteristics and enterprise types, supporting breakthroughs and deep reforms in key sectors first to maximize the overall effectiveness of mixed-ownership reform.

4.5 Recruit Innovative Management Teams and Technical Experts

In the process of mixed-ownership reform for state-owned enterprises, it is essential to actively recruit management teams and technical experts with innovative spirit and professional capabilities, leveraging talent-driven approaches to inject core momentum into corporate innovation and development. From a management perspective, innovative management teams can introduce market-oriented management concepts, forward-looking strategic vision, and efficient change execution capabilities. This breaks the path dependence of traditional management models, driving continuous innovation in organizational structure, decision-making mechanisms, and operational models. It enhances the enterprise's flexibility and adaptability in responding to market changes. From a technical perspective, the introduction of technical experts directly supplements core technological resources, strengthens R&D capabilities, accelerates breakthroughs in key technologies, drives technological iteration and product upgrades, and provides technical support for the commercialization of innovation outcomes. To ensure the effective recruitment of high-level innovation talent, governments should implement policies that enhance the attractiveness of SOEs to such professionals. Concurrently, complementary mechanisms for talent evaluation and mobility should be established to dismantle barriers to talent movement, creating streamlined pathways for innovation talent to join SOEs.

5. Conclusion and Outlook

This paper systematically examines the impact mechanisms of mixed-ownership reform in SOEs on corporate innovation. Building upon an analysis of the primary challenges facing SOE innovation, it focuses on elucidating the pathways through which mixed-ownership reform influences innovation. These pathways specifically encompass the introduction of market competition mechanisms, the refinement of corporate governance systems, and the optimization of incentive structures. The synergistic effects of these mechanisms collectively enhance SOEs' innovation drive and market competitiveness. Based on these findings, the paper offers targeted recommendations: continuously deepening mixed-ownership reforms; establishing scientifically sound equity structures; facilitating the introduction of high-quality capital and integration of heterogeneous resources; implementing tailored reform approaches; and recruiting management teams and technical talent with proven innovation capabilities. These suggestions aim to inform the practical implementation of mixed-ownership reforms in state-owned enterprises.

As mixed-ownership reform advances, state-owned enterprises will encounter both greater opportunities and challenges. While the reform holds promise to inject new momentum into enterprises and propel high-quality development, it also necessitates addressing various practical difficulties through coordinated efforts among the government, enterprises, and society. Future research could further focus on specific issues and response strategies during implementation, while tracking and evaluating the innovation performance and market outcomes of reformed enterprises. This would provide more robust theoretical support and practical guidance for SOE reform.

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