

Research on the Problems of Government Control Departments under the Background of China's State-owned Enterprise Reform—Taking Z City as an Example

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Abstract: In recent years, against the backdrop of the reform of state-owned enterprises, some regions have lagged behind in the reform process. One of the main reasons for this phenomenon is that local government control functions cannot adapt to the pace of SOE reform. In order to improve the effectiveness of government control, promote the process of SOE reform and promote enterprise innovation, this article takes Z City in the Yangtze River Delta region of China as an example to deeply analyze the problems existing in government control functions in the control of state-owned enterprises. The research results show that there are problems in government control functions, such as unclear boundaries of power and responsibility, inefficient salary control, excessive administrative intervention, imperfect regulatory system, and low degree of management differentiation. In response to these problems, this article puts forward some improvement suggestions. Through the case analysis of Z City, this article further confirms the necessity of improving government control in the process of SOE reform in China. This not only provides useful references for regions facing similar problems, but also provides new ideas for promoting the development of state-owned enterprises.

Keywords: State-owned enterprise reform, Government control function department, Power responsibility, Regulatory system

1. Introduction

State-owned enterprises (SOEs) are the mainstay of China's national economy and play a vital role in economic development. Under the background of SOE reform, government control function departments have always played a pivotal role. In this article, "government control function departments" refer to government departments responsible for organizing and managing administrative affairs related to SOE governance.

Many scholars have studied the use of funds by state-owned enterprises, the control and deposit of state-owned assets and their proceeds, and state-owned asset supervision work, and pointed out the existing problems. Some studies have found that strong intervention by local governments has distorted the use of funds by state-owned enterprises, leaving them in a weak position in market competition (Xiao Qin, 2021)[1]; The actual control and deposit of state-owned assets and their proceeds have limited their role in promoting development by adjusting structure on a larger scale (Tan Jing *et al.*, 2023) [2]; Strict management by state-owned asset supervision departments has led to insufficient decentralization of power and benefit sharing (Han Zhuochen, 2023) [3]; At present, China's state-owned asset supervision work still faces problems such as lagging management systems, information asymmetry, and inability to achieve dynamic supervision (Tan Chunqiao *et al.*, 2023) [4]; China's state-owned asset supervision agencies lack effective ways to supervise the financial accounting of enterprises, and the connection between external supervision and internal supervision is relatively weak (Cao Ling and Yi Jinchui, 2023) [5]. These problems not only affect the process of SOE reform to varying degrees, but if they are not resolved for a long time, they will also have a negative impact on the image and credibility of government control function departments themselves.

So, what typical problems exist in government control function departments at present? How have

these typical problems affected local SOE reform? To solve the above problems, this article selects the relatively underdeveloped city of Z in the Yangtze River Delta region to explore the reasons for the underdevelopment of its state-owned enterprises compared to other cities in the Yangtze River Delta region. This study is not only a useful complement to the relevant literature on government control function departments' governance of state-owned enterprises, emphasizing the necessity of adjusting and improving the micro-governance of government control function departments, but also provides practical references for government control function departments on how to "manage capital", how to delegate power, and how to better fulfill the function of government auditing.

2. Literature Review

In 2005, the Organization for Economic Co-operation and Development (OECD) emphasized in the "OECD Guidelines for Corporate Governance of State-owned Enterprises" that in managing state-owned enterprises, the principle of separation of state ownership and government regulatory functions should be strictly followed (OECD, 2005) [6]. In recent years, the topic of mixed ownership reform of state-owned enterprises has continued to rise in popularity and become a focus of social attention. However, some scholars have found that many state-owned enterprises find it difficult to truly achieve separation of government and enterprise during the reform process. At present, the equity structure transformation of state-owned enterprise parent companies and above is facing difficulties, mainly due to the fact that the State-owned Assets Supervision and Administration Commission holds the largest proportion of shares, resulting in the inability to meet the demand for equity diversification (Lu Xiangjun and Chen Lu, 2021) [7]. In the competitive field, state owned capital may not necessarily occupy controlling shares, but when it comes to the change or disposal of state-owned assets, corresponding mechanisms need to be in place to prevent the loss of state-owned assets (He Yong and Li Shihui, 2022) [8].

In addition, in the process of controlling state-owned enterprises, government departments need to adjust the degree of control appropriately according to the actual situation. The State Council has clearly proposed in the " Plan for Reforming the Authorization and Operation System of State-Owned Capital " (Guofa [2019] No. 9) that " separating the functions of government public management and state-owned capital investors, and minimizing direct government intervention in market activities". In recent years, scholars have conducted in-depth research on how the government controls state-owned enterprises from the perspectives of private capital and state-owned enterprises, and put forward corresponding suggestions. The central government can regulate the behavior of state-owned enterprises and local governments through administrative means to ensure that private capital has sufficient "voice" within enterprises (Liu Yu and Li Ximei, 2021) [9]. In terms of state-owned enterprises, in order to improve decision-making efficiency, it is necessary to innovate the leadership system for capitalization of state-owned assets and open up channels for the free flow of factors (Shi Ying, 2020) [10]; The fault-tolerant space in mixed ownership reform is mainly reflected in three aspects: market fluctuations, lower than expected reform performance, and inadequate arrangement of details in the reform process. Only by distinguishing the "forbidden zone" and "fault-tolerant zone" of reform can we better promote the progress of mixed ownership reform (Liu Bin, 2020) [11]; The State owned Assets Supervision and Administration Commission (SASAC) should formulate authorization and delegation matters for various central enterprises, pilot enterprises for comprehensive reform, pilot enterprises for state-owned capital investment and operation companies, and specific enterprises, in order to comprehensively stimulate the vitality of micro entities (Wang Hongmiao, 2022) [12].

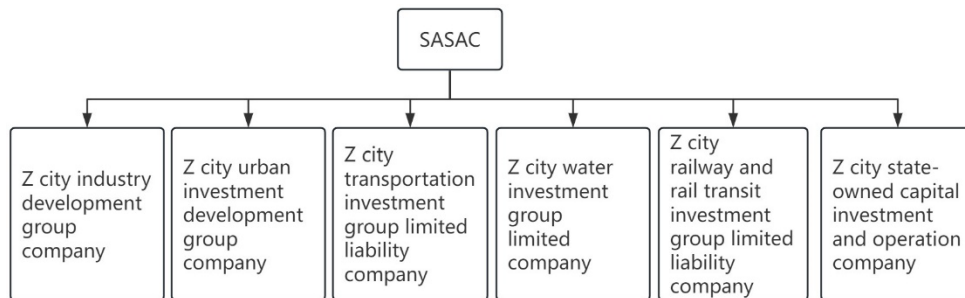
In existing research, scholars have validated and emphasized the role of audit work in state-owned enterprise reform from multiple perspectives. Government auditing mainly suppresses the problem of excessive investment caused by entrusted agency, thereby further reducing corporate financial risks and increasing corporate value (Zhu Zunhong and Fang Yifeng, 2023) [13]. The comprehensive coverage of audit work provides a guarantee for the high-quality development of state-owned enterprises, and the supervision mechanism of national audit has a positive impact on the preservation and appreciation of state-owned assets (Cao Limei *et al.*, 2022) [14]. Increasing the intensity of economic responsibility auditing can promote state-owned enterprises to fulfill their responsibilities to shareholders, employees, and society (Cai Chun *et al.*, 2023) [15]. Government auditing has improved the operational efficiency of listed companies controlled by central enterprises through prevention mechanisms that suppress management myopia, disclosure mechanisms that improve information disclosure quality, and resistance mechanisms that suppress management violations (Liang Xiao, 2023) [16].

Throughout the above literature, it is found that scholars have conducted extensive research on the importance of government in state-owned enterprise reform, the principles that government should

follow in controlling state-owned enterprises, and the necessity of auditing for the development of state-owned enterprises. However, there is not much research available on the government control functional departments in specific case areas, and only a few studies have suggested effective methods for government auditing's role.

3. Current Situation of State-owned Enterprises in Z City

As of the end of 2023, there were 6 state-owned enterprises in Z city, covering a wide range of fields such as modern services, manufacturing, water services, natural gas, etc. As of the end of October 2023, the total amount of operating state-owned assets in Z city was 2181.117 billion yuan, the total owner's equity was 701.289 billion yuan, the sales (revenue) was 59.355 billion yuan. The rate of increase in value of state-owned assets was 116.8%. (Data source: Z City Government official website) The list of directly supervised enterprises by the State-owned Assets Supervision and Administration Committee in Z city is shown in Figure 1.



Source: made by authors.

Figure 1: List of Enterprises Directly Supervised by the State-owned Assets Supervision and Administration Commission of Z City.

4. Existing Problems in Government Regulatory Departments

4.1. Unclear Boundaries of Rights and Responsibilities

At present, the authority and responsibility of the functional departments of the Z municipal government in the management of state-owned enterprises is not clear, and the management authority is overlapping, which leads to various constraints in the actual work of various departments. On the one hand, the authority and responsibility of various functional departments in the government are not clear enough, especially for SASAC. Some of the responsibilities that should be attributed to SASAC are not in place, which often makes it difficult for SASAC to manage state-owned enterprises. When things happen, it is impossible to make timely and effective decisions, which also leads to many complaints from state-owned enterprises to SASAC. On the other hand, the unclear authority and responsibility of various functional departments make it impossible for state-owned enterprises to accurately find the responsible department when they encounter problems, and there may even be a phenomenon of responsibility shirking.

4.2. Poor Salary Control and Incentive Effect

In the process of salary control, the Z Municipal State-owned Assets Supervision and Administration Commission (Z SASAC) has been too strict and over-aggressive in its macro supervision. On the one hand, Z SASAC has strengthened its intervention in the salary distribution of state-owned enterprises in Z City, not only using macroeconomic regulation to indirectly adjust the distribution of state-owned enterprises, but also expanding the authority of SASAC at many nodes, making the mixed reform of state-owned enterprises in Z City like "dancing with shackles". On the other hand, after the State Council issued its opinions on reforming the wage determination mechanism of state-owned enterprises, Z SASAC did not formulate market-oriented control measures for the salary of state-owned enterprises according to local conditions, and adopted a unified plan for regulating state-owned enterprises with different profitability and different property rights. This led to the SASAC's macro regulation of state-owned enterprises in Z City being too rigid.

4.3. Excessive Administrative Interference

In practical work, the SASAC of Z City has a certain degree of administrative intervention in the production and operation of enterprises. The SASAC of Z City often requires state-owned enterprises to follow government procurement procedures for procurement processes, especially for production and operation procurement, which also involves bidding and tendering processes. This procurement model is not only cumbersome, but also easily leads to delays in procurement activities. There is also a possibility that the lack of suppliers directly leads to the failure of procurement, which ultimately affects the operation of enterprises.

In the process of transformation and development of state-owned enterprises in Z city, they need to compete with private enterprises with flexible mechanisms or central enterprises with strong financial resources and have undergone multiple rounds of market-oriented reforms. If they do not give state-owned enterprises sufficient operational autonomy, they will miss the opportunity for market development and dampen the enthusiasm of state-owned enterprise executives.

4.4. Deficiencies in the Regulatory System

The operation of state-owned enterprises in Z city is to some extent restricted by audit institutions, which often aim to review the compliance of state-owned enterprise operations during the audit process, and impose restrictions on operations that may be beneficial to improving business efficiency but may not be in compliance with regulations.

On the one hand, audit, discipline inspection and other departments require SASAC to bear various responsibilities, and the pressure of responsibility makes SASAC dare not let go in the reform of state-owned enterprises. On the other hand, audit, discipline inspection and other departments have a high frequency of inspection and cumbersome procedures for state-owned enterprises. The heads of state-owned enterprises often need to spend a lot of energy on responding to audit inspections, mainly due to the deviation of audit objectives of audit departments and the lack of coordination and communication between state-owned enterprises and audit departments.

4.5. Failure to Differentiate in Control and Management

At present, the SASAC of Z City has also carried out classified assessments for state-owned enterprises, with different assessment proportions for different types of enterprises in terms of operational quality and efficiency, functional tasks, etc. This is undoubtedly an important part of implementing differentiated and classified management for state-owned enterprises. However, in other aspects of management, the SASAC's degree of classified control over state-owned enterprises is still relatively low.

The SASAC in Z city has a relatively high degree of control over the daily operations of three types of state-owned enterprises, and has not been able to adopt different control measures based on different types of state-owned enterprises. For example, the SASAC adopts a relatively large degree of control and scope of control for competitive state-owned enterprises that rely heavily on the market, which affects the operation of competitive state-owned enterprises.

5. Measures and Suggestions for Optimizing the Control Mode of Government Control Departments

Optimizing the control model of government regulatory departments is one of the important elements of state-owned enterprise reform. This section proposes optimization suggestions for the shortcomings of the Z municipal government departments in state-owned enterprise control.

5.1. Clarify the Boundary of Authority and Responsibility as Soon as Possible

In order to further improve the state-owned asset management system, and serve the reform and development of state-owned enterprises, it is necessary to clarify the scope of authority and responsibility of the control and management functional departments of Z municipal government. For the scientific control mechanism, the following suggestions are put forward:

- (1) Developing and Implementing the "List of Rights and Responsibilities"

In order to ensure that the corporate governance system can truly take root at the grassroots level,

clarify job responsibilities, and provide a clear guideline for management authority and job responsibilities, the Z municipal government control and management departments and state-owned enterprises at all levels can consider preparing a "list of powers and responsibilities" at the corresponding level, and classify and delegate management authority and job responsibilities to the posts. All levels must carefully study and understand the list of powers and responsibilities of the higher level, clarify their own powers and responsibilities, and systematize, organize, and clarify the content of power and responsibility management. They should assist the responsible parties in knowing their responsibilities and performing their duties.

(2) Accurately Implementing the "One Enterprise, One Policy"

In the control of state-owned enterprises by government control functional departments, it is also necessary to pay attention to the implementation of the "one enterprise, one policy" system for special enterprises. The "Opinions on Accelerating Digital Transformation of Municipal-administered Enterprises" issued by Beijing proposed that to promote the digital transformation of enterprises, we should highlight "one enterprise, one policy". Therefore, the control functional departments of Z government should select the state-owned enterprises that need to implement "one enterprise, one policy" and the special management matters that need to be implemented in state-owned enterprises according to the importance of enterprises, pilot enterprises, and industries where enterprises are located.

(3) Enhancing the Coordination of Reform Measures

At present, the reform of state-owned enterprises in Z city has not been officially implemented on a large scale, and has not formed an organic reform measure system. Since the 18th CPC National Congress, the Party Central Committee and the State Council have issued the Guiding Opinions on Deepening the Reform of State-Owned Enterprises and introduced a number of supporting documents. The top-level design based on the "1+N" policy system has been basically completed. Before the reform of state-owned enterprises in Z city, it is necessary to first do a good job in top-level design, and then implement reform measures around the top-level design. It should be noted that not only the government control functional departments need to design a reform system, but also all levels of state-owned enterprises should consider the coordination between specific implementation measures during the reform process to avoid conflicts between reform measures.

5.2. *Improving Compensation Control*

The Z Municipal State-owned Assets Supervision and Administration Commission has a "one size fits all" phenomenon in its issued management documents for state-owned enterprises, which leads to the fact that the management and employees of state-owned enterprises do not have the space for market-oriented incentives in essence. Therefore, in view of the salary control of the State-owned Assets Supervision and Administration Commission, the following suggestions are put forward:

(1) Protecting the Property Rights of Non-state Capital

Firstly, the SASAC of Z city should guide the majority of private entrepreneurs to fully understand that the state attaches great importance to the leading position and legitimate rights and interests of private enterprises, and let them know that the mixed ownership reform is complementary advantages and voluntary cooperation.

Secondly, the property rights of private capital are the focus of attention of private entrepreneurs and the most important component of the incentive guarantee bottom line. We should protect the legitimate rights and interests of private enterprises, implement the principle of equal shares, equal rights, equal responsibilities.

Finally, it is possible to consider introducing detailed incentives that closely link incentives with new customer development, new market share, and expanding the pie. In attracting private capital, it is recommended that the Z city SASAC, under a large incentive framework, shift the evaluation indicators towards encouraging market share and company growth, and give enterprises more flexibility in basic annual salary and performance-based annual salary.

(2) Establishing Inclusive Incentive Mechanisms

Due to the institutional and psychological advantages of state-owned enterprises in Z city during the mixed reform process, it is difficult for SASAC to actively stimulate them to take risks and innovate. It is suggested that SASAC can start with the reform of the "value distribution" link and introduce a "tolerant" incentive system to stimulate efficient output in the "value creation" link; by eliminating

"internal friction", it can achieve "enhancing efficiency". In the early stage, the weight of performance evaluation indicators can be tilted towards growth indicators such as new customer growth and market share. At the same time, a fault tolerance mechanism and compensation mechanism should be established to distinguish between mistakes and errors caused by lack of experience and risk-taking innovation during the mixed reform process, and problems such as blatant or deliberate violations of laws and regulations, and self-seeking behavior. Clear regulations should be made on the amount of fault tolerance, the number of times of fault tolerance, the scope of influence, and the consequences.

(3) Optimizing the Control of Total Wages in State-owned Enterprises

When designing the wage control policy, the personal total wage of employees who have resigned can be divided into two parts: 40% and 60%. The 60% portion of their salary will remain with the state-owned enterprise to motivate current employees, boost their enthusiasm, and include this amount in the performance assessment. The remaining 40% will be recovered by the State-owned Assets Supervision and Administration Commission of Z City. This approach enables achieving the dual reduction and control of total wages and staff, thereby providing a positive incentive for downsizing in enterprises.

5.3. Progressive and Dynamic Delegation of Authority and Delegation of Power

In order to truly achieve market-oriented transformation of state-owned enterprises, it is necessary to separate government and capital, separate government and enterprises, and clarify the main body of property rights. In this regard, the following suggestions are put forward:

(1) Utilizing Market-based and Rule-of-law Measures

In terms of supervision, it should shift from the habit of administrative management to the more market-based and rule-of-law means. It should change the supervision with administrative color, such as emphasizing approval and neglecting supervision, and pay more attention to the implementation of investor responsibilities through the legal person's governance structure based on property rights and capital as the link, transforming regulatory requirements into shareholder will. The focus of supervision should shift from paying attention to the individual development of enterprises to paying more attention to the realization of state-owned capital function. It should assess the function and efficiency of mixed ownership enterprises, and promote the reasonable flow and appreciation of state-owned capital, so as to achieve the continuous development and growth of state economy.

The government control function department in Z city should classify the supervised state-owned enterprises, not only the existing competition, function and public types, but also classify them according to shareholding types and enterprise importance. On this basis, it should formulate the lists of authorization and decentralization, considering the implementation of "one enterprise, one policy" and "classification of authorization and decentralization". The core of this system is the development of "authority and responsibility lists" and "authorization and decentralization lists", which is an innovative application of "negative list" policy. After implementing this model, the key work of SASAC will shift to integrating power and responsibility configuration with subordinate enterprise's wishes and actual conditions, dynamically maintaining and adjusting the lists of different enterprises, and dynamically managing authorization and decentralization.

(2) Implementing Capitalized Corrective Management

On June 5, 2019, the State-owned Assets Supervision and Administration Commission (SASAC) issued the "List of Authorizations and Delegations of the State-owned Assets Supervision and Administration Commission of the State Council (2019 Edition)" (GuoFa [2019] No.9), and explained to reporters about the list: The SASAC adheres to the principle of "taking the blade inward" and self-revolution, and in accordance with the meticulous, rigorous, and steady promotion of work requirements, it will stimulate the vitality of micro-entities and organically combine the management and control of state-owned capital to maximize the mobilization and stimulation of enterprises' enthusiasm.

In terms of management, the functional departments of the Z city government should shift from administrative approval-style management to capitalized corrective management, thereby achieving a transition from "managing assets" to "managing capital." State-owned enterprises should have independent decision-making power in many operational management matters, but the decision-making process should be open and transparent, ensuring that the functional departments of government control can grasp the information at any time and take corrective measures afterwards.

(3) Establishing a Tolerance Mechanism for Mixed Reform of State-owned Enterprises

Reform is risky. There is also the phenomenon in Z city of strengthening supervision due to fear of reform failure, which leads to state-owned enterprises being unable to truly carry out reform. The "Notice on Supporting and Encouraging the "Double Hundred Enterprises" to further increase reform and innovation" (GuoZiGanBan [2019] No.302) clearly states the innovative reform spirit of "anything that is not prohibited by law can be done", which is the bottom line thinking and high-voltage wire principle. The SASAC in Z city should establish a certain tolerance mechanism. The tolerance space in mixed reform mainly manifests in three aspects: market volatility, reform performance falling short of expectations, and details of the reform process not being arranged in place.

5.4. Establishing a Sound Unified Supervision System for National Capital

The supervision of mixed ownership enterprises should adhere to the modern corporate governance theory of state-owned enterprises, and at the same time fulfill the responsibilities of investors and the supervision of state assets. In response to the existing problems in the audit of state-owned enterprises in Z city, the following suggestions are put forward:

(1) State-owned Enterprises Actively Assisting in Auditing Work

The functions of China's audit institutions have been extended to a wide range of areas based on the financial income and expenditure of state-owned enterprises. Therefore, Z city's state-owned enterprise management needs to fully understand new content such as internal control audit, budget performance audit, state asset audit, and state capital investment audit, so as to be able to popularize relevant information of the enterprise for auditors, assist the audit institution to better design the audit content, coordinate the audit work, and lay a solid foundation for subsequent work.

(2) Improving the Effectiveness of Audit Supervision

In order to effectively prevent and control risks, it is necessary to improve the effectiveness of audit supervision and achieve diversified audit supervision methods. The "Reform Plan of State Capital Authorization Operating System" (Guofa [2019] No. 9) clearly points out that "the representatives of investors should accelerate the optimization of regulatory processes and innovate regulatory methods." Audit institutions should regularly carry out guidance work to ensure that auditors fully understand their functions, responsibilities and advantages, so as to better correct enterprise management problems in the future and improve audit work efficiency.

Therefore, it is necessary to improve the overall regulation system for state assets. Clarify the entire state asset supervision system, adjust the existing system according to the actual situation of state-owned enterprises in Z city, and if necessary, choose to reconstruct it. In addition, corresponding processing mechanisms need to be designed for special circumstances of state-owned enterprises to prevent the complete application of rules and regulations without flexibility or deviation from the development goals of enterprises.

5.5. Implementing Diversified Governance in State-Owned Enterprises Based on Equity Ownership Proportions

For state-owned enterprises with different shareholding types, state shareholders should implement differential management. Currently, for shareholding enterprises, state shareholders still require that some of their production and operation processes follow state-owned holding enterprises. This undoubtedly reduces the flexibility of the enterprise and the enthusiasm of non-state shareholders, which is not conducive to the introduction of other social capital. Therefore, for the management of shareholding enterprises, the following suggestions are proposed:

(1) Exploring the "Audit Supervision" Governance Model

The SASAC issued the Interim Measures for the Administration of State-owned Enterprise Participation (State-owned Enterprise Development and Reform Commission [2023] No. 41) in 2023, which clearly states that state-owned participating enterprises refer to equity investments where state-owned enterprises hold a shareholding of no more than 50% in the invested enterprises and do not have actual control. It requires state-owned enterprises to not easily relinquish important shareholder rights in the process of amending investment agreements or bylaws. Shareholder rights mainly include key matters such as dividend rights, personnel appointment, senior management compensation incentives, audit supervision, information disclosure, safety production, veto rights for specific matters, and equity exits. Among them, the new mention that deserves special attention is "audit supervision". On the one hand,

this refers to the fact that state-owned shareholders should retain the right of state-owned shareholders to audit participating enterprises, which naturally aims to protect state capital. On the other hand, this also indicates that state-owned shareholders do not need to control participating enterprises. Therefore, Z City's state-owned enterprises should be bold in their actual operations and appropriately relax their control over participating enterprises.

(2) Laying the Groundwork for State-Owned Capital's Post-Investment Strategy

Although state-owned enterprises do not need to exercise strict control over participating enterprises, they must strengthen operation monitoring and risk control of participating enterprises. When abnormalities are found, they should actively respond. When there are significant risks or losses that affect the sustainable development of the enterprise, the participating state-owned shareholders should promptly report to the same level of state assets supervision and management agencies. To prevent the loss of state capital, it is also necessary to do a good job of "participating equity exit management", achieving "full exit", "compliance exit", and "reasonable exit".

6. Conclusion

The way in which government control functions control state-owned enterprises often determines the outcome of state-owned enterprise reform in most cases. By collecting relevant policy documents of state-owned enterprises and governments in Z City through public channels, this paper analyzes and concludes that one of the reasons why the development of state-owned enterprises in the city lags behind other cities in the Yangtze River Delta region is that there are still some problems in the control methods of government control functions: unclear boundaries of power and responsibility, poor incentive effects of compensation control, excessive administrative intervention, defects in the regulatory system, and failure to differentiate control.

To solve these problems, the local government needs to transform its own model. Firstly, it is necessary to clarify the boundaries of power and responsibility as soon as possible. Secondly, it is necessary to improve the compensation control mechanism and explore an incentive mechanism that can truly motivate state and private capital. Thirdly, for competitive and some functional state-owned enterprises, administrative intervention should be reduced. Fourthly, it is necessary to improve the unified supervision system for state assets, strengthen communication between the government and enterprises, clarify and implement supervision scope, frequency, methods, and other work. Finally, based on shareholding ratios, it is necessary to achieve diversified control of state-owned enterprises, reduce intervention in participating enterprises with a low proportion of state capital.

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