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State Capital Participation in Private Firms: Operational Gains and Equity Governance Strains

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Abstract. State-owned capital participation in private enterprises has become a significant phenomenon in China's A-share market. This article is based on Suning E-commerce as an example, based on secondary data such as annual reports, announcements, and exchanges' disclosures, which is used to examine the double effects of its share transfer. The research finds that state-owned capital brings mobility of support and policy resources in the short run, but the company will enter a state without a controlling shareholder, no actual controller and dispersed control rights for the board of directors. The disposal of TianTian Express for three years resulted in a significant decline in the efficiency of decision-making; the resource empowerment benefits are offset by governance intervention. Based on this, four strategies are proposed: difference shareholding and board balance, double-layer governance charter and incentive-compatible contract, phase-by-phase exit and dynamic governance adjustment, and digital retail platform governance mechanism. This research provides theoretical references and practical guidance for balancing resource allocation and governance intervention in mixed-ownership reform of private enterprises.

Keywords: State Capital Participation, Resource Empowerment, Governance Friction, Operating Efficiency, Mixed-Ownership Reform

1. Introduction

1.1. Research background

In recent years, under the policy of "mixed ownership reform" and "alleviating the difficulties of private enterprises", the participation of state-owned capital investment in private enterprises has become a significant phenomenon in the capital market. According to the data, between 2009 and 2022, there have been over 3200 cases of state-owned capital investing in private listed companies in the A-share market, covering industries such as manufacturing, pharmaceutical, new energy, electronic and information industries [1]. State-owned capital participation is usually regarded as "resource empowerment" behaviour: private enterprise can obtain low-cost financing, government subsidies, credit guarantees, and policy preferences, in order to reduce financing constraints and improve efficiency. However, the actual situation shows significant "duality". Using Suning E-commerce as an example, in 2021 Suning E-commerce sold 22.55% of its shares to investors with a background of Jiangsu state-owned capital, with a total transaction value of 12.012 billion yuan,

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attempting to reduce the crisis; however, the performance of Suning E-commerce did not change significantly, with a net loss of 9.5-11.5 billion yuan in 2022, and the change in equity structure leads Suning E-commerce to enter a state without control shareholder and no real controller, this leads to a decline in the strategy decision making efficiency [2, 3]. This shows that state-owned capital participation is not only "help in times of trouble", but the equity conflict may also offset the improvement in operating efficiency. Therefore, exploring the real impact of state-owned capital participation on the management efficiency and equity governance, this has a significant commercial reference value and policy meaning, and balances resource allocation and governance intervention. The central research question is thus: under what conditions does state capital's participation in a private firm enhance operating efficiency, and under what conditions does the resulting governance friction offset those gains? The central research question is thus: under what conditions does state capital's participation in a private firm enhance operating efficiency, and under what conditions does the resulting governance friction offset those gains?

1.2. Literature review

The literature on state capital participation offers multidimensional theoretical perspectives. The resource-based view holds that state capital participation supplies scarce financial and institutional resources, lowers financing costs, and improves investment efficiency [4]. The "fatherly effect" of state-backed shareholders reduces debt-default risk among distressed private firms [5]. Conversely, principal–agent theory suggests that state capital participation may create power vacuums and multiple principals, causing protracted decision-making and distorted incentives. Empirical evidence finds that the management-expense ratio rises after state capital entry, partly owing to greater government intervention [6]. Control theory further posits that mixed ownership generates conflicts between incumbent and new shareholders, undermining governance efficiency.

Although the existing research has achieved a lot, there are still obvious gaps. Most studies focus on the positive effects of state capital participation—its role in easing private firms' financing constraints and improving investment efficiency. However, very few researchers have systematically explored the "governance friction" that may exist after state-owned capital participation, including the conflicts for board control rights, strategic differences between state-owned capital shareholders and private enterprise, and conflicts between administration goals and commercial goals. Specifically, existing research always regards state-owned capital participation as a "benefit", ignoring the differentiated impacts of other participation models on operating efficiency and equity governance. Moreover, regarding how state-owned capital participation using "governance intervention" to affect an enterprise's long-term value remains largely unexplored. At the same time, for digital retail and other emerging industries, whether state-owned capital participation further increases governance cost due to "cultural conflicts". This "emphasising resources, neglecting governance" tendency limits the precise guided value of research results for the practical implementation of mixed ownership reform.

1.3. Research framework

This study takes Suning E-commerce as a case to examine how state capital participation triggers resource empowerment and governance intervention, reshaping operating efficiency and governance conflicts. It defines the core concepts, analyses the case background alongside three principal problems, and proposes targeted optimisation strategies to achieve a win–win outcome for state capital and private enterprise.

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2. Case description

Suning E-commerce Group Co., Ltd. (002024.SZ) is a leading retail enterprise in China, with a revenue exceeding RMB 270 billion in 2019. Due to large-scale expansion (acquisitions of Wanda Department Store, Carrefour China, etc.), the debt has soured, and the debt-to-asset ratio exceeded 60% in 2020. A planned 23% stake sale to Shenzhen International Holdings and Shenzhen Kunpeng Equity Investment for RMB 14.817 billion was terminated in July 2021 [7, 8]. State-backed Jiangsu New Retail Innovation Fund and Fund II instead acquired 5.59% and 16.96%, respectively, giving them a combined 22.55% holding [8, 9]. As Table 1 shows, the firm became one with no controlling shareholder and no actual controller, while its six non-independent directors split evenly—two each for Suning, Taobao, and the New Retail Innovation Fund. Revenue fell 48.62% to RMB 71.374 billion in 2022, with a net loss of RMB 16.220 billion, and the period cost ratio rose from 16.34% in 2019 to 21.31% in 2021. The case offers a typical setting for studying state capital participation on private firms' operating efficiency and equity governance.

Table 1. Key financial and governance indicators before and after state capital participation

Indicator	Pre-participation (2019–2020)	Post-participation (2021–2022)	Change
Operating revenue	RMB 269.23 bn (2019)	RMB 71.374 bn (2022)	−48.62% YoY
Net profit attributable to shareholders	RMB 9.843 bn (2019)	−RMB 16.220 bn (2022)	Swung to loss
Debt-to-asset ratio	Exceeded 80% (2020)	89.22% (2022)	+9.22 pp
Period cost ratio	16.34% (2019)	21.31% (2021)	+4.97 pp
State-backed shareholding	0%	22.55%	5.59% + 16.96%
Control structure	Actual controller present	No controlling shareholder, no actual controller	Rights dispersed
Board seats (six non-independent directors)	Controlled by the founding team	Suning, Taobao, and Fund each hold two	Tripartite balance

3. Analysis of state capital participation and effects

3.1. Positive effects of state capital participation

3.1.1. Easing of financing constraints and short-run liquidity support

The immediate consequences of this shareholding change were twofold: a short-term easing of liquidity pressure, and improved access to policy-driven resources—both of which are examined below.

After that, under some Jiangsu apartment coordination, Suning E-commerce, the joint credit granting committee has entered operation, and the relationship with the bank enterprise is gradually recovered. According to the official response by the Shenzhen Stock Exchange Interactive Platform, since the establishment of the joint credit committee until May 2022, the company's existing credit

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remains stable, no loan withdrawal or cut off, and received 10.5-billion-yuan incremental financing quota, the credit providers included the four major banks of China, Jiangsu Bank and Nanjing Bank. From the structure of the debt, up to June 2022, the company's short-term loans were 32.03 billion yuan, a slight increase compared to 30.094 billion yuan in 2021; liability with interest increased from 28.972 billion yuan at the end of June 2021 to 38.129 billion yuan. This shows that the main role of state-owned capital participation is to recover financing channels, rather than reducing existing debts. In terms of costs, the financial expenses in the first quarter of 2022 were 8.16 billion yuan, a year-on-year decrease of 21.1%, mainly due to the change of debt structure and the stability of the financing channel.

3.1.2. Access to policy resources and strategic legitimacy

In terms of subsidies, the company's government subsidies recorded in the current profit and loss account was 94.99 million yuan in the first half of 2022; in July 2022, Jiangsu Province issued 200-million-yuan subsidies in home furniture, which were green energy saving, Suning E-commerce with the highest comprehensive score became the first winning bidder and receive 100 million subsidies, which was implemented through the offline store network. In terms of government enterprise procurement, the subordinate's Yicai Cloud Platform has served over 2200 large group customers and over 1.8 million purchase users. In 2024, it signed 510 new contracts, which include many central state-owned enterprises and other small state-owned enterprises. In some areas, like manufacturing, it achieves 60% growth. In addition, the company recently won the procurement project of the Agricultural Bank of China in Huaibei with an amount of 6 million yuan, and the government purchase tend to increase.

3.2. Governance strains on sustainable development and efficiency

3.2.1. Dispersed board control and impaired decision-making

Following the transaction, Suning ceased to have a controlling shareholder or de facto controller. A report in July 2021 showed that the New Retail Innovation Fund II had the right to nominate 2 non-directors, and the board remains 9 members. Single shareholders can not control the shareholders' meeting and the board. Under this structure, state-owned capital shareholders preferred stable operation, while the founding team preferred scale expansion. Their preferences diverged sharply on asset divestment and business contraction, and the absence of a controlling shareholder turned routine decisions into protracted negotiations, raising the cost and delay of decision-making. A typical example is the disposal of Tian Tian Express. Since it was acquired in 2017, it has continued to incur losses. In the second half of 2021, its logistics business operations were stopped, but the remaining equity was not approved for sale until the 18th meeting of the 8th board of directors in August 2024, and it sold 10 million yuan. The interval from stop operating to final sale was approximately 3 years; this reflects a significant increase in time to decision-making on asset disposal in the absence of an actual controller.

3.2.2. Administrative versus commercial objectives

The state-owned capital participation brings a resource effect. However, state-owned capital shareholders focus on core business, which directly conflicts with Suning's previous diversified expansion strategy. Since the introduction of state-owned capital investment, the company has

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gradually divested non-core assets such as PPTV and Inter Milan. The 2022 annual report also shows that the company accelerated the adjustment of loss-making businesses, and the operating cost decreased by 37.92% year-on-year. This contraction may help the company in the short term, but it also means that the retail ecosystem strategy made by the founding team has been contracted. Some studies have shown that there is an inverted U-shaped relationship between the ratio of state-owned capital shareholders and the efficiency of private enterprises. Moderate participation can increase efficiency, while excessive participation may reduce efficiency.

3.2.3. Governance frictions and operating efficiency

The changes in governance structure are reflected in the operating performance. The ROA of Suning E-commerce in 2022 was approximately -10.97% decrease about 8.85% compare to -2.12 in 2020. In 2022, the company made provisions for impairment of assets, which further increased the pressure on the profit. Although the operating cost decreased by 37.92%, this was a passive improvement, because it was under the background of a significant contraction in revenue, rather than an improvement in efficiency. There are two main mechanisms of the influence on governance friction. First, the slow decision-making slows down the market response. In 2022, the retail competition intensified, as JD and Pinduoduo increased subsidies. Under the no-controller structure, strategic adjustments required prolonged deliberation and proceeded more slowly than those of comparable privately controlled retailers.

Second, governance costs occupy management resources; in order to satisfy state-owned capital requirements, additional communication is needed, which consumes the attention of management.

4. Governance optimisation strategies

4.1. Differentiated shareholding arrangements and board power balance

In response to the issue of dispersed control and slow decision-making, a suggestion is that in the shareholding agreement, the arrangement should be determined based on financing gap, industries attribute and risk level to designed in an asymmetric manner: for distressed targets, the shareholding should be controlled within 10% - 20%, the state-owned capital can only send 1 director and have the right to veto related to transactions, external guarantees, and major assets disposals, other daily operation rights belongs to original founding team. They could choose "golden shares" or a level voting right system, state-owned capital remaining the decision-making power of key matters, with a low shareholding [10]. Any shareholder can only nominate people who can not make up more than one out of three; the other seats are made by independent directors or experts from different industries, cross-appointed to professional committees for strategy, audit and related transactions. Introduce provisions on the decision-making period and deadlock resolution to avoid governance deadlock for a long time.

4.2. Dual-layer governance charter and incentive-compatible contracts

For the strategic goal conflicts, it is recommended to sign the "state-owned capital-private enterprise shareholder governance charter", distinguish between the bottom line of maintaining state-owned capital and the business decisions led by the founding team and agree on the major decision-making and approval thresholds. This can avoid double overreach from systemic perspectives. The policy appeal of state-owned capital should be quantified as order amounts, reduce cost in financing and

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the time period of receiving subsidies KPI, as a "coordinated delivery obligation" list of assessment. Given that short-term performance assessments may induce excessive administrative intervention, the evaluation cycle for dispatched directors and managers should be extended to 3–5 years. The assessment period for dispatched dictators and managers should be expanded to 3-5 years and linked with EVA, operating cash flow, and the conversion rate of research input, while the founding team can use restricted stocks, performance units, etc., as long-term incentives to align the prevention and appreciation goals of state-owned capital [11].

4.3. Phased state capital exit and life-cycle-based dynamic governance adjustment

For the governance friction mechanism, it is recommended to design the state-owned capital participation as a dynamic process with a life cycle: when the debt-to-asset ratio drops to the threshold during the debt relief phase, after two consecutive years of positive cash flows, it can exit; for strategic synergy participation, it will be transformed into financial investment after they reach the goals [12]. Simultaneously, establish a "light-medium-heavy" three-level intervention model that changes according to the health rate of the enterprise, and suggest mentioning the number of coordination meetings, decision-making cycle and approval duration in the annual list of "governance cost", and present together with resource revenue to evaluate the net effect. For emerging industries such as digital retail, this dynamic governance framework should be further supplemented by platform-specific mechanisms addressing data and algorithmic governance.

4.4. Platform governance mechanisms for digital retail scenarios

For the potential conflict between cultural and data in emerging industries, it is recommended to establish a platform of governance committee under the board of directors, independent directors, technical experts and legal personnel who will first deliberate the boundaries of data, algorithmic explainability and platform rules. Complete governance due diligence before investing, and reduce the integration period by cross-appointment of management and quarterly reviews. For irreconcilable differences, pre-agree on the triggering conditions for board recorganization and equity repurchase.

5. Conclusion

5.1. Key findings

This paper uses Suning E-commerce to verify the double effect of state-owned capital participation in "resource empowerment" and "governance friction". On the positive side, state-owned enterprises can alleviate financing constraints in the short run. But there are three friction mechanisms: dispersed control rights led to the disposal of TianTian Express for three years; Conflict between administrative and business objectives; governance costs occupy the attention of management. The financial resource revenue does not offset the efficiency loss caused by the governance reconstruction period. Finally, this paper provides responses from the allocation of control rights, target contracts, exit mechanism and platform governance.

5.2. Research significance

For private enterprises, the introduction of state-owned capital should not be regarded as "life-saving money". Equity restructuring is long -term cost, the seats, lists, time limit, and exit clauses should be

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included before investment; for state-owned capital, "only investing but no managing" and "excessive intervention" are also harmful, it needs to focus on capital management rather than direct intervention in operations; for policy design and industries, this paper provided the evidence for mixed-ownership of state-owned capital participation and success or failure depends on net effect of resource empowerment and governance intervention, and the net effect will change with the depth, industries attributes and the life cycle of the enterprise.

5.3. Limitations and future prospects

This study is based on one single case, debt crisis, retail attributes and the special structure lead by Jiangsu state-owned capital, which limited the extrapolation of conclusions; this paper mainly use secondary data like annual reports and announcement, no primary data was used, there is lack of direct observation values of key variables of governance friction; it mainly relies on deduction, no measurements models for control groups. In the future, primary data can be obtained through questionnaires and interviews, with more cases and looking for the operating performance after the exit of state-owned capital.

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