

## Analysis of Transformation and Upgrading of China's Private Enterprises during the Period of "Twelfth Five-year"

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**Abstract**—To promote the development of private economy is an important guarantee to expand employment, improve people's livelihood and maintain stability. The current development of private enterprises of China is not only facing many difficulties, but also has an opportunity to change the ways of economic development. This paper has discussed the difficulties and opportunities of China's private enterprises during the period of "twelfth five-year" and analyzed the ways of transformation and upgrading in the current situation, so as to try to provide some opinions and suggestions for the development of China's private enterprises.

**Keywords**—*Twelfth five-year; private enterprises; transformation and upgrading; path*

### I. INTRODUCTION

The major changes are happening in the world economy at present. The growth pattern that "Consumption in Europe and U.S.A - but made in China" is gradually changed in the global economy. And the growth of global economy will be slowly in the medium and long term. At the same time, enterprises in our country have entered the era of high cost due to the rising cost of labor, capital, raw materials, land and resources and environment, and fluctuations about exchange rate of RMB. The inevitably choice for the private enterprises is to transform and upgrade themselves positively, so as to comply with the trend of economical development and seize the opportunities and challenges. The development of China's private enterprises in the current situation is faced with great difficulties such as high requirements for market access, financing difficulties, the cost pressure, lack of R&D and product innovation, risk control capability insufficiency, bad development environment. On the other hand, urbanization, low carbonization, informationization and internationalization have provided the private enterprises with a significant opportunity for development. The government and the enterprise itself have a long way in the transformation and upgrading. There is a desperate need to have greater policy support for private enterprise, implement the mode of intensive development driven by innovation, improve the corporate governance structure, promote the development of strategic alliance and cluster and participate in international division of labor in a higher level.

### II. THE CURRENT DIFFICULTIES FACED BY PRIVATE ENTERPRISES IN CHINA

#### A. High barriers to entry

The private enterprise of China is difficult to enter into the monopoly industries for a long time. Due to the lack of national policies and rules, imperfection of exit mechanism, shortage of investment services and vacancy of execution supervision, breaking industry admittance obstacle --"glass door" and "clicks" is still a long way to go.

#### B. Difficulties in Enterprise financing

The most prominent problem that private enterprises are facing with is shortage of funds. It is almost the consensus from all walks of life. From the perspective of private enterprises themselves, financing difficulties lie mainly in the lack of effective mortgage assets, plus the imperfection of credit guarantee system, resulting in the bank "loan rejection". At the same time, the system of direct financing for private enterprise is lagged, the private enterprise is difficult to obtain debt financing and venture investment.<sup>[1]</sup>

#### C. The cost pressure

From the perspective of costs, under the situation of the international commitments of energy conservation and emissions reduction, energy price marketization reform, interest rate marketization and emphasis on people's livelihood construction, the private enterprise of the original cost advantage is difficult to keep for a long time. At the same time, the human resources cost is raising, due to the implementation of the new labor contract law.<sup>[2]</sup>

#### D. Lack of R&D and product innovation, and more energy conservation and environmental protection responsibility

The enterprise's sustainable development put forward new and higher requirements because of product innovation and the increase of global environmental protection consciousness. More and more enterprises strongly felt the environmental protection and energy saving responsibility are aggravating, particularly in the iron and steel, nonferrous metals, building materials, chemical industry, electric power

projects, which will inevitably affect the enterprise's short-term business performance.

#### *E. Lack of risk control capability*

The lack of risk control consciousness, insufficiency of capability, and incompleteness of system during the period of economic adjustment are becoming more and more serious. Especially there are the insufficiencies of risk control consciousness, lack of information means and lack of a series of soft security measures as well as. To overcome the risks of these three points can make the enterprises to reduce risk.<sup>[3]</sup>

#### *F. Bad development environment*

In the current situation, the development environment of the China's private enterprise, such as economy, policy and law, is not optimistic. Some of the business owners consider that the national policies are not fair enough and policy changes have caused great influence on the enterprise management, and part of the legal protections to the enterprise are not in place, and there are also misunderstandings to the entrepreneurs among the public, etc.

### III. THE OPPORTUNITIES OF CHINESE PRIVATE ENTERPRISE ON TRANSFORMATION AND UPGRADING CURRENTLY

Crisis is often accompanied by an opportunity, the financial crisis and European debt crisis have also provided an opportunity to the relatively backward countries and regions in the transformation of the mode of economic growth, which means, the transformation and upgrading of private enterprises are faced with opportunities.

#### *A. Crisis provides opportunities for the private enterprise on transformation and upgrading*

Crisis "forced" mechanism, often is a rare opportunity for enterprise transformation and upgrading. International and domestic market is facing a re-shuffle, innovation elements such as technology and talents will be reassembled. In response to the financial crisis, the national and local governments have introduced the adjustment of export tax rebates, industrial revitalization, investment encouragement and a series of powerful regulation policies and measures, which is a major strategic opportunity for the transformation and upgrading of private enterprises.

#### *B. The urbanization process provides a huge demand*

The future rapid development of urbanization in our country will detonate a great domestic demand for private enterprise to create a huge consumer market and investment. Urbanization development is conducive to accelerate urban transportation, water supply, power supply, communication, cultural entertainment and other public infrastructure construction, promote the development of multiple related industry; is advantageous to the large number of farmers into the city, changing the farmers' consumption for citizens; is beneficial to improve the level of farmers' income,

improving rural consumption environment, making the rural potentiality into effective demand reality.

#### *C. Low carbon economy leading industrial revolution*

Low carbon economy is an economic model based on low energy consumption, low pollution and low emission. Someone regards the "low carbon economy" as "the fourth industrial revolution", which will bring mankind a profound change in production and life style. This new development model, promoting the creation of new industries, such as the rapid development of new energy industry, environmental protection industry, etc. not only creates investment space and huge market space for the private enterprise, but also circumvents the green trade barriers, setting up enterprise good citizen image.

#### *D. Enterprise information and e-commerce promote private enterprise benefit*

Relevant statistics show that only about 5% of domestic private enterprises implement the ERP (enterprise resource planning), CRM (customer relationship management) and SCM (supply chain management), at the advanced stage of information, the vast majority of enterprise information level only stay in word processing, financial management and office automation and labor personnel management stage. At the same time, the constant improvement of China's e-commerce platform, payment environment unceasing optimization and consumption habits change make the online shopping rapid development, expanding the market opportunity of private enterprise information.

#### *E. The internationalization of private enterprises brings double opportunities*

Crisis has brought private enterprises the double opportunities of "going out" and "bringing in". Financial crisis made quite a number of well-known enterprises abroad applied for bankruptcy, which provides a rare opportunity for our country private enterprises to "go out" after the financial crisis. At the same time, the economic depression, multinational companies are willing to put the high technical content of products for developing countries, which make our country private enterprises facing the opportunity of international industry transfer after the financial crisis, represented by service outsourcing, the private enterprises are brought with the opportunity of "bringing in".

### IV. THE PATH OF TRANSFORMATION AND UPGRADING OF CHINA'S PRIVATE ENTERPRISES DURING THE PERIOD OF "TWELFTH FIVE-YEAR"

Enterprises always survive and develop in a certain economic, social and political environment, according to the change of external environment and advancing with The Times. At present, facing with opportunities and challenges in the development of China's private enterprises, the government and the enterprises themselves have a long way in terms of transformation and upgrading.

#### *A. Intensifying policy support to the private enterprise*

Government should increase policy support for private enterprises, especially small and medium-sized private enterprises. Suggestions from the following several aspects: first, supporting details of the "new 36" shall come out as soon as possible. Secondly, it shall strengthen fiscal and taxation support and alleviate the burden of private enterprises. It shall expand the scale of special funds for the development of private enterprises, adopting the direct financing, financial guarantee, discount loans etc., to support the independent innovation project of the private enterprises. The tax incentives shall be industry-oriented, using direct reduction credits, lowering tax rates, accelerated depreciation, equipment investment tax credit, reinvestment tax rebates and other various forms.<sup>[4]</sup> Thirdly it is to improve financial services, alleviate the difficulties of private enterprises in financing. It shall increase the credit efforts of private enterprises in line with the national industrial policies and environmental policies, vigorously promote the development of small and medium-sized financial institutions, speed up the cultivation of credit guarantee institutions, implement the preferential rate of guarantee service charge for small and medium-sized enterprises, so as to reduce their financing costs.

#### *B. Implementation of intensive development model driven by innovation*

Specifically, the private enterprises need to cultivate independent innovation habits, improve the talents incentive mechanism, optimize the cooperative innovation mechanism, and deal with the relationship between technology introduction and digestion and absorption to strengthen the core technology development. In addition, the enterprises should improve their core competitiveness through management innovation, which are indispensable factors to build enterprises core competitiveness. At the same time, private enterprises should cultivate core competence through business model innovation, organization and management innovation, enterprise culture innovation and adopt new management methods based on management advantages.

At present, more than 80% of the private enterprises in our country are family businesses. Family enterprise system and the non-family enterprise system have their own advantages and disadvantages, and enterprises should choose the suitable organization and management system based on their size, industry characteristics, enterprise internal and external environment and so on. Private enterprises should adhere to the basic principles of "mutual-trust, sharing, co-governance, multi-win", to establish "insiders" and "outsiders" - professional manager to participate in the "mutual-trust" model of governance. And they should create a fair successor selection standard and mechanism, to choose the appropriate enterprise successor; establish a standardized corporate governance mechanism, set up the company checks and balances of power by actively introducing the

independent director and perfecting the board of directors, etc.<sup>[5]</sup>

#### *C. Strengthening the control of business risk*

Concrete steps are as follows: First, to strengthen the production and operation management, reduce business risk. Private enterprises should practice internal forces, strengthen the enterprise internal management, refinement, information management. Second, to change management ideas, make risk transfer reasonably. Enterprise operators and managers must be good at using the financial innovation means such as insurance, futures, assets securitization, so as to transfer the enterprise risk reasonably. Third, to make a reasonable financial policy, keep good financial situation. As for holdings of receivables, they shall formulate corresponding measures to recover as soon as possible; formulate capital use plan to raise funds in time, and make reasonable arrangement on the use of funds.<sup>[6]</sup> Fourth, to establish a risk reserve fund so as to alleviate the impact of the risk.

#### *D. Promoting the development of strategic alliance and the industrial cluster*

One is to guide the implementation of vertical and horizontal joint of the private enterprises. The private enterprises shall not only join with the enterprises who have the similar products and similar scales, so as to benefit each other mutually on the management, technology, brand and marketing network, but also join vertically with upstream or downstream enterprises to form the chain of industry in depth, to maximize the cost advantage, to reduce the risk of the enterprise market, and to obtain sustainable development. The second is to develop small and medium-sized enterprises cluster around the characteristic industry. Focus on developing a batch of industrial clusters with scientific planning, prominence in main industry, distinctive characteristics and large-scale, long chain and great competitiveness. To speed up the construction of characteristic industrial park, guide SMEs to concentrated industrial park, development of specialized, distinctive industrial park, improve the level of enterprise scale on economy and industrial concentration.

#### *E. Participating in the higher level of international division of labor*

Private enterprises in our country can consider the following three ways to implement the cross-over development: one is self-reliance, which is the most difficult and also the most expensive method and is adopted by most enterprises; Second way is to borrow other ODM supplier ability, rely on institutions such as foreign architects to provide design, although is not their own intellectual property, but can quickly change the homogeneity product situation, improve the added value of products; The third way is to employ "foreign workers", like sports hiring "foreign coaches", so that those who have design talent can be hired by us.

## V. CONCLUSION

In summary, the positive transformation and upgrading of enterprises are an inevitably choice to comply with the trend of economical development of private enterprises and seize the opportunity and the challenge. The government and the enterprises themselves have a long way in the transformation and upgrading. There is an urgent need to intensify the policy support for private enterprises, implement the intensive development mode driven by innovation, strive to improve the corporate governance structure, promote the development of strategic alliance and cluster and participate in a higher level of international division of labor. On the other hand, as an important part of the national economy, private economy should be active in the process of transformation of the pattern of economic development, improve market competitiveness and ability to resist risk, to speed up the independent innovation, actively fulfill the social responsibility, and bear the responsibility of the force to promote the development of national economy.

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