



Study on the Financial Performance of Yunnan Baiyao in the Context of Mixed Ownership Reform

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Abstract: Since the 18th Party Congress, the reform of state-owned enterprises has entered a pilot phase and accelerated. To improve corporate performance, a large number of outstanding enterprises have carried out mixed ownership reform. As a major restructured enterprise in Yunnan Province, Yunnan Baiyao's performance capability has been declining year by year under the influence of medical industry consolidation, but its brand value is high, so Yunnan's state-owned assets department has carried out mixed ownership reform of Yunnan Baiyao in order to be able to improve the financial performance of the enterprise. Using Yunnan Baiyao as a case study, this paper describes the process and motivation of the mixed ownership reform of Yunnan Baiyao, and analyzes the financial performance of Yunnan Baiyao before and after the mixed ownership reform in four dimensions, including profitability, solvency, development, and operational capacity, and the results show that the financial performance of the enterprise has been enhanced after the mixed ownership.

Keywords: mixed ownership reform; financial performance; development capacity

1. Introduction

In November 2013, the Third Plenary Session of the 18th CPC Central Committee adopted the "Decision of the CPC Central Committee on Several Major Issues of Comprehensively Deepening Reform", which also pointed out the requirement of "actively developing mixed ownership economy", and in September 2015, the central SOE reform program was implemented and provincial SOEs became the focus of a new round of reform. In January 2016, the Yunnan provincial government responded to the call of the central government and issued supporting documents to promote the reform of state-owned enterprises, including Yunnan Baiyao, and in October 2019, the State-owned Assets Supervision and Administration Commission (SASAC) formulated the "Operational Guidelines for Mixed Ownership Reform of Central Enterprises", which led to a new phase of state-owned enterprise reform and the opening of a comprehensive deepening of reform, all of which established policy support for the implementation of mixed reform of state-owned enterprises.

As of May 2021, several SOEs have completed their mixed ownership reforms. However, whether there is a significant improvement in the financial performance of firms before and after the hybrid reform has been intensely discussed by many scholars from multiple perspectives. Jensen et al. (1976) argued that at the corporate governance level, how the equity structure is arranged has a significant impact because a reasonable configuration of the equity structure will have a decisive role in upper-level resolutions such as corporate investment decisions, which in turn affects corporate governance, and corporate financial performance.^[1] Megginson (2001) pointed out through a study that the entry of private capital, in whole or in part, into state-owned enterprises will establish joint-stock companies and improve corporate performance^[2]. Byung-Yeon Kim et al. (2012) found that market-oriented SOEs outperformed typical SOEs, which suggests that the introduction of non-state capital into SOEs can improve corporate governance. The introduction of non-state capital such as private strategic investors helps them to play an active role in participating in corporate governance.^[3] In terms of mixed ownership reform and financial performance, Guy S. Liu, John Beirne, and Pei Sun (2015) show that mixed ownership is the best performing form of capital composition among Chinese firms

today, using a sample of over 1100 Chinese firms. Reform can lead to optimal firm development^[4]. Duc Nam Phung and Anil v Misshra (2016) used the construction of a double difference model to argue that diversifying the equity structure of listed companies in Singapore will have a positive effect on the improvement of the financial performance of firms. Therefore firms need to make full use of the equity structure mix as a way to carry out reforms.^[5]

In summary, the views of scholars differ on the financial performance of firms after mixed reform. This paper uses Yunnan Baiyao as a case study of mixed ownership reform, aiming to analyze its impact on corporate financial performance before and after the mixed reform. It is also used as a case study hoping to provide experiences and lessons for the mixed ownership reform of state-owned enterprises.

2. History and motivation of Yunnan Baiyao's mixed ownership reform

2.1 Basic information of the three parties of the hybrid reform

2.1.1 Yunnan Baiyao Overview

Founded in 1902, Yunnan Baiyao was one of the first national innovative enterprises by virtue of its "Baiyao secret recipe" and was successfully restructured in 1993 and listed on the Shenzhen Stock Exchange (stock code: 000538) as the first listed company in Yunnan. After more than 50 years of development, the main business in the development of the pharmaceutical industry is clear, mainly divided into four segments: pharmaceuticals, health products, traditional Chinese medicine resources and pharmaceutical logistics, and the business scope has been continuously expanded in the later stage of development and now covers the field of large medical devices. At present, it is the most powerful and influential large industrial and commercial pharmaceutical enterprise in Yunnan Province.

2.1.2. Introduction of New Huadu Industrial Group

In 1995, Xinhudu was established as the first department store. In 1997, Xinhudu established Xinhudu Industrial Group after reorganizing and restructuring some of its high-quality assets, which is a group company with retail as the main industry. So far, the business field has been expanded from department stores and supermarkets to engineering machinery and real estate industries, and actively involved in tourism development companies and mining.

2.1.3. Introduction of Jiangsu Yuyue Technology Development Co.

Ltd. was established in 1998, and in 2008, Yuyue Medical stock was listed on the Shenzhen Stock Exchange (stock code: 002223), which is a company integrating home medical care, clinical medical care, life rescue and Internet medical care. With the development of the company, the technological innovation of existing products and the development of new products are constantly enhanced.

2.2 The history of Yunnan Baiyao's mixed ownership reform

(1) 2016-2017 Capital increase

In December 2016, Yunnan Baiyao chose to take the lead in reform at the level of the controlling parent company - Baiyao Holdings. In March 2017, Xinhudu formally increased its capital to Baiyao Holdings. In June 2017, in order to introduce a strategic investor with a medical background, Jiangsu Yuyue increased its capital to Baiyao Holdings by RMB 5.638 billion, accounting for 10% of Baiyao Holdings' shares, becoming the third largest shareholder of Baiyao Holdings. The introduction of two private companies has changed the capital structure of Baiyao Holdings. The introduction of two private companies changed the capital structure of Baiyao Holdings. The equity structure of Yunnan SASAC and the two private companies is 45%, 45% and 10% respectively. This investment redistributes the equity of Baiyao Holdings to achieve the effect of equity checks and balances.

(2) 2018.09-2019.07 Company listing

In November 2018, Yunnan Baiyao achieved the absorption of Baiyao Holdings by exchanging 1 share for 1 share to the three major shareholders of Baiyao Holdings, namely Yunnan SASAC, Xinhudu and Jiangsu Yuyue. In July 2019, in order to reduce the pressure of interbank competition, Yunnan Baiyao was listed as a whole.

2018.11-2019.12 Employee shareholding

In 2018, we launched the employee stock ownership plan proposal and formally implemented the employee stock

ownership plan in 2019 to repurchase 3,301,001 shares of the company with our own funds, accounting for 0.26% of the total share capital of the company, and the repurchased shares were transferred to the special account of "Yunnan Baiyao Employee Stock Plan" in the form of non-trading transfer. In 2020, the company completed the registration of the first batch of stock incentive grant, and the first batch of incentive targets were 687 people. 687 people and 16,956,000 stock options were granted.

2.3 Motivation of Yunnan Baiyao's mixed ownership reform

2.3.1. Policy orientation

Since 2013, the state has gradually formed a system of "1 + N" policy documents to deepen the reform of state-owned enterprises, after the state particularly emphasized the importance of developing mixed ownership system in major conferences. In the context of the national policy call, in February 2016, Yunnan Provincial People's Government issued the "Implementation Opinions on the Development of Mixed Ownership Economy in State-owned Enterprises", and Yunnan Baiyao became a pilot of mixed reform in the relevant departments of Yunnan Province, which was approved and strongly supported by the Yunnan Provincial State-owned Assets Supervision and Administration Commission.

2.3.2. Industry promotion

During the "12th Five-Year Plan" period, a series of policies and measures were introduced to regulate the development of the pharmaceutical industry and adjust the structure of the pharmaceutical industry. Many medical reform policies have been implemented and drug prices have been adjusted downward. The sales revenue of the pharmaceutical industry dropped from 26.10% in 2011 to 9.00% in 2015, with a growth rate of 65.52%. Yunnan Baiyao, as a leading enterprise in the pharmaceutical industry, has been strongly impacted by the traditional pharmaceutical segment, and the growth rate of operating revenue and net profit has been decreasing year by year in the process of industry adjustment.

2.3.3. Enterprise development

(1) Poor performance

Yunnan Baiyao is a leading pharmaceutical company of a certain scale in China's pharmaceutical industry. As a result, its sales revenue has been growing at a steady rate until 2014. However, Yunnan Baiyao's net profit growth rate was 6.83% in 2014, which was 40% lower than the previous year, and the growth rate was -23.14% by 2016. Meanwhile, the return on total assets and operating income growth rates continued to decline from 2013 to 2016, with total assets return falling from 19.72% to 13.36% and operating income falling from 15.11% to 7.97% as of 2016, which is not a good overall situation.

(2) Incomplete governance structure

Yunnan Baiyao's previous key management has been the leaders of state-owned enterprises, directly appointed by the government, which made the executives put their attention to government department assessment targets and political promotion, and their private interests are not closely linked to the interests of the future development of the company, resulting in a slow development process. According to previous studies, the effectiveness of corporate survival and development is inextricably linked to the management of the company, Hambrick D C (1984) argued that the leading role of top management in the company should be brought into play, so that the personal performance of top managers is linked to the interests of the company ^[6]. Blasi et al. (2016) used a sample of 100 companies and the study noted that in companies that use incentives employees are able to participate more extensively in decision making, contribute to the cohesion and construction of company culture, and improve return on equity ^[7]. However, the salary performance appraisal of Baiyao Holdings has been using the appraisal method developed in 2002, and this previous incentive mechanism reduces the motivation of executives and is not conducive to solidifying insiders and attracting other talented people compared to other pharmaceutical companies of the same size.

3. Analysis of Yunnan Baiyao's financial performance before and after the

hybrid reform

Financial performance is the contribution that a company's strategy and its implementation and execution are making to the ultimate business performance. Analyzing financial performance reflects the overall level of business management and gives managers and investors the right judgment. The following section will analyze whether the financial performance of Yunnan Baiyao has been boosted before and after the hybrid reform in four aspects: profitability, solvency, growth and operational capacity.

3.1 Profitability analysis

In this paper, return on net assets, operating profit margin, net sales margin, profit margin from main business and net profit margin from total assets are selected to analyze the changes of corporate earnings before and after the hybrid reform of Yunnan Baiyao. Table 1 shows that the return on net assets and net profit margin of total assets show a decreasing trend year by year from 2015 to 2019 and reach the lowest value of 11.03 and 10.43 respectively in 2019, which is due to the fact that Yunnan Baiyao is in the adjustment period of listing after the hybrid reform in 2019, and various management has not yet been implemented; on the other hand, it is due to the downturn of the Chinese medicine industry brought about by the impact. The operating profit margin, sales margin and main business profit margin have not changed much from 2015-2019. 2020 financial indicators show a significant increase compared to 2015-2019, which indicates that Yunnan Baiyao's profitability has improved in the long run after the hybridization.

Table 1 Yunnan Baiyao Profitability Indicators Data, 2015-2020

Year	2015	2016	2017	2018	2019	2020
Return on Net Assets	20.63	18.57	17.44	16.72	11.03	14.50
Operating Margin	15.28	14.81	14.89	14.35	15.99	20.80
Sales Margin	13.29	13.08	12.88	12.32	14.07	16.83
Profit margin from main business	30.03	29.18	30.49	29.89	28.08	27.25
Net profit margin on total assets	15.47	13.36	11.98	11.33	10.43	10.51

Data source: WIND database

3.2 Solvency Analysis

In this paper, four aspects of current ratio, quick ratio, gearing ratio and shareholders' equity ratio are selected to analyze the changes of corporate debt service before and after the hybridization of Yunnan Baiyao. As shown in Table 2, the current ratio and quick ratio of Yunnan Baiyao decreased year by year from 2015 to 2018, and reached the lowest point of 2.68 and 1.7 in 2018, and increased in 2019. "In 2019, Yunnan Baiyao's pharmaceuticals segment joined hands with the Baiqiu'en Charity Foundation to build a "device + e-commerce + new media " marketing matrix, so that the current year's gearing ratio in 2015-2020 ratio lowest to 23.28%, the enterprise financial risk becomes smaller, long-term solvency improved. Overall, the overall solvency of Yunnan Baiyao has improved.

Table 2 Data on solvency indicators of Yunnan Baiyao, 2015-2020

Year	2015	2016	2017	2018	2019	2020
Current Ratio	3.61	3.28	3.34	2.68	4.65	3.15
Quick Ratio	2.41	2.25	2.18	1.70	3.43	2.45

Gearing ratio	29.87	35.56	34.51	34.42	23.28	30.56
Shareholder equity ratio	70.14	64.44	65.49	65.58	76.72	69.44

Data source: WIND database

3.3 Development capacity analysis

This paper measures the development ability of Yunnan Baiyao before and after the hybrid reform in four parts: main business revenue growth rate, net profit growth rate, net asset growth rate and total asset growth rate. As can be seen from Table 3, the growth rate, net profit growth rate, net asset growth rate and total asset growth rate declined year by year from 2015 to 2018, and the business situation was problematic, but in 2019, the company completed the hybrid reform and achieved overall listing, the four indicators showed leaps and bounds, especially the net asset growth rate, which reached 830%, and Yunnan Baiyao continuously enriched the product content of its four business segments, including pharmaceuticals, health products, traditional Chinese medicine resources and pharmaceutical business, through an innovative model to enhance its operating performance. As a result, the hybrid reform has significantly improved Yunnan Baiyao's development capabilities, further optimized its industrial structure, and continued to improve the quality of its asset operations, market image and brand value.

Table 3 Yunnan Baiyao Development Capacity Indicators Data, 2015-2020

Year	2015	2016	2017	2018	2019	2020
Growth rate of main business revenue	10.23	8.07	8.50	9.84	11.07	10.38
Net profit growth rate	10.34	6.36	6.88	5.02	26.85	32.06
Net Assets Growth Rate	19.77	17.12	14.51	9.81	91.24	0.64
Total assets growth rate	18.05	27.45	12.67	9.66	63.47	11.20

Data source: WIND database

3.4 Operating Capacity Analysis

This paper measures the operating capacity of Yunnan Baiyao before and after the hybrid reform in terms of accounts receivable turnover ratio. The five components of inventory turnover, fixed asset turnover, total asset turnover and current asset turnover are used to measure the operating capacity of Yunnan Baiyao before and after the hybrid reform. As can be seen from Table 4, the accounts receivable turnover, inventory turnover, fixed asset turnover and current asset turnover are basically in a decreasing trend from 2015 to 2020, which indicates that the enterprise's inventory goods are stagnant in 2015. In September 2019, Yunnan Baiyao produced a "smart" toothpaste, marking its progress from manufacturing to "smart" manufacturing, and its inventory The inventory turnover rate also rose to 2.08%. As a result, the mix has not significantly improved Yunnan Baiyao's overall operating capacity.

Table 4 Yunnan Baiyao Operating Capacity Indicators Data for 2015-2020

Year	2015	2016	2017	2018	2019	2020
Accounts Receivable Turn-over Ratio	25.72	21.66	21.65	17.30	15.25	11.71
Inventory turnover rate	2.72	2.51	2.15	1.99	1.95	2.08
Fixed asset turnover rate	12.19	12.72	13.35	14.88	15.39	12.50
Total assets turnover ratio	1.16	1.02	0.93	0.92	0.74	0.62

Current asset turnover ratio	1.34	1.15	1.03	1.02	0.82	0.70
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Data source: WIND database

4. Summary

Through the above analysis, after Yunnan Baiyao underwent the mixed ownership reform, two major companies, Xinhuaadu and Jiangsu Yuyue, were introduced as investors to broaden the offline sales platform and expand the technological research and development capabilities, and at the same time, the company implemented policies such as equity incentives to motivate employees after the overall listing after the mixed reform, which made the employees highly motivated and made the profitability, solvency, and development capabilities significantly improved. Therefore, the hybrid reform of Yunnan Baiyao shows that the effect of mixed ownership reform on the financial performance of enterprises is positive and has a strong demonstration significance, which is a benchmark for the hybrid reform of local SOEs in China and can also provide some experience to local SOEs that are preparing for the hybrid reform.

However, the current indicators of the company's operating capacity, despite the increase in 2020, have a significant downward trend overall. In the future, the company should adhere to policy leadership, follow market trends, optimize its business structure, develop diversified health products, improve product innovation, broaden market space, and sell products online and offline through the Internet+ to bring more convenient services to consumers and create a higher level of performance for the company. The company will also be able to provide online and offline sales of its products through "Internet+" to bring more convenient services to consumers, create higher performance levels for the company, and strengthen Yunnan Baiyao's position in its core business.

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