

A Study on the Impact of Mixed Reform on the Financial Performance of State-Owned Enterprises

-- A case study of Yunnan Baiyao

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Abstract: The concept of mixed ownership reform was first put forward in the 1990s, and has been developed and strengthened year by year. Its main purpose is to stimulate the internal vitality of enterprises by introducing the combination of non-state-owned capital and state-owned capital, and optimize the management mechanism through the implementation of mixed ownership reform, so as to promote economic development and enhance the competitiveness of enterprises. This reform process not only contributes to innovation and efficiency within the company, but also lays a solid foundation for the long-term development of the company. Yunnan Baiyao Co., Ltd. is a well-known pharmaceutical enterprise, which has a significant influence and market position in the national pharmaceutical industry, and is also a key enterprise in the early adoption of mixed reform in China. Therefore, it is of great reference value and significance to analyze and study the financial performance of Yunnan Baiyao after the mixed reform. At present, the country is vigorously promoting the mixed ownership reform of state-owned enterprises. Based on this background, this paper, by analyzing the financial performance of enterprises and applying relevant theories involved, makes a detailed case analysis of the development status of Yunnan Baiyao after the mixed reform, with a view to providing some suggestions for similar enterprises or other enterprises with the intention of mixed reform.

Keywords: Reform of mixed mix, Yunnan Baiyao, State-owned enterprise.

1. Research Background

In the 1990s, China began to allow private capital and foreign capital to participate in the reform of state-owned enterprises, marking the start of mixed ownership reform. This reform program is mainly to attract external capital to restructure state-owned enterprises to achieve the purpose of promoting productivity development. However, the concrete proposal and importance of mixed reform increased in the following years. The landmark document, the 2013 Decision on Comprehensively Deepening Reform, clearly pointed out that the reform of state-owned enterprises must conform to the development of the socialist market economy. In particular, it emphasizes the central role of mixed ownership reform in this round of state-owned assets and SOE reform, viewing it as an important breakthrough. Then, at the Fourth Plenary Session of the 18th CPC Central Committee held the following year, mixed reform was mentioned again and received attention. Subsequently, in order to further promote the process, The State Council issued the Opinions on State-owned Enterprises to Develop Mixed ownership Economy in 2015, which undoubtedly injected new vitality into the mixed ownership reform and promoted its in-depth development. By the end of 2013, the mixed ownership reform had been fully developed, and the proportion was increasing. Specifically, whether it is a central enterprise or a local state-owned enterprise, the mixed reform has made obvious progress. More than 70% of the central enterprises have been mixed-changed, while the proportion of local state-owned enterprises has also reached more than 54%. This data shows that the popularity and depth of mixed reform in state-owned enterprises are constantly improving.

2. Research Purpose and Significance

At present, mixed ownership reform has become an important means for many state-owned enterprises to enhance their market competitiveness. As more and more enterprises carry out mixed ownership reform, the problems that arise also urgently need to be solved, especially in recent years, the development of the pharmaceutical industry is not ideal, although the number and scale of state-owned pharmaceutical enterprises have increased significantly, but in the overall indicator growth rate has declined. According to the data of the National Bureau of Statistics, the added value of the pharmaceutical industry in 203 fell by 5.2% compared with the previous year, while profits and revenue also showed a significant decline. In view of this phenomenon, Yunnan Baiyao, as one of the leading enterprises in the state-owned pharmaceutical industry, has become the focus of research on the impact of its mixed reform on corporate financial performance. By analyzing the experience and enlightenment of Yunnan Baiyao in the process of mixed reform, it can provide effective reference for other related enterprises or industries.

3. Case Overview

3.1. Overview of Yunnan Baiyao Holding Co., LTD

Yunnan Baiyao Group Co., LTD. (referred to as "Yunnan Baiyao"), located in Kunming, Yunnan Province, is a national well-known pharmaceutical enterprise enjoying the reputation of "Chinese treasure and sacred medicine in traumatology". Its mixed ownership reform began in 2016 and was completed in 2019, going through three stages, the first two stages mainly focused on the introduction of

strategic investors, and the third stage is the vertical deepening of the mixed ownership reform. The mixed reform is unique in state-owned enterprises, not only the proportion of strategic investors is high, but also involves a large amount of capital.

3.2. Yunnan Baiyao Holding Co., Ltd. Mixed Change Cause

The first point is to respond to national policies and market needs. Driven by the new economic situation and the wave of state-owned enterprise reform, Yunnan Baiyao, as a state-owned enterprise, actively responded to the central state-owned enterprise reform plan to cooperate with the smooth completion of economic transformation. At the same time, the pharmaceutical industry is in a period of transformation and upgrading, from large industrial products, large coal manufacturing to service-oriented products, service-oriented enterprises, Yunnan Baiyao also needs to accelerate the transformation and upgrading of the pharmaceutical industry through mixed reform. The second is to improve competitiveness and profitability. Another important reason for Yunnan Baiyao mixed reform is to enhance the competitiveness and profitability of enterprises. By introducing strategic investors, reforming the management system, strengthening scientific research and technological innovation, expanding the market, and strengthening corporate social responsibility, Yunnan Baiyao aims to achieve sustainable development and the development of the health industry. The third point is to optimize corporate governance structure. Through the introduction of private capital, the ownership structure of the company can be adjusted, so that private capital can get more say in the board of directors. This reform can realize the mutual checks and balances between state-owned capital and private capital, effectively enhance the scientific and efficient decision-making of the board of directors, and further improve the overall governance level of the company. The fourth is to ease financial pressure. The introduction of strategic investors can alleviate the problem of insufficient liquidity by injecting more working capital into Yunnan Baiyao. This is conducive to the company's further expansion, increase investment in new product research and development, so as to effectively improve the enterprise's innovation ability and comprehensive competitiveness.

Table 1. Profitability analysis

year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net profit margin (%)	13.29	13.08	12.88	12.88	14.07	16.83	7.69	7.78	10.54
Return on equity (%)	22.43	20.03	7.92	9.06	10.31	14.46	7.58	7.87	10.51
Return on total assets (%)	15.47	13.36	11.98	8.53	8.06	10.51	5.2	5.38	7.7

As can be seen from Table 1, the net interest rate of Yunnan Baiyao stabilized at about 13% after the mixed reform, indicating that the product structure did not change significantly. However, net profit, return on equity and return on total assets declined significantly in 2010, mainly due to two factors. The first is that the market value of Xiaomi Group, Hengrui Medicine, Tencent Holdings and other stocks held by Yunnan Baiyao in 201 fell sharply during the reporting period, resulting in a loss of about 1.614 billion yuan, which is the main reason for its net profit nearly halved. Secondly, in the non-main business, Yunnan Baiyao's fair value change profit

3.3. Analysis of Yunnan Baiyao Mixed Reform Path

It is very important to analyze the mixed reform path of Yunnan Baiyao to continuously enhance its competitiveness in the competitive market. In the process of mixed reform started in 2016, Yunnan Baiyao mainly adopted three strategies: employee shareholding, overall listing and capital expansion. In July 2016, SASAC approved the capital increase and share expansion plan of Baiyao Holdings. In December of the same year, New Huadu and Yunnan Province SASAC reached an equity cooperation Agreement, and invested 25.37 billion yuan, and completed the capital increase in March of the following year, with both parties holding 45% equity. Subsequently, Jiangsu Yuyue obtained 10% of Yunnan Baiyao's equity through a capital increase of 5.638 billion yuan in June 2017, forming an equity structure with Yunnan SASAC, New Huadu and Jiangsu Yuyue holding 45%, 45% and 10% respectively. In January 2018, Yunnan Baiyao implemented the strategy of absorbing and merging the holding parent company to achieve the overall listing, and this strategy was completed in April of the following year, when the shareholding ratio of Yunnan SASAC, New Huadu and Jiangsu Yuyue was adjusted to 25.14%, 25.14% and 5.9%. In addition, Yunnan Baiyao launched an employee stock ownership incentive plan in January 2018 to buy back company shares to motivate employees. In March 2010, the company again implemented the employee stock ownership plan through share buybacks, which not only stimulated the enthusiasm of employees, but also attracted external talents and established a sustainable incentive mechanism. These mixed reform measures have jointly promoted the competitiveness of Yunnan Baiyao in the market.

4. The Influence of Yunnan Baiyao Mixed Reform on the Financial Performance of Enterprises

4.1. Profitability Analysis

Profitability usually refers to the ability of enterprises to obtain profits within a certain period of time. This paper mainly chooses net interest rate, return on equity and return on total assets as the measurement indicators of profitability.

and loss decreased significantly by about 1.929 billion yuan, accounting for 5.41% of its total profit, which significantly affected its return rate.

4.2. Development Ability Analysis

The ability to develop is the key potential for an enterprise to survive and continue to grow. In order to evaluate this ability, this paper uses the growth rate of operating income and the growth rate of attributable net interest rate as measurement indicators to analyze the growth potential of enterprises.

Table 2. Development ability analysis

year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Growth rate of operating income (%)	10.22	8.06	8.5	11.11	9.80	10.38	11.09	0.31	7.19
Growth rate of attributable net profit (%)	10.56	5.38	7.71	11.09	19.75	31.85	-49.15	7	36.41

As can be seen from Table 2, after Yunnan Baiyao completed the mixed reform in 2017, the growth rate of operating income continued to be high, especially in 2018, the growth rate reached 11.11%, which was significantly higher than before the mixed reform, indicating that the mixed reform had a positive effect on the development of enterprises. However, although the growth rate of attributable net profit showed an upward trend after the mixed reform, it turned negative in 2021. This performance was mainly affected by the failure of securities investment business, and the changes in the net value of some securities and funds held by the company resulted in the loss of fair value changes. Therefore,

investment activities have a considerable impact on the indicators of the company's development ability to a certain extent.

4.3. Solvency Analysis

In order to evaluate the impact of mixed reform on the solvency of enterprises, this paper selected the asset-liability ratio in the long-term solvency index, and the current ratio and quick ratio in the short-term solvency index as analysis tools. These indicators will help us deeply understand the specific effect of mixed reform on the financial soundness of enterprises.

Table 3. Solvency analysis

year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt-to-asset ratio (%)	29.87	35.56	34.51	25.84	23.28	30.56	26.56	27.75	25.80
Liquidity ratio (%)	3.615	3.277	3.336	3.79	4.649	3.15	3.578	2.631	2.851
Quick ratio (%)	2.412	2.25	2.185	2.938	3.428	2.448	2.919	2.042	2.345

It can be seen from Table 3 that the current ratio and quick ratio of Yunnan Baiyao from 2015 to 2018 showed a stable posture, maintaining a good level of short-term solvency. After the completion of the mixed reform in 2019, new strategic investors were introduced, which brought more capital and resources to the company, and the addition of private capital enhanced the company's solvency. Moreover, the mixed reform may promote the company's business restructuring and optimization, improve the utilization efficiency of assets, and further enhance the company's liquidity. In addition, the company's governance structure and management mechanism may be improved, improving the company's operational efficiency and management level, and also helping to improve the current ratio and quick ratio. Before the mixed reform, Yunnan Baiyao's asset-liability ratio was stable at about 30%. With the injection of private capital, the debt-to-asset ratio dropped significantly to 25%. However,

the surge in borrowing caused by the epidemic in 2019 has led to a rapid recovery in the debt-to-asset ratio. However, after 20 years, due to the effective asset management and control of the company, the asset-liability ratio has declined compared with the previous two years. On the whole, this mixed reform has played a positive role in Yunnan Baiyao's solvency.

4.4. Operational Capacity Analysis

Operating capacity reflects the efficiency with which an enterprise uses its assets to generate revenue. In order to analyze the impact of mixed reform on Yunnan Baiyao's operating capacity, this paper selects three key indicators, namely inventory turnover, current assets turnover and total assets turnover, to comprehensively evaluate the management efficiency and operating benefits of the enterprise's assets.

Table 4. Operational capacity analysis

year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Inventory turnover (%)	2.716	2.506	2.148	1.886	1.861	2.081	2.736	3.284	3.983
Total Asset Turnover (%)	1.164	1.022	0.93	0.662	0.573	0.624	0.676	0.691	0.73
Accounts receivable turnover ratio (%)	4.678	4.66	4.639	5.119	6.686	6.28	5.162	4.196	3.897

It can be seen from Table 4 that after the mixed reform, Yunnan Baiyao broke the original management system of state-owned enterprises and introduced a more flexible market-oriented operation mechanism, which accelerated the decision-making speed, enhanced the market response ability, and continuously increased the turnover rate of receivables, showing a downward trend in 20 years. This may be due to the impact of the epidemic or the failure to effectively solve the problems existing in the internal management of the enterprise. Although the inventory turnover rate declined year by year in the initial stage, it began to rise after 2019 years, which indicates that the inventory overhang problem has not been completely solved after the mixed reform, and Yunnan Baiyao still needs to improve its inventory management. It is worth noting that from 2015 to

2023, the total asset turnover of enterprises showed an overall downward trend, which reflects that companies are optimizing the utilization cycle of their own assets to improve the efficiency of real earnings.

5. Conclusion and Suggestion

5.1. Deepen Cooperation with Strategic Investors to Achieve Resource Complementarity and Business Synergy

In the process of mixed reform, Yunnan Baiyao should actively seek and introduce strategic investors with complementary resources and business synergy. These strategic investors may come from other parts of the pharmaceutical industry chain, such as research and

development institutions, medical institutions, distributors, etc., or from multinational companies with rich experience and global vision in the pharmaceutical industry. Through in-depth cooperation with strategic investors, Yunnan Baiyao can achieve the following goals: First, the strategic investors may have resources such as advanced research and development technology, strong marketing ability or extensive distribution network, which can complement Yunnan Baiyao's existing brand advantages, production capacity and market position to jointly promote the rapid development of the company; The second is business synergy, through the participation of strategic investors, Yunnan Baiyao can expand business areas, enter new markets or market segments, and achieve business diversification and complementarity. At the same time, the two sides can carry out in-depth cooperation in research and development, production, sales and other links to jointly develop new products and new technologies to improve market competitiveness. In addition, the introduction of strategic investors can bring new management concepts and experience, promote Yunnan Baiyao to improve the corporate governance structure, improve the efficiency of decision-making and execution. By learning from the successful experience of strategic investors, Yunnan Baiyao can further improve the management level and operational efficiency of the enterprise.

5.2. Strengthen Innovation-Driven, Build Core Competitiveness

Yunnan Baiyao, as a pharmaceutical enterprise with a long history and good reputation, needs to continuously strengthen innovation drive and build core competitiveness to cope with the increasingly fierce market competition. In the process of mixed reform, Yunnan Baiyao can take a variety of measures to strengthen innovation drive. Yunnan Baiyao should continue to increase investment in research and development and increase the proportion of research and development funds in operating income. Through the introduction of high-end talents, the establishment of research and development team, strengthening cooperation with scientific research institutions, and other ways to continuously improve the company's research and development capabilities and levels. First of all, Yunnan Baiyao should actively explore new technologies, new processes and new methods, and make

breakthroughs in the fields of traditional Chinese medicine modernization and intelligent manufacturing. Through technological innovation, improve product quality and production efficiency, reduce production costs, and enhance the market competitiveness of enterprises; Secondly, Yunnan Baiyao should attach importance to the protection of intellectual property rights and establish and improve the management system and system of intellectual property rights. By applying for patents, trademarks and Copyrights, we protect the innovation achievements and core technologies of enterprises and prevent the loss of intellectual property rights and the occurrence of infringement. In addition, Yunnan Baiyao should actively carry out industry-university-research cooperation with universities and scientific research institutions to jointly carry out scientific research projects and technical research. Through industry-university-research cooperation, we can achieve resource sharing, complementary advantages and mutual benefit and win-win, and promote technological innovation and industrial upgrading of enterprises.

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