

Research on the Impact of Gree Electric's Mixed Ownership Reform on Enterprise Performance

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Abstract: At present, the mixed ownership reform of state-owned enterprises has entered the pilot and accelerated stage. Gree Electric Appliances is a key enterprise in the new round of mixed ownership reform of state-owned enterprises. After the reform, Gree Electric Appliances changed to have no actual controller. The equity setting, control arrangement and improvement of incentive system in the process of reform have great reference significance. This case, starting from the study of Gree Electric Appliances' mixed-ownership reform process, explores the core issues such as why, with whom and the performance after reform, and puts forward some targeted suggestions for the reform of state-owned enterprises.

1 INTRODUCTION

1.1 Research Background

At present, China's economic development has entered a "new normal", and the mixed ownership reform of state-owned enterprises has entered a pilot and accelerated stage. At the present stage, the key problem facing the mixed ownership reform of state-owned enterprises lies in how to introduce non-public economy and at the same time maintain the business vitality of enterprises, take into account the improvement of corporate governance structure and management mechanism, and further improve the business efficiency of enterprises. In 2019, the State-owned Assets Supervision and Administration Commission (SASAC) officially issued the Operational Guidelines for Mixed-Ownership Reform of Central Enterprises, which clearly pointed out that it was necessary to speed up the transformation from the management of enterprises to the management of capital, adhere to the separation of government administration from enterprise management and government capital management, constantly optimize the ownership structure of soes, and solve the mechanism problems of soes. Especially in the fields and industries with fierce competition, how to make state-owned enterprises become relatively independent economic entities, enhance the vitality and competitiveness of enterprises, and maintain and in-

crease the value of state-owned capital has been widely concerned.

2 LITERATURE REVIEW

State-owned enterprises have policy burdens. In the performance assessment of state-owned enterprises, as the government cannot distinguish political losses from operational losses, enterprises constantly seek protection and subsidies from the state to make up for their losses (Lin, Liu, Zhang, 2004). Performance assessment of state-owned enterprises is difficult to carry out, resulting in low efficiency and slow development. For China's state-owned enterprises at present, the related party transactions of state-owned enterprises are often due to the state-owned enterprises bear the policy burden. Therefore, it is necessary to reduce the related party transaction and policy burden of State-Owned enterprises and restore the real profits of state-owned enterprises, which is an important prerequisite for the current reform of state-owned enterprises and the performance evaluation of state-owned enterprises (Chen, Tang, 2014).

The mixed ownership reform of state-owned enterprises is conducive to the good integration of state-owned capital and private capital, and effectively play the role of resource allocation (Li, 2014). Through the dividend prediction and calculation of enterprises implementing mixed reform, it is found

that mixed reform can indeed effectively improve the growth rate of economic benefits of enterprises (He, Ji, 2014). After the reform of state-owned enterprises, the first problem to be solved is the redistribution of control rights. Ou Ruichao et al. studied the problem of partial privatization between "complete state-owned" and "complete private", and found that partial privatization is the optimal privatization strategy of State-Owned enterprises, and its balanced social welfare level is the highest among the three competition modes (Ou, Li, Li, Li, 2014).

Hao Yunhong and Wang Qian found that if the private capital can play the proper governance efficiency in the chaotic reform, the second largest private shareholder and the largest state-owned shareholder need to balance each other (Hao, Wang, 2015). Therefore, the basic idea of state-owned enterprise reform should be as follows: State-owned enterprises from leading the market supply role to supplement the market supply role of the follower. At present, in the process of state-owned enterprises' mixed ownership reform, strategic investors are mainly used to increase capital and become shareholders.

3 MATERIALS AND METHODS

3.1 Case Background and Mixed Causes

(1) Basic information of Both Parties

Zhuhai Gree Electric Appliances Co., Ltd. was established in 1991. Now, gree has developed into a diversified and technology-based global industrial manufacturing group, covering two fields of consumer goods and industrial equipment, and its products are sold to more than 160 countries and regions.

Zhuhai Mingjun was established in May 2017, engaged in equity investment business. The company's two major shareholders are Zhuhai Botao Zhiheng Enterprise Management Consulting Center and Shenzhen Hillhouse Heying Investment Consulting Center. The executive partner is Zhuhai Xianying Equity Investment Partnership (limited partnership).

(2) Analysis of Mixed Factors

In April 2019, Gree Electric Appliances started a new round of mixed-ownership reform. This mixed-ownership reform is a development choice under the background of the state's efforts to promote the reform of state-owned enterprises. It is also a strategic move promoted by The State-owned Assets Supervision and Administration Commission of Zhuhai

based on the current economic development situation of Zhuhai city and the bottleneck of enterprise development faced by Gree. Gree Electric Appliances chooses to carry out mixed reform at this time mainly for the following reasons:

① Optimize ownership structure and improve corporate governance. In this reform, Gree Electric Appliances introduced strategic investors and entered the state of no real controller. This change makes it easier for social capital to enter state-owned enterprises, enabling the high-quality development of state-owned enterprises.

② Air conditioning market gradually saturated, fierce competition. Gree's main product is air conditioning business, which is in the highly competitive home appliance industry. In recent years, the overall sales scale of the domestic air conditioning market has decreased while the competition between industries has intensified. The introduction of strategic investors can bring abundant new market resources for the company to meet the development needs of air conditioning business.

③ Break the single situation of business and promote the implementation of diversified business. Gree Electric Appliances' business model is relatively centralized and single, and air conditioning business has always been the main source of business income. The introduction of strategic investors in the mixed reform can bring high-quality new resources and technologies to enterprises, improve their ability to resist risks, accelerate the layout of diversified businesses, enhance competitive advantages and break through the existing development bottlenecks.

3.2 Business Performance Analysis Method

When evaluating the operating performance of Gree Electric Appliances after the change of control right, it is necessary to adopt relative performance evaluation, considering not only the change of its own performance, but also the change of other similar companies in the same industry. The main criteria for the selection of control samples are the same industry, state-owned enterprises, and performance close to Gree Electric Appliances. Due to gree Electric Appliances' leading position in the household appliance industry, there is no state-owned enterprise whose performance is similar to Gree Electric Appliances among the enterprises whose main business is air conditioning. Therefore, midea and Haier, two non-state-owned enterprises with similar business composition and revenue scale to Gree, are included in the control sample.

3.3 Analysis of Business Performance after Mixed-Ownership Reform

(I) Changes in Financial Performance

According to the financial performance of Gree Electric Appliances before and after the mixed-ownership reform, the influence of the change of control right on the short-term financial performance of the company can be clearly concluded. This paper studies the change of short-term financial performance from product competitiveness, growth and profitability respectively, and compares it with control samples. Through comprehensive analysis of the financial indicators in the table below, it can be concluded that Gree Electric Appliances' financial indicators show a downward trend due to the impact of the epidemic, saturation of the air conditioning market and increased competition. The financial performance of Gree Electric Appliances has not changed significantly after the reform, and the effect of the reform needs a longer time window to test.

(2) Diversified Business Performance Analysis

From the perspective of Gree Electric Appliances' revenue composition, the product composition and the revenue proportion of each product before and after the reform remain stable. Air conditioning business has always been an important revenue source of Gree Electric Appliances, accounting for about 70%. In terms of product gross margin, the gross margin of air conditioning products in 2021 was 31.23%, down 3.09% year on year. On the whole, the gross margin of the air conditioning business has declined for two consecutive years, and the overall revenue scale and profitability of the air conditioning business are in a declining state, which is largely related to the gradual saturation of the air conditioning market and the impact of the epidemic. At the same time, Gree Electric Appliances' non-air conditioning products achieved a higher gross margin in 2020 than in the previous period to varying degrees, which can reflect Gree Electric Appliances' improvement in promoting diversification after the mixed-ownership reform, but in general, no significant breakthrough has been made.

Table 1: Financial performance changes of Gree Electric Appliances before and after.

Year	2017	2018	2019	2020	2021
	Revenue Growth	Revenue Growth	Revenue Growth	Revenue Growth	Revenue Growth
GREE	36.92%	33.61%	0.02%	-15.12%	11.69%
sample mean	35.96%	17.13%	9.32%	6.71%	14.24%
sample median	33.75%	7.87%	7.14%	4.46%	8.50%
	Gross Margin	Gross Margin	Gross Margin	Gross Margin	Gross Margin
GREE	32.86%	30.23%	27.58%	26.14%	24.28%
sample mean	19.86%	18.86%	19.41%	18.90%	17.37%
sample median	19.46%	19.01%	21.44%	24.05%	19.70%
	Net Profit Rate	Net Profit Rate	Net Profit Rate	Net Profit Rate	Net Profit Rate
GREE	15.18%	13.31%	12.53%	13.25%	12.15%
sample mean	7.35%	3.97%	4.28%	4.46%	4.02%
sample median	6.19%	3.95%	5.21%	5.40%	3.47%
	ROE	ROE	ROE	ROE	ROE
GREE	33.68%	28.45%	22.16%	19.06%	21.16%
sample mean	27.25%	13.87%	12.62%	12.93%	12.77%
sample median	22.44%	17.72%	15.63%	16.62%	15.03%

mixed-ownership reform

Data source: CSMAR Database

Table 2: Ratio of operating income of Gree Electric Appliances products.

Year	2017	2018	2019	2020	2021
Air conditioner	83.22%	78.58%	69.99%	68.71%	70.11%
Life electric appliance	1.55%	1.91%	2.81%	2.69%	2.60%
Industrial products	—	—	—	1.37%	1.70%
Intelligent equipment	1.43%	1.57%	1.08%	0.36%	0.46%
Green energy	—	—	—	1.06%	1.55%
The other main	2.94%	4.04%	5.30%	3.35%	0.68%
Other business	10.86%	13.90%	20.82%	22.46%	22.90%

Data source: Gree Electric Appliances Annual Report

Table 3: Gross margin of Gree Electric Appliances' main products.

Year	2017	2018	2019	2020	2021
Air conditioner	37.07%	36.48%	37.12%	34.32%	31.23%
Life electric appliance	20.65%	18.23%	23.40%	31.81%	33.16%
Intelligent equipment	5.85%	6.48%	5.94%	23.70%	29.34%
Else	22.43%	6.28%	2.67%	5.94%	4.18%

Data source: CSMAR Database

4 CONCLUSION

Gree Electric Appliances is a benchmark enterprise in soE mixed ownership reform. In the new round of mixed reform, Gree Electric Appliances adopts the mixed ownership mode of equity transfer and introduction of strategic investors. In the process of mixed ownership reform, it took the lead in solving the core problem of the consistency of interests among the government, enterprises and introduced investors, and built a control structure of "ownership structure, board of directors and management", which has become an important case of the mixed ownership reform of state-owned enterprises. There is no significant change in financial performance before and after mixed-ownership reform, which requires long-term performance in the future. At present, China is in a critical period of state-owned enterprise reform. The government, enterprises and investors should realize that state-owned enterprises are the core of China's economy and should play a pillar role in China's economic transformation and upgrading. The mixed reform of state-owned enterprises cannot simply adopt privatization or privatization policies. The reform of state-owned enterprises needs more exploration and practice to reduce government intervention and activate the vitality of state-owned executives and shareholders, improve corporate governance structure and stimulate enterprise vitality. The research on the flexible form of mixed ownership reform and its relationship with corporate performance and corporate governance needs to be further deepened.

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