

The Impact of Introducing Strategic Investors on Corporate Performance under the Mixed Reform of State-Owned Enterprises--Taking China Unicom as an Example

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Abstract: With the development of the Internet, China Unicom is facing great competition in the telecom industry and is at a competitive disadvantage. In 2015, the State Council issued the Opinions on the Development of Mixed Ownership Economy of State-owned Enterprises to enhance the vitality of the state-owned economy and quality of China's economy is improved by the introduction of strategic investors, etc. In 2017, China Unicom's mixed-reform program was approved and introduced strategic investors such as Alibaba, Tencent, and Jingdong. Through case study research, this paper analyzes the process and cooperation mode of China Unicom's introduction of strategic investors, and concludes that it has an impact on the performance of the enterprise: enhancing the company's financial performance, optimizing the company's shareholding structure, improving the company's governance, and enhancing its own market competitiveness and innovation ability. At the same time, it also provides development inspiration and reference for other government-owned business.

Keywords: Mixed reform of state-owned enterprises, strategic investors, corporate performance, China Unicom

1. Introduction

1.1. Background and importance of the study

In 2013, the Third Plenary Session of the 18th Central Committee of the Communist Party of China (CPC) proposed the development of a mixed-ownership economy in the economic system, while promoting the state-owned enterprises' (SOEs) reform, which provided a direction for SOEs' mixed reform to develop. At the same time, the Third Plenary Session of the 18th Central Committee pointed out that public ownership and non-public ownership have the same status, which helped the non-public economy to participate in state-owned enterprises through mixed reforms. The Third Plenary Session of the 18th Central Committee, as an important milestone in the process of China's reform and opening up, pointed out the direction for the reform of state-owned enterprises, and at the same time, the non-public economy, in the process of participating in the mixed reform, has a broader space for development as well as high-quality investment channels, which is conducive to the promotion of the development of the non-public economy, and China Unicom, as the first batch of pilot enterprises in China's mixed-ownership reform, has built up the world's As the first pilot enterprise of China's mixed reform, China Unicom has now built the world's biggest 5G network and occupies an important

position in the telecommunications industry. By studying the impact of corporate performance with introducing strategic investors in China Unicom, this paper can be a relative reference for other industries, and as a successful practice of mixed reform of state-owned enterprises, it is significant for the application of the theory of state-owned enterprise reform.

1.2. Research methodology

This paper analyzes the influence of the introduction of strategic investors on the results of China Unicom through case studies, analyzes the path of mixed ownership reform of state-owned enterprises, and comes up with suggestions for the introduction of strategic investors in the mixed reform of government-owned business, and analyzes the profitability, solvency, and operating ability of China Unicom by using the analysis of financial indexes.

1.3. Domestic and international research status

Through the current domestic research, it has been found that the introduction of strategic investors under Corporate performance has a positive impact through SOE hybridization [1]. At the same time enterprise business scope similarity of industry-based strategic investors can effectively decline the degree of zombification of government-owned business [2]. Corporate performance will be positively and significantly affected when domestic ordinary enterprise investors make investments [3]. This paper enriches the cases in related fields such as the influence of enterprise Performance with introducing strategic investor under the mixed reform of SOEs, which has certain reference value for other SOEs.

2. Relevant theoretical foundations

2.1. Theory of state-owned enterprises' mixed reform

Mixed reform of state-owned enterprises (SOEs), known as mixed ownership reform of state-owned enterprises, refers to the introduction of non-public capital, such as private enterprises, foreign capital, etc., into the state-owned capital for reform, under the premise of maintaining the dominant position of state-owned company, so as to enable state-owned enterprises to realize the improvement of the shareholding structure, market competition, as well as the governance mechanism. The main ways to do this are to introduce strategic investors, employee shareholding and so on.

2.2. Strategic investor theory

Strategic investor refers to the enterprise reform, financing process of its equity investment in institutions or individuals, characterized by long-term shareholding, resource synergy, strategic matching, participation in governance, and strategic investors are divided into four types of industry leading enterprises, industrial funds, financial institutions, international capital. In enterprise development, strategic investors can enhance enterprise competitiveness, optimize corporate governance, strengthen market confidence and promote enterprise internationalization.

2.3. Business performance theory

Enterprise performance is divided into financial performance and non-financial performance, which refers to the benefits that an enterprise obtains through the utilization of resources in its business activities within a certain timeframe. Its measurement indicators are categorized into financial and non-financial indicators, with financial indicators including profitability, solvency, and operational

capacity, and non-financial indicators including customer indicators, internal process indicators, and learning and growth indicators.

3. Introduction to the case of China Unicom's introduction of strategic investors

3.1. Basic information of China Unicom

Founded in 1994, China Unicom was listed by 2000. In 2017, China Unicom, as a pilot enterprise for mixed reform, introduced strategic investors such as Alibaba, Baidu, Tencent and Jingdong. China Unicom has a wide range of businesses, including international business, digital content services, and information technology services, in addition to mobile communications business, fixed communications business and data communications business. China Unicom occupies an important position in the industry, competing with China Telecom and China Mobile, the two other major telecom operators besides itself. Prior to the mix, China Unicom's 3G was briefly ahead due to fierce market competition, but soon rival 4Gs overtook it, while China Unicom also lost its second place in broadband market share [4].

3.2. Background of mixed reform and process of introducing strategic investors

Faced with intense competition in the industry, the demand for its own transformation and upgrading, China Unicom chose to carry out mixed reform is the inevitable road. In 2017, China Unicom announced a hybrid reform program to bring in strategic investors through a private offering and transfer of old shares. 2022 strategic cooperation agreements were signed by China Unicom and Tencent, Alibaba, Jingdong, Baidu and other strategic investors at the Partner Conference, with the newly introduced strategic investors holding a total of 35.19% of the shares, and China Unicom obtaining 75 billion yuan of investment funds, with its shareholding dropping from 67.2% to 37.7% [5].

3.3. Composition of strategic investors and mode of cooperation

China Unicom's strategic investor composition includes four major Internet companies Tencent, Alibaba, Jingdong, Baidu; financial companies China Life, China CNR; industry companies Suning Yunchang, Lightning Inspiration, DDT, NetSuite Technology, Yitong Century, Ufo, and the industry fund China State-owned Enterprises Structural Adjustment Fund Corporation, Qianhai mother fund 14. Five of the board members are from strategic investors. Meanwhile, in business cooperation, China Unicom has been cooperating with strategic investors in Internet companies in the field of technology innovation, cooperation on industrial funds and financial services.

4. Analysis of the impact on China Unicom's introduction of strategic investors

4.1. Impact of financial performance

4.1.1. Profitability analysis

Table 1: Profitability metrics analysis from 2016 to 2023

	2016	2017	2018	2019	2020	2021	2022	2023
Net profit (RMB billion)	1.5	11.5	40.8	49.8	55.2	63.1	73	81.73

Source: China Unicom annual report

Table 1 shows that from 2016 to 2023 China Unicom's net profit increased from 150 million yuan to 8.173 billion yuan, and increased year by year during the period, which corresponds to the fact that

China Unicom obtained a large amount of funds to strengthen technology research and development to enhance its own strength after introducing strategic investors in the mixed reform and at the same time expanded its business with the Internet industry, took over the large-scale users brought by the strategic investors to effectively enhance the corporate performance, which is conducive to the profitability of China Unicom

4.1.2. Solvency analysis

Table 2: Analysis of solvency indicators from 2015 to 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
current ratio	0.18	0.24	0.32	0.36	0.40	0.49	0.54	0.59	0.61
Gearing ratio/%	61.96%	62.57%	46.48%	41.50%	42.67%	43.09%	43.3%	46.1%	46.0%

Data source: SSE data source disclosure

As can be seen in Table 2 excluding the undisclosed current ratios for 2021 and 2023, the gearing ratio decreases from 2015 to 2023, and reached the normal level of the enterprise, indicating increased solvency of the enterprise [6]. The current ratio is also elevated, which indicates that strategic investors have provided China Unicom with a large amount of capital, and in the summary of China Unicom's annual report in 2017, it shows that the company received an injection of 75 billion yuan of capital, with an increase in current assets, while these funds repaid some current debt, and the solvency capacity was strengthened.

4.1.3. Analysis of operating capacity

Table 3: China Unicom operating capacity indicators

	2016	2017	2018	2019	2020	2021	2022	2023
Accounts receivable turnover days /d	22.47	23.53	22.50	23.73	23.63	21.30	24.00	32.83
Inventory turnover days /d	5.43	4.06	3.90	3.99	3.46	2.76	2.50	2.62

Source: China Unicom annual report

After the introduction in 2017, China Unicom's synergistic cooperation with various Internet companies should have helped itself to improve its operating income, but as can be seen from Table 3, there is no significant change in China Unicom's accounts receivable week before and after the mixing and reforming from 2016 to 2020, and the enterprise should strengthen the management of accounts receivable turnover speed. While inventory turnover days showed a decreasing trend, strategic investors provided China Unicom with a wider range of customers, which enhanced its liquidity and inventory turnover speed, reflecting the improvement in operating capacity.

4.2. Non-financial performance affect

4.2.1. Analysis of innovation capacity

The final sentence of a caption must end with a period. In the 2018 annual report released by China Unicom on the SSE, the research and development expenses amounted to 872,225,770 yuan, while the number in the same period of the previous year was 491,941,948, with a change of 77.3%, and it will grow year by year in 2019-2023 It is evident that the investment in research and development

has greatly increased after the mixing reform, which will help to the enhancement of the ability to innovate.

4.2.2. Market competitiveness analysis

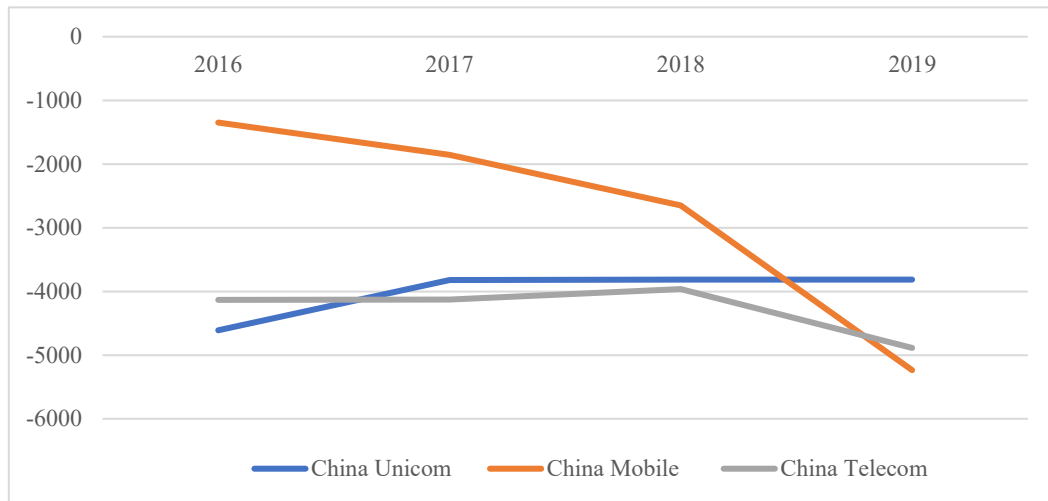


Figure 1: Comparison of MVA values of the three companies

Data source: Calculations based on the 2015-2019 annual reports of the three major carriers

MVA = market value of total assets - book value. It can also be interpreted as the cumulative wealth created for investors in the stock market by the company using its capital, which can be used as a measure of China Unicom's market value added in Figure 1 [7]. Compared with China Telecom and China Mobile, China Unicom's MVA value grows after the hybridization and exceeds that of China Telecom and China Mobile in 2017 and 2019, respectively, indicating that the market value of China Unicom is enhanced to a certain extent after the hybridization, which pushes the value creativity upward, and is conducive to the change of inferior position in the market competition.

4.2.3. Analysis of corporate governance capacity

After the reorganization, the shareholding of China Unicom's largest shareholder, Unicom Group, was reduced from 62.74% to 36.74%, changing from an absolute holding to a relative holding[8]. The shareholding of each strategic investment investor increased, optimizing the shareholding structure. This promotes fair decision-making and better reflects the concerns of all parties concerned, effectively avoiding the phenomenon of one party having too large a stake and too much say; the enterprise has realized the upgrading and transformative upgrading of property rights, and the non-state shareholders are more willing to participate in the management of the company, which is conducive to the realization of common development of all parties involved in the mixed reform of state-owned enterprises [9].

5. Conclusion

Introducing the strategic investors under the reform has a positive effect on the corporate performance of China Unicom, in terms of financial performance, profitability, solvency and operating capacity have been improved; in terms of non-financial performance, China Unicom's innovation ability has been improved, while its market competitiveness in the telecom industry has been increased, and the shareholding structure of the company has been optimized to enhance the corporate governance capacity.

China Unicom provides a reference for other state-owned enterprises to introduce strategic investors, firstly after the introduction of strategic investors, it can raise much capital to enhance the corporation's financial strength and accelerate the construction of the company's investment projects; secondly, the strategic investors chosen by China Unicom are enterprises that complement each other with the company, which is conducive to perfecting its own deficiencies. Therefore, other enterprises should combine their own actual situation and choose strategic investors that are related to their own industries or have complementary abilities to enhance their financial performance and promote the development of the corporations.

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