

An Analysis of the Innovation Performance of Reverse Mixed-Ownership Reform: A Case Study of Easyhome

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Abstract: Reverse mixed-ownership reform, as one of the crucial forms of mixed-ownership reform, exerts a propelling effect on the development of enterprises. This article uses the case of Easyhome introducing BBMG to explore the motives, paths, and innovation performance of private enterprises introducing state-owned capital to implement reverse mixed ownership reform. The study reveals that policy guidance, industrial collaboration, and development channels constitute the primary motivations and implementation paths for Easyhome to conduct reverse mixed-ownership reform by bringing in significant strategic investors. By comparing its financial data before and after the mixed-ownership reform from 2019 to 2023, it is found that state-owned investment has effectively enhanced the innovation performance of Easyhome.

1. Introduction

In 2013, the Third Plenum of the 18th Central Committee of the Communist Party of China pointed out the need to actively develop mixed-ownership economy, promote cross-shareholding and deep integration of capital from different ownership structures, and identified this as an important direction for deepening reform. State-owned enterprises were encouraged to enhance their internal governance structures through forward mixed-ownership reform by introducing private capital, thereby improving the efficiency of internal resource allocation, elevating their operational standards in the market, and ultimately boosting their competitiveness. In 2015, the State Council issued the "Guidelines on Deepening the Reform of State-Owned Enterprises", which further encouraged private enterprises to actively participate in mixed-ownership reforms. It advocated for private enterprises to bring in more synergistic resources for their development through reverse mixed-ownership reform by introducing state-owned capital.

As the practice of mixed-ownership reform advances in depth, a growing trend has emerged among private enterprises in the home furnishing industry to break through corporate dilemmas through reverse mixed-ownership reform by introducing state capital. Easyhome New Retail Group Corporation Limited (hereinafter referred to as "Easyhome"), established in 1999 and listed on the Shenzhen Stock Exchange in 2019, has been honored with multiple accolades over the years, including "Top Ten Commercial Brands in Beijing" and "China's Top Ten Commercial Brands". However, despite being a leading enterprise in the home furnishing industry, Easyhome has still faced challenges such as declining performance and pressure on the occupancy rate of its retail spaces in

recent years. To overcome these development bottlenecks, on November 17, 2023, Easyhome introduced BBMG Corporation (hereinafter referred to as "BBMG"), a large state-controlled industrial conglomerate under the jurisdiction of Beijing Municipality, as a strategic investor, aiming to leverage the respective advantages of their industrial systems to achieve high-quality development for both parties.

Previous studies have also confirmed that state-owned investment has a positive role in improving resource allocation and operational efficiency of private enterprises (Liu et al., 2013[1];Liu et al.,2024[2]; Zhang and Yang, 2022[3]), but there are also studies indicating that state-owned investment can lead to a decline in innovation efficiency, resource allocation efficiency, and corporate performance of private enterprises (Ling, 2016[4]; Chen et al., 2019[5]; Mo, 2021[6]). It can be seen that although many scholars have explored the economic consequences of mixed ownership reform from the perspective of reverse mixed ownership reform, consistent research conclusions have not been formed, and there is also a lack of corresponding case studies. This article takes the introduction of state-owned capital by Easyhome as an example to explore the motives for private enterprises to introduce state-owned capital from the perspective of reverse mixed ownership reform, and whether private enterprises can improve their own performance by leveraging state-owned resources, in order to further enrich the relevant theories of mixed ownership reform.

This article takes Easyhome's introduction of state-owned capital as an example to study the motivation behind the mixed ownership reform of private enterprises from the perspective of reverse mixed ownership reform, and analyzes the impact of introducing state-owned capital on the innovation performance of private enterprises before and after. Research has found that Easyhome's mixed ownership reform through the introduction of BBMG not only effectively addresses or alleviates the many problems faced by transformation, but also enhances the company's innovation capabilities and industry competitiveness. The successful implementation of Easyhome's mixed ownership reform provides new research cases for private enterprises to successfully implement mixed ownership reform, and provides experience references and lessons for other private enterprises considering reform. It also helps policy makers better understand the implementation effects of mixed ownership reform and provides a basis for policy adjustments, which has important practical significance.

2. Research on the Economic Consequences of Reverse Mixed-Ownership Reform

2.1. Positive Effects

Most scholars believe that the introduction of state-owned capital into private enterprises for mixed-ownership reform have a positive promoting effect. Liu et al.(2013)[1], Liu et al.(2024)[2] found that after implementing mixed ownership reform, the performance of listed companies showed a positive response. Especially when there is both state-owned capital and private capital in the equity structure of a company, they generate complementary effects, influencing the company's business decisions and performance. Zhang and Fang (2016)[7] believe that the introduction of state-owned capital could help private enterprises break through industry barriers, improve resource allocation, and enhance property rights protection, thereby providing a more favorable environment for their survival and competition. Zhang and Yang (2022)[3] found that the reasonable introduction of state-owned shareholders can effectively promote long-term cooperation among all parties within private enterprises, thereby improving operational efficiency and optimizing resource allocation.

2.2. Negative Effects

Some scholars hold opposing views on this, believing that the introduction of state-owned capital

into private enterprises for mixed-ownership reform will have a negative effect. Ling et al. (2016) [4] argue that if private enterprises fail to fully utilize the abundant resource advantages brought by state-owned enterprises, it will lead to resource waste, thereby having a detrimental impact on corporate performance. Chen et al. (2019)[5] found that the implementation of mixed-ownership reform may exacerbate internal agency problems and reduce the innovation willingness of private enterprise management. Mo (2021)[6] found that after private enterprises introduce state-owned capital, although their own investment efficiency improves, the resources they obtain are also diluted, and their resource allocation efficiency decreases.

3. Case Introduction

Table 1 indicates that in in November 2023, Easyhome and BBMG signed the “Strategic Cooperation Agreement” and the “Share Transfer Agreement”. BBMG paid the final installment for the equity transfer transaction after nominating two individuals to be elected as directors and supervisors of Easyhome to ensure voting rights.

Table 1: Reverse mixed-ownership reform process of Easyhome

| Time | Events |
|-------------------|--|
| June 9, 2023 | Repurchased some externally issued shares in preparation for major asset restructuring |
| November 17, 2023 | Both parties signed the "Strategic Cooperation Agreement" and "Share Transfer Agreement" |
| December 28, 2023 | Both parties completed the equity delivery |

As can be seen from Figure 1, from the signing of the strategic cooperation agreement to the completion of equity delivery, Easyhome has always been a private capital controlled enterprise, with Lin-peng Wang serving as the actual controller and important executives nominated and appointed by Easyhome Investment Holding Group Co., Ltd. Furthermore, BBMG has become the third-largest shareholder of Easyhome by acquiring shares, and has selected one director and one supervisor to join Easyhome's management team, enabling them to oversee the company's production and operation activities.

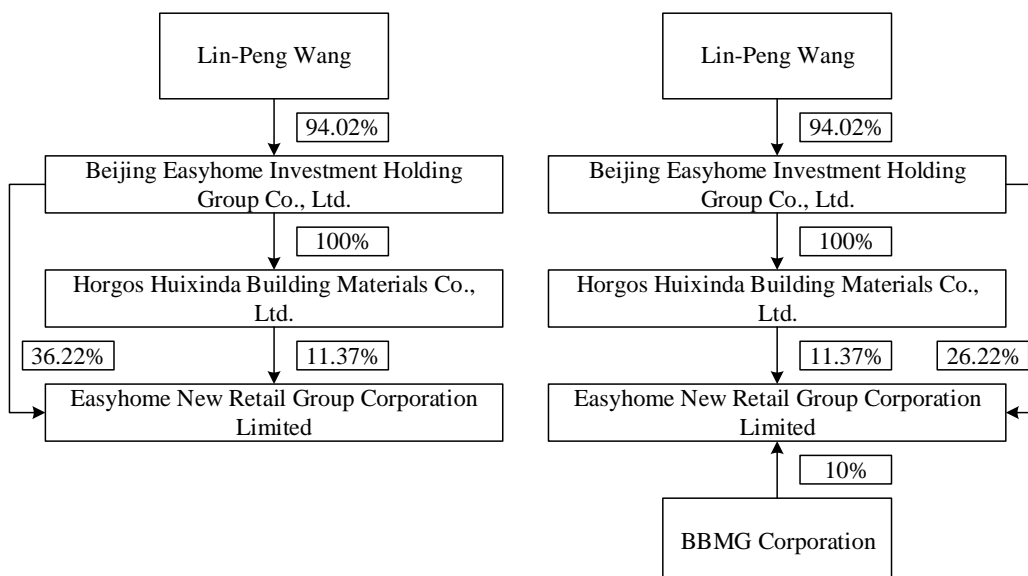


Figure 1: The property rights relationships of Easyhome before (left) and after (right) the mixed-ownership reform

4. Analysis of the Innovation Effects of Easyhome

4.1. R&D Investment

4.1.1. Human Resources Investment

Table 2 shows that Easyhome has experienced significant fluctuations and changes in the number and proportion of R&D personnel, showing an overall growth trend. The decline in the number of R&D personnel in 2023-2024 is mainly due to the initial formation of their nest data intelligence R&D projects, and the completion of large-scale R&D projects in 2024. Despite fluctuations in the number of R&D personnel, there is an overall emphasis and strengthening of R&D activities. The mixed ownership reform has brought new development opportunities and challenges to the company, and the company needs to continue to work hard to optimize the allocation of research and development resources and improve innovation performance.

Table 2: Reverse mixed-ownership reform process of Easyhome

| Year | Number of R&D Personnel(person) | Proportion of R&D Personnel (%) |
|------|---------------------------------|---------------------------------|
| 2020 | 44 | 0.37 |
| 2021 | 25 | 0.21 |
| 2022 | 87 | 0.88 |
| 2023 | 79 | 0.93 |
| 2024 | 60 | 0.85 |

4.1.2. R&D Investment

Table 3 shows that Easyhome has experienced fluctuating yet increasing trends in both its R&D investment and the capitalized amount of such investment. Even after partnering with BBMG, these figures have remained at a high level. This indicates that the company is not only increasing its investment in R&D, but also paying more attention to transforming R&D investment into actual technological achievements or assets, and the capitalization efficiency remains at a high level. This indicates that the company's investment and conversion ability in innovation have been improved.

Table 3: R&D investment of Easyhome from 2020-2024

| Year | Amount of R&D Investment(million) | Capitalized Amount of R&D Investment (million) | Capitalization Ratio (%) |
|------|-----------------------------------|--|--------------------------|
| 2020 | 144.20 | 144.20 | 100 |
| 2021 | 81.75 | 80.27 | 98.19 |
| 2022 | 119.96 | 83.27 | 69.41 |
| 2023 | 176.15 | 136.93 | 77.73 |
| 2024 | 95.07 | 43.05 | 45.29 |

5. Financial Performance Analysis of Easyhome

We comprehensively analyze the performance changes before and after the mixed ownership reform of Easyhome from four aspects: debt paying ability, profitability, operational ability, and growth ability.

5.1. Debt Paying Ability

Table 4 shows that during the period from 2020 to 2024, the overall debt paying ability of Easyhome showed an overall declining trend, with both short-term and long-term debt paying abilities facing certain challenges. Although the long-term debt paying ability has improved after the mixed ownership reform, the company's financial debt ratio is still relatively high. This may also reflect the company's increased investment efforts after the mixed ownership reform to support business expansion and innovation activities. Therefore, it is still necessary to pay attention to the company's long-term debt paying pressure and financial risks. From this, it can be seen that although the mixed ownership reform has brought new development opportunities to the company, it has also brought new challenges. Easyhome needs to focus on financial stability and risk management while maintaining business development, optimize debt structure, and reduce debt risk.

Table 4: Solvency indicators of Easyhome from 2020-2024

| Year | Current Ratio | Quick Ratio | Debt-to-Asset Ratio (%) | Operating Liabilities Ratio (%) | Financial Liabilities Ratio (%) |
|------|---------------|-------------|-------------------------|---------------------------------|---------------------------------|
| 2020 | 1.20 | 1.2 | 47.25 | 0.39 | 0.61 |
| 2021 | 0.91 | 0.87 | 63.99 | 0.18 | 0.82 |
| 2022 | 0.90 | 0.83 | 61.08 | 0.17 | 0.83 |
| 2023 | 0.65 | 0.61 | 60.88 | 0.19 | 0.81 |
| 2024 | 0.58 | 0.53 | 57.8 | 0.19 | 0.81 |

5.2. Profitability

Table 5 shows that during the period from 2020 to 2024, the operating gross profit margin, operating net profit margin, return on equity, and total net profit margin of Easyhome have shown a downward trend, indicating that the company's overall profitability is under certain pressure. The main reason is the sluggish real estate market and the outbreak of the epidemic, which has put the industry economy in a depressed state. At the same time, a large amount of funds still need to be invested to promote digital transformation, digital related research and development, and operational expenses. At this time, the retail market has not yet recovered, which has put pressure on profitability. However, the net cash flow to net income ratio continue to rise, indicating that the company has a high quality of profitability and a good cash flow situation, which can provide financial support for innovative activities.

Table 5: Profitability indicators of Easyhome from 2020-2024

| Year | Gross Profit Margin (%) | Net Profit Margin (%) | Return on Equity (%) | Return on Total Assets (%) | Net Cash Flow to Net Income Ratio (%) |
|------|-------------------------|-----------------------|----------------------|----------------------------|---------------------------------------|
| 2020 | 40.37 | 15.76 | 7.69 | 3.88 | 145.04 |
| 2021 | 48.14 | 18.36 | 11.72 | 5.03 | 237.56 |
| 2022 | 44.86 | 13.26 | 8.39 | 3.14 | 220.55 |
| 2023 | 34.11 | 9.92 | 6.41 | 2.50 | 286.27 |
| 2024 | 27.35 | 6.44 | 3.98 | 1.62 | 315.46 |

5.3. Operation Capacity

Table 6 shows that during the period from 2020 to 2024, the inventory turnover, total asset turnover, and accounts receivable turnover of Easyhome remained stable and showed an upward trend,

indicating that the company has taken effective measures in inventory management, asset utilization, and collection efficiency. It may also benefit from the resources and support of BBMG, such as supply chain integration and management optimization, to help the company better manage inventory and accounts receivable, promote further improvement of the company's operational capacity and capital utilization efficiency.

Table 6: Operation capacity of Easyhome from 2020-2024

| Year | Inventory Turnover(times) | Total Asset Turnover(times) | Accounts Receivable Turnover(times) |
|------|---------------------------|-----------------------------|-------------------------------------|
| 2020 | 27.94 | 0.25 | 10.08 |
| 2021 | 24.24 | 0.27 | 10.04 |
| 2022 | 14.83 | 0.24 | 11.07 |
| 2023 | 17.39 | 0.25 | 12.24 |
| 2024 | 19.27 | 0.25 | 11.49 |

5.4. Growth Capability

Table 7 shows that the growth capability indicators of Easyhome from 2020 to 2024 exhibit significant volatility, with both the revenue growth rate and total asset growth rate experiencing a process of first increasing and then decreasing, while the net profit growth rate remains negative. This fluctuation may reflect the multiple challenges that the company faces in market expansion, asset management, and profitability. After the introduction of BBMG, although the company may have received resources and support in some aspects, from the perspective of growth ability indicators, this mixed ownership effect has not significantly improved the company's growth potential in the short term. The company needs to further examine its market strategy, cost control, and business structure in order to seek a more stable growth path.

Table 7: Growth capability of Easyhome from 2020-2024

| Year | Revenue Growth Rate (%) | Total Assets Growth Rate (%) | Net Profit Growth Rate (%) |
|------|-------------------------|------------------------------|----------------------------|
| 2020 | -1.01 | 11.25 | -55.03 |
| 2021 | 45.35 | 41.13 | 69.36 |
| 2022 | -0.69 | -5.06 | -28.30 |
| 2023 | 4.08 | 0.55 | -22.13 |
| 2024 | -4.04 | -7.46 | -37.67 |

6. Discussion and Suggestion

6.1. Discussion

6.1.1. The mixed-ownership reform helps improve the level of R&D investment

After the mixed ownership reform, the major shareholder of BBMG with state-owned background was introduced, greatly alleviating the credit limit and financing difficulties faced by Easyhome. This is also a common problem faced by private enterprises in terms of financing difficulties and high costs, providing financial support for enterprise research and development. The above analysis shows that the mixed ownership reform of Easyhome has effectively improved the company's R&D investment level. This mixed ownership reform has enhanced the digital innovation and independent research and development capabilities of Easyhome. The development of an intelligent platform

provides a foundation for creating a "physical store+logistics delivery" home consumption loop, promoting enterprise business model innovation, and implementing the organization's digital transformation work.

6.1.2. The mixed-ownership reform helps enhance the ability of enterprise to integrate resources

In this mixed-ownership reform, BBMG has promised to prioritize the use of high-quality decoration materials from Easyhome in the field of real estate development. Both parties will also promote the integrated development of their respective integrated businesses and jointly enhance the level of integrated businesses. The above commitment is beneficial for Easyhome, helping it integrate building materials resources into the utilization of business resources in the store. In summary, during the mixed ownership reform of Easyhome, BBMG assisted in strengthening coordination and resource integration, which is beneficial for the enterprise to improve operational efficiency and core competitiveness.

6.1.3. The mixed-ownership reform helps improve the operational efficiency of enterprises

From the aforementioned analysis, it can be seen that after Easyhome's mixed-ownership reform, its performance in terms of solvency and operational capability has remained relatively stable. Although there have been slight fluctuations in profitability and growth capability, they have still remained generally stable, and overall, the reform has had a positive impact on financial performance. The assistance of state-owned capital to home furnishing enterprises is mainly reflected in providing financial support and resource synergy. On the one hand, as the controlling shareholder, it directly injects funds into the enterprise. On the other hand, the resource advantages of state-owned capital also help enterprises reduce financing and operational costs. The above analysis shows that the mixed ownership reform of Easyhome has significantly enhanced the enterprise's long-term solvency and operational efficiency.

6.2. Suggestion

6.2.1. Select capital objects that are compatible with the business

One of the important reasons for private enterprises to introduce state-owned capital is to fully leverage the resource advantages of state-owned enterprises, resolve the difficulties faced by private enterprises, and thereby enhance market competitiveness. However, there are significant differences between state-owned enterprises and private enterprises in terms of nature, governance structure, management system, and corporate culture. Therefore, choosing suitable state-owned shareholders has become the key to the success of mixed ownership reform. To ensure the smooth implementation and effectiveness of the reform, private enterprises should first assess their own strengths and weaknesses in their business domains. Subsequently, they should seek out state-owned investors whose businesses align with theirs and can complement each other operationally. This necessitates a thorough evaluation of potential state-owned shareholders to ensure that both parties can form a synergistic development force by leveraging complementary advantages in resources, strategies, and culture.

6.2.2. Selecting an Appropriate Path for Mixed-Ownership Reform

Private enterprises should choose a suitable path for mixed-ownership reform based on their own actual circumstances and development needs. Currently, common methods for mixed-ownership

reform include equity transfer, capital increase and share expansion, voting rights delegation, private placement of shares, and market-oriented restructuring. Enterprises should comprehensively consider their own financial situation, market positioning, and future development plans to select the mixed-ownership reform approach that is most conducive to their own development.

6.2.3. Continuously Tracking the Follow-up Effects of Mixed-Ownership Reform

By introducing state-owned capital, private enterprises are expected to receive support in various aspects such as funding, talent, technology, and market, thereby increasing investment in scientific and technological research and development, expanding market share, achieving technological innovation, and enhancing market competitiveness. However, there is a period of adjustment for the differences between the two parties, and both parties need to overcome cultural conflicts, management differences, and other difficulties to ensure that the mixed ownership reform enterprise can operate stably and efficiently. Easyhome has only recently introduced BBMG, and although capital injection has been provided, most of the commitments made cannot be immediately implemented. Secondly, according to the changes in equity structure, JBBMG has become the third largest shareholder of Easyhome. In the later stage, internal control and optimization of enterprise management structure should be carried out to avoid the situation of one dominant shareholder or rigid management. Continuously tracking and evaluating the effects of the mixed-ownership reform, and promptly adjusting strategies and measures, will ensure that the reform can bring sustained competitive advantages and promising development prospects to the enterprise.

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