

The Relationship Between Operation Strategy and Stock Price -- A Case Research of Vanke

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Abstract: The operating condition of listed companies is the most direct important factor to determine the stock price, and the operating condition is greatly affected by the operating mode. This paper expounds the relationship between Vanke group's operation strategy and its stock price, and analyzes the reasons for the stock price changes caused by its operation strategy in different periods.

Keywords: Shareholding; Operation Strategy; StockPrice

1. Introduction

1.1 Research Background

With the gradual diversification of China's market economy, in order to adapt to the market environment and achieve better business conditions, each enterprise has its own operation strategy. As an effective paradigm in a specific environment, operation strategy is a method adopted to realize the value orientation confirmed by an enterprise according to its business purpose.

As a barometer of the real economy, the stock price has the function of influencing the allocation of financial resources in the capital market. As the focus of attention in the market, the change of stock price mainly reflects the operating conditions of listed companies and their position in the industry, the change of earnings, the change of dividends, the change of shareholders, and the forecast of future performance in individual factors. At the same time, the general factors mainly reflect the trend of investors in the market. That is, according to the market reputation of the listed company, investors' confidence in its future earnings.

From the perspective of stock price performance, these listed companies with relatively stable stock price fluctuations have good operating conditions, and their market characteristic risk is lower than the industry level, and their profitability and growth ability are more advantageous than other companies in the market, which win the investment confidence of investors in the market.

1.2 Research Purpose

The aims of this paper are that: a) understand the relationship between the operation strategy of listed companies and their share prices; b) take Vanke Group as an example to clarify its basic situation and main operation strategy; c) based on the basic situation of Vanke Group, analyze the relationship between its operating conditions and stock price changes.

2. Literature Review

2.1 Related Theories of Operation Strategy and Stock Price Influencing Factors

2.1.1 The Theory of Operation Strategy

An operations strategy is a set of decisions an organization makes regarding the production and delivery of its goods.

Organizations may consider each step they take toward manufacturing or delivering a product an operation, and all decisions regarding these various operations are the operations strategy.

Operations strategies define the goals of different departments, which lets team managers and employees know what they are working toward. An operations strategy can help to ensure any employee that contributes to an operation uses their time and skills efficiently.

2.1.2 The Theory of Stock Price Influencing Factors

The influencing factors of stock exchange price are various factors that affect the formation and fluctuation of stock exchange price. Fundamentally speaking, the trading price of a stock depends on the expected dividend and market interest rate, but there are also various factors that cause the stock price to change, such as: corporate earnings, dividend distribution policy, various economic indicators, etc.

2.2 The Relationship between Operation Strategy and Stock Price of Listed

Companies

For an enterprise, its operating mode is closely related to its operating condition, and its operating condition determines its operating profit. From the perspective of individual factors, the main influencing factor of stock price change is whether the stock can meet the expected profit expectation, which is closely related to the enterprise's operating conditions at that time. From the angle of general factors of share price movements, the main influence factors is in addition to the listed company itself is derived from the market factors, other than for good operating performance of listed companies, its anti-risk ability is strong, influenced by market and policy factors are relatively small, can give investors a good earnings outlook.

The impact of the operation strategy of a listed company on the stock price should not be expressed in terms of ups and downs, but in terms of the stability of stock price fluctuations when most stock prices collapse.

3. Research on Main Operation Strategy of Vanke

3.1 Main Operation Strategy of Vanke

In 2001, Vanke group transferred 72% of the shares held directly and indirectly in Wanjia Department Store Co., Ltd. to China Resources Corporation and its subsidiaries, and became a dedicated real estate company. In 2003, Vanke Group initially formed a "3+X" regional development model.

Due to the impact of the market environment in 2008, The ROE (return on equity) of Vanke group decreased to 12.7%, only slightly higher than the social average return on equity at that time, and the partnership shareholding plan was initiated. On October 21, 2010, Vanke Group passed a proposal on improving the overall compensation system. After the introduction of the economic profit bonus system, The ROE of Vanke group increased from 16.47% in 2010 to 19.66% in 2013. On April 23, 2014, Vanke Group began to prepare for the business partner shareholding plan, and entrusted the general partner of Ying 'an to conduct investment management, including introducing financing leverage for investment.

Since 2015, Vanke has been greatly impacted by the "Wanbao Equity dispute". From July 2015 to December 2016, Baoneng held 25.40% of the total share capital of Vanke Group. Shenzhen Railway has a 15.31 per cent stake; Evergrande holds 14.07%; Anbang and its co-owners hold 6.18 per cent. Vanke's tradeable chips are less than 22.40%. Excluding 11.91% of H shares, the actual tradeable A-shares account for only 10.49%.

3.2 Analysis of Main Operation Strategy of Vanke

This study mainly analyzes the operation strategy of Vanke Group from three perspectives: a) Professional operation is the key for Vanke group to become a leading enterprise in China's real estate industry, which enables Vanke group to have core competitiveness in

the industry competition and rationally allocate its resources, so that it can constantly consolidate its position in the industry while ensuring steady growth of profits every year. b) Employee shareholding incentive is a way of Vanke group, strengthen the enterprise internal management, equity incentive can make China Vanke key employees will be linked to their own interests and enterprise benefit, both to ensure the project quality, also can avoid to a certain extent, enterprise blind decision, and really up based on the enterprise benefit and forward-looking project and strategic decision making. c) While the fourth Angle is Vanke group lose their industry leading position of the important reasons, it is "the contention of Wanbao equity" brought about by the ownership structure changes caused by the dispersion of corporate governance structure, which makes the Vanke group at that time is in a state of volatile, and outside investors have gradually lost the confidence in Vanke group of investment, As a result, its operating conditions are greatly reduced.

4. Findings on The Relationship between Vanke's Main Operation Strategy and Its stock Price

4.1 The Relationship between Management Specialization and Stock Price

In 2001, Vanke transferred 72% of its equity directly and indirectly held in Wanjia Department Store Co., Ltd. to China Resources Corporation and its subsidiaries and became a dedicated real estate company. Since then, Vanke group has repeatedly issued additional bonds to enhance the capital strength of the core business of real estate, and formulated different business strategies to expand its market and improve its market position.

In the course of development, many real estate development enterprises have experienced the path from specialization to diversification at first. When the enterprise diversification development, will lead to the enterprise in every aspect of the competitive advantage, no core competitiveness; when an enterprise is too specialized, once it loses its strong market position, it will lose its core competitiveness.

For shares on the individual factors, the specialized management pattern makes Vanke has good operating performance, operating income and net profit was substantial from year to year, it also gave investors a better return on investment, make its stock with good earnings outlook, but also make the volatility of stock prices remain relatively stable in the market. As a leading enterprise in China's real estate industry, Vanke naturally attracts investment from investors from all walks of life. With investors' high enthusiasm for investment, Vanke naturally has the ability to resist market risks to a certain extent.

4.2 The Relationship between Employee Stock Ownership Incentive and Stock Price

Due to the impact of the market environment in 2008, Vanke's ROE (return on equity) decreased to 12.7%, only slightly higher than the social average return on equity at that time. On October 21, 2010, Vanke Group passed a proposal to improve the overall compensation system, adjusted the performance assessment system, strengthened the requirements of the return on net assets, net profit growth rate and other business indicators, and introduced EP as an indicator of performance bonus assessment. Since then, Vanke Group began to implement the business partner system and project shadowing system.

For listed companies, the implementation of equity incentive for executives is to make them focus all their minds on business decisions and improve the company's business situation. If the quality of each listed company is improved, the overall quality of the stock market will naturally be improved, and the frequency of violent shocks will be reduced, so that the market situation will be relatively stable.

The effect of ESOP on stock price is mainly manifested in two aspects: on the one hand, it affects investors' expectation of performance improvement of listed companies in general factors; on the other hand, it affects actual performance of listed companies in individual factors. At the early stage of Vanke group business partner scheme, it strengthened the investor expectations of Vanke

group performance enhancements, has a greater positive impact on stock price, stock there is greater than the same type or with the rise of the plates at the same time, its future stock price rise space is greater than the use of restricted stock company, which makes its share price depends on the rest of the market is relatively small.

In addition, on the individual factors affect the actual performance of listed companies, Vanke group, the implementation of business partner system and auxiliary system of project and on its share price there are the following logic: business partners and the implementation of the project and system can motivate management to improve work efficiency, promote the company performance rising, and promote the stock prices. As a means of performance reward, employee stock ownership incentive is directly linked to the interests of employees, which is conducive to the improvement of enterprise business performance, thus improving the intrinsic value of the stock of listed companies.

4.3 The Relationship between Ownership Structure Change and Stock Price

On July 10, 2015, Baoneng for the first time bought shares accounting for 5% of the total share capital of Vanke group, officially kicking off the "Wanbao Equity competition". As of January 2017, Baoneng held 25.40% of the total share capital of Vanke Group. Shenzhen Railway has a 15.31 per cent stake; Evergrande holds 14.07%; Anbang and its co-owners hold 6.18 per cent. Vanke's tradeable chips are less than 22.40%. Excluding 11.91% of H shares, the actual tradeable A-shares account for only 10.49%.

The reason why Vanke group is involved in the battle for equity ownership is the decentralized corporate governance structure caused by the excessive decentralization of equity ownership. China Resources, formerly Vanke's largest shareholder, maintained a stake of around 15% and regarded itself as a financial investor, never interfering in day-to-day operations and management. Although the business partnership system can alleviate the defects of ownership structure to a certain extent, it still cannot change the fate of the company's control rights.

In terms of share price, with the deepening of the equity dispute, the year-end closing price of Vanke Group fell to 20.55 yuan/share on December 30, with A decline of 29.14%. Vanke group, as a large enterprise of real estate industry, most investors are more concerned about its internal returns, and the governance structure caused by equity dispute, makes its share price has experienced substantial fluctuations, the consumption to a certain extent the investor's investment confidence, also made the same industry other enterprise have greater investment value, Vanke group was subjected to a stronger market impact.

For listed companies, if they want to keep their stock prices within a stable fluctuation range, they need to avoid "equity disputes" and other similar problems that will disperse corporate governance structure, and they should maintain a transparent, fair and efficient corporate governance structure. First, the level of corporate governance is positively correlated with its stock price performance. Governance of listed companies are positively correlated with operating conditions and the value of the company, the higher the level of management, the more able to safeguard the interests of small and medium-sized investors, the stronger the investor's investment confidence, the shape of the stock in the market, the better, the more can attract more investors to join, so as to make the stock prices, stock investment value increase, shareholder's investment income is higher. Secondly, the level of corporate governance is negatively correlated with the fluctuation of stock price. The stock price fluctuation of enterprises with higher corporate governance quality will keep in a stable and reasonable range, because enterprises with higher governance quality will form stronger market competitiveness in the same industry, so it is easier to win the favor of investors.

5. Conclusion

From the perspective of combining operation strategy and stock price, operation strategy directly affects the business condition of enterprises, and operating profit is also an important factor for listed companies in the stock market to show their own market reputation and fight against internal and external risks. Therefore, for listed companies with good operating conditions, they have strong risk resistance and are relatively less affected by market, policy and other factors. The impact of operation strategy on stock price should not be simply described by the rise and fall, but should be expressed by the stability of stock price fluctuation.

By researching the relationship between Vanke's main operation strategy and its stock price, three conclusions can be drawn: a) Operation specialization can help enterprises determine their own core competitiveness and rationally allocate their resources, which

can not only help enterprises gain a higher position in the industry, but also enable enterprises to have a good operating condition and bring higher investment returns to investors. b) Employee stock ownership incentive can avoid the problem of blind decision-making, thus improving the efficiency and benefit of the project. c) The change of ownership structure may lead to the decentralization of governance structure due to the ownership dispute. With the consumption of investors' investment confidence, the stock price of the company will inevitably experience large fluctuations, and then face stronger market impact.

To sum up, based on the above analysis, the relationship between the operation strategy of listed companies and their stock prices should not be expressed by rising or falling, but by the stability of stock price fluctuations when most stock prices fluctuate violently. As a leading enterprise in China's real estate industry, Vanke Group's different stock price changes under different operation strategies just confirm the point of this paper.

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