



From "county system" to "vassal system"? —Analysis of Alibaba Group's decision to split and go public

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Abstract. On March 28, 2023, Chinese e-commerce giant Alibaba Group said it would reorganize itself into six business groups, each with its own CEO and board of directors, and be able to conduct independent funding and Initial Public Offerings. This paper will focus on Alibaba's behavior that deviates from the original traditional business model, and analyze it from three aspects: event background, event description, event value and risk.

Keywords: Alibaba Group, spin-off listing, strategic decision, value, risk

1 Introduction of the company

Alibaba Group Holding Co., LTD., founded in 1999, was officially listed on the New York Stock Exchange in 2014, creating the record of the largest IPO in history. The stock code is "BABA" and the founder is Jack Ma. On November 26, 2019, Alibaba went public in Hong Kong with a total market value of more than 4 trillion HKD, topping the list of Hong Kong stocks and becoming the "new king" of Hong Kong stocks. With the mission of "making the world easy to do business", Alibaba provides online transaction payment and financial services for consumers and merchants. With the help of its emerging technologies, Alibaba helps consumers and merchants interact, enabling merchants to achieve efficient operation. Alibaba is mainly involved in e-commerce, cloud computing, artificial intelligence and other fields, covering a variety of business segments. Alibaba Group operates a variety of businesses and also receives support from the business and services of its affiliates to run the business ecosystem. Business and affiliate businesses include: Taobao, Tmall, Juhuasuan, AliExpress, Alibaba International Marketplace, 1688, Ali Mom, Ali Cloud, Ant Financial, Cainiao Network, etc.

2 Background of event

With the expansion of business scale, Alibaba has gradually involved in a wide range of business areas, including multiple business units with huge differences. The use of a set of enterprise management mechanism and decision-making means to manage multiple

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F. Balli et al. (eds.), *Proceedings of the 2023 2nd International Conference on Economics, Smart Finance and Contemporary Trade (ESFCT 2023)*, Advances in Economics, Business and Management Research 261, https://doi.org/10.2991/978-94-6463-268-2_44

businesses may lead to low management efficiency of enterprises. At the same time, with the developing of the Internet market, Alibaba is facing increasingly fierce competition. The integrated corporate management mode cannot quickly cope with the competition problems faced by various business fields, which may lead to Alibaba gradually losing market share.

From October 1999 to January 2000, Alibaba received a total financing of about 25 million USD. According to the latest market value ranking of Chinese Internet companies, Alibabas’ total market value is about 253.2 billion USD, which has made a qualitative leap compared with the initial period. As the scale of the company increases, the management of the bottom business departments by the upper management gradually weakens, and the top management can only obtain the bottom business operation status from the PPT. That’s why the department with strong business ability needs more time to apply for business work and department with weak business ability is not noticed by the senior management. The company has low efficiency. Centralized management may lead to the loss of many important investment opportunities.

Observing the stock price movement chart of Alibaba, it can be found that since 2020, Alibaba’s stock price has fallen sharply, from the highest price of \$319.32 at the end of 2020 to the lowest price of \$58.01 at the end of 2022, a decrease of about 82%. In December 2020, according to the tip-off, the State Administration of Market Regulation launched an investigation into Alibaba Group Holding Co., LTD.’s suspected monopoly behavior such as “two choices one”. On April 10, 2021, the State Administration of Market Regulation made an administrative penalty decision in accordance with the law, ordering Alibaba Group to stop illegal acts and imposing a fine of 4% of its 2019 sales in China of 455.712 billion yuan, totaling 18.228 billion yuan.

Ant Financial, which was born out of Alipay, was originally scheduled to complete its listing on November 5, 2020, but in the evening of November 3, the relevant responsible personnel were interviewed by the relevant regulatory authorities, at the same time postponed the listing plan originally scheduled for November 5. So far, Ant Financial has little hope of going public. Alleged monopolistic behavior is the main reason for the suspension of Ant Financial’s listing. With the developing of Alibaba’s comprehensive strength, Its monopoly power was strengthened. Due to the continuous revision of national anti-monopoly policies and the improvement of monopoly supervision, if Alibaba continues to maintain its centralized business model, its subsequent development will inevitably be subject to certain policy constraints from relevant governments.

Based on the above situation, it can be found that organizational change is an inevitable choice for Alibaba to maintain the company’s operation, improve the company’s decision-making efficiency and promote the company’s development.

3 Description of events

Spin-off listing means that the parent company separates the subsidiary with good development status and strong profitability from the group and makes it a listed com-

pany with independent decision-making power. Its essence is a kind of asset shrinkage operation behavior.¹

On March 28, 2023, Zhang Yong, chairman of the Board of Directors and CEO of Alibaba Group, released an internal letter entitled "Only self-change can create the future, announcing "the most important organizational change of Alibaba in 24 years"-the launch of "1+6+N" organizational change. To build the "1+6+N" organizational structure, that is, under Alibaba Group, six business groups and several business companies, including Alibaba Cloud Intelligence, Taobao Tmall Business, local life, international digital business, Cainiao and Da Entertainment, will be set up, and the board of directors of each business group and business company will be established respectively. To implement the CEO responsibility system under the leadership of the board of directors of each business group and business company, and Alibaba Group fully implements the management of the holding company. The six business groups are generally responsible for their respective operating results and have the possibility of independent financing and listing.²

The specific plan is for Zhang Yong to serve as the CEO of Alibaba Cloud Intelligence Group while serving as the chairman and CEO of Alibaba Group; Daishan will be CEO of Taobao Tmall Business Group; Yu Yongfu as CEO of Local Life Group; Wan Lin remains CEO of Cainiao Group; Jiang Fan as CEO of International Digital Business Group; Fan Luyuan is CEO of Grand Entertainment Group. In addition, other qualified business organizations will set up a number of business companies to fully implement corporate management.

After the news was released, the capital market immediately released a positive signal. On March 29, Alibaba's Hong Kong stock market opened 14.96 percent higher. On the US stock market, on the evening of March 28, the highest rise of more than 15%, closed 14.25% higher, the stock price recorded the biggest one-day rise in nearly 10 months, the market value rose more than \$30 billion.

The plan to go public has drawn wide attention and heated discussion. For Alibaba Group, this is a very important strategic decision and a huge leap in the company's growth history.

The capital market has seen a wave of corporate spin-offs and listings at an early stage. In 2018, Tencent started the 930 organizational structure adjustment, which shocked the industry. In the following years, it reduced its business groups, reduced its holdings of Meituan, and spin off China Literature. From 2020 to 2021, "Jingdong Health" and "Jingdong Logistics" were listed on the Hong Kong Stock Exchange, and Baidu, NetEase and so on are also planning to split up and go public. Alibaba's spin-off and listing is just the successor to this trend.

Moreover, Ant Financial Services Group was spun off from Alibaba Group Holding Co., Ltd. before Alibaba Group was listed in 2014. After the spin-off, Ant Financial Services Group has repeatedly reached new highs in financing, and has constantly expanded overseas business. Ant Financial Services Group ranked third in the "2023 Global Unicorn List". With the precedent of Ant Financial Services Group's independence, Alibaba's spin-off listing appears more skillful.³

The change from "group control" to "group holding" seems to be just a word difference, but behind it is the devolution of power and responsibility, and it is also the

inevitable result of Ali's shift from scale orientation to profit orientation. For one thing, it will be difficult for Alibaba to continue to use the same corporate culture and machinery to manage such disparate business units; Second, Alibaba's past business collaboration model is becoming less and less suitable for the competitive environment due to the presence of competitors. At present, there are fewer and fewer coordinated businesses in Alibaba Group, and there are fewer and fewer overlapping areas of shared resources and experience. Under this development situation, it will be much cleaner to separate the businesses independently, so that a single business organization will not be bound by the decisions of large groups, and it will be faster to implement some market-oriented strategies independently.

4 Event study

From 1999 to today, with the exception of Ant Financial, which was separated due to financial regulation, all other segments of Alibaba are tied together and controlled in a centralized way. The main line of Alibaba's organizational reform is to liberate productivity, which has changed from "county system" to "vassal system". Xu Zongyu used the double difference method (DID) to study that the value of the enterprise group has been significantly improved after the spin-off and listing. The spin-off listing will have a positive impact on the value of enterprise groups from three aspects: easing financing constraints, improving operational efficiency, and enhancing information transparency; Compared with state-owned enterprises, the spin-off and listing of non-state-owned enterprises has a more obvious impact on the value of enterprise groups.⁴Zhang Yang analyzes the change of operating performance of real estate company and property service company after 3 consecutive years of successful spin-off and the year before the spin-off listing. The results show that the performance of real estate companies and property service companies has been greatly improved after the spin-off and listing. Therefore, the real estate company divesting the property services company creates positive value for shareholders.⁵

4.1 Event value

First, increase the enterprise value of Alibaba Group. As Alibaba Group has become one of the leading enterprises in China's Internet industry, its market value has reached a staggering trillions of dollars. Through the split listing, each business segment can operate independently, which is conducive to attracting more investors, thus further increasing the market value of the company. In terms of valuation, before the split, the valuation was for Alibaba as a whole, Due to the wide range of business segments, the valuation level of Alibaba has been lowered several times in the past year. Splitting into multiple subsidiaries will enable each subsidiary to be independently valued from Alibaba, which can effectively enhance the enterprise valuation of Alibaba, and can promote mature business segments as soon as possible listed financing.

Second, improve the ability of each business segment to operate independently. With the continuous expansion of Alibaba Group, various business segments are be-

coming more and more closely connected. Through the split listing, each business segment will be able to focus more on its own business and respond quickly to market demand. In addition, the split listing can also make each business segment more independent talent recruitment, salary design and other management work. Employees of each business group, company can have a stronger sense of protagonist, and to promote innovation, so as to further strengthen the vitality of innovation.

Third, it can improve organizational efficiency. Alibaba took the initiative to split business and greatly stream lined the complex organizational structure of business groups business divisions and business lines in the past, which is conducive to simplifying organizational levels, shortening decision-making links, enhancing the flexibility of each business, partly replacing internal coordination through organized market coordination, reducing internal transaction costs and enhancing competitive advantages. At the same time, the practice of separating business departments makes it difficult for the department group with weak business ability to hide in the enterprise. Due to the loss of internal support from large enterprises, the department group must enhance its own strength, which is conducive to the improvement of the comprehensive scale of the enterprise.

Fourthly, from the perspective of technology regulation, Alibaba can better adapt to the legal and policy requirements for cross-border data flow under the new situation by separating Chinese e-commerce from overseas e-commerce. In addition, splitting Alibaba into different business lines could insulate the whole enterprise from future government crackdowns on specific industries.

4.2 Event risk

Alibaba Group's spin-off and listing plan also faces some potential challenges and risks.

First of all, the spin-off listing will bring certain financial pressure and costs to the company, including expenses related to the spin-off and listing, management costs, etc.

Secondly, Ali Group was divided into six companies, which was actually a decentralization of real power. The change of this system is about equal to the change from the "county system" to the "vassal system".

Bruce Seifert once looked at the common stock returns of the parent company and the spin-off company after they started trading respectively, and found that once the derivatives started trading, there would be abnormal losses, which is similar to the return behavior of the company after listing on the New York Stock Exchange or the American Stock Exchange. After each business department is independent the business group needs to set up its own internal financial management system, which improves the requirements for the management of the parent company's operating conditions and requires a more complex enterprise risk management system to help the enterprise effectively manage risks. At the same time, the competition among various business segments will be intensified. and even mutual attacks will occur thus affecting the image and reputation of the whole company. If it is serious, it will shake the holding management of Alibaba Group.⁶

5 Development status of the company

At present, the directors of Ali have approved:

A full spin-off of Cloud Intelligence Group by way of a dividend distribution to shareholders will be achieved. As part of the spin-off plan, Cloud Intelligence Group will seek to become a separate publicly listed company.

Ali International Digital Business Group has started to explore external financing to facilitate the further development and growth of the business group.

Start exploring the listing of Cainiao Group, which is 67% owned by Alibaba Group, and plan to complete the listing plan in the next 12 to 18 months.

Launch the listing process for Hema, the group's new retail business, which is expected to be completed in the next six to 12 months.

6 Conclusion

Alibaba Group is a major e-commerce company in China. Based on the previous literature and the author's personal opinion, this paper analyzes the decision of Alibaba Group to go public separately. Without doubt, Alibaba Group's spin-off and listing plan is a landmark strategic decision, which is in line with its long-term strategic development and market changes. After this behavior was made, the development of the event is dynamic, this paper only analyzes the beginning of the event, as for the future development trend trend of Alibaba Group, it remains to be analyzed by future generations.

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