

Application and Evaluation of the Value Investing Approach

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Abstract: In tandem with China's economic expansion, there has been a notable rise in per capita disposable income, fostering an influx of individual investors into the securities market. This surge is underpinned by improved transaction mechanisms, with individuals now comprising the primary market participants. However, challenges persist as investment discipline wanes amidst a backdrop of heightened randomness and exorbitant high-frequency operation fees. Consequently, the development of China's secondary stock market remains nascent, fraught with uncertainties, and prone to frequent instances of frustrated investments. The burgeoning popularity of Warren Buffett's value investment theory signals a paradigm shift, with investors increasingly gravitating towards identifying undervalued stocks for sustained returns. Nonetheless, ordinary retail investors grapple with a dearth of investment knowledge, compounded by the intricacies of different industries, thus impeding their ability to effectively apply professional analysis methods. To bridge this gap, this paper endeavours to synthesize prevailing empirical analysis methods commonly employed across diverse industries. Through a comprehensive literature review and reference analysis, it seeks to provide insights aimed at enriching investors' comprehension and application of value investment principles. By elucidating practical approaches, this research contributes to the broader discourse on investment value, fostering a more nuanced understanding within the context of China's evolving securities market landscape.

Keywords: Value Investment, Empirical Analysis, Diverse Industries

1. Introduction

As China's economy develops and per capita disposable income rises, more and more people are entering the stock market for investment. The development of China's securities market has been going on for more than 20 years, and the trading mechanism has been gradually improved, with individual investors gradually flooding into the market and becoming the main players in the market. With China's economic growth and the increase in people's disposable income, coupled with the improvement of the investment environment, the number of investors in the securities market has been increasing, and more people have chosen to invest their spare funds in stocks, funds and other financial products instead of depositing them in banks. However, the development of China's secondary market is relatively late, the development of the stock market is still immature, there are a large number of uncertainties. There is speculative behavior in the stock market, the phenomenon of

big ups and downs in stock prices, coupled with the lack of professional knowledge of the investors, resulting in frequent failures in stock investments.

With the gradual development of the market, purely short-term speculative behavior is difficult to make long-term profits in China's securities market. In recent years, Warren Buffett's theory of value investment has been gradually recognized by investors in China's securities market, and market analysts have begun to look for undervalued stocks or stocks with long-term investment value in the hope of obtaining higher excess returns. 2020, the excellent performance of Maotai shares has made investors realize the advantages of value investment, and more small and medium-sized investors have begun to focus on constructing suitable long-term investment portfolios rather than frequently changing positions. More small and medium-sized investors are beginning to focus on building appropriate long-term investment portfolios rather than making frequent position adjustments. Due to the limitations of professional knowledge, how to select the right industry sectors and outstanding individual stocks has become a problem for value investors.

This paper summarizes the main contents and practices of the value assessment method by summarizing the analysis contents and analysis methods of scholars on the investment value of enterprises in the industry, and provides an overview of the contents and methods for investors who are ready to analyze the investment value of enterprises by using the value investment method.

In the early days, speculation was rampant in the market, and investors at home and abroad used technical analysis to earn income, causing stocks to deviate from their actual investment value. However, with the continuous standardization of China's capital market and regulatory system, it has become more and more difficult to use this method to make correct investment decisions. Therefore, it is of great theoretical significance to choose a reasonable value investment method to analyze the investment value of enterprises.

Although more and more investors gradually understand and accept the concept of value investment, but the ordinary retail investors lack of relevant investment knowledge, and various industries, industry specialization is different, the difficulty of investment is different, cannot use professional analysis methods to analyze the investment value of the enterprise, but also difficult to select the investment value is still being explored to be fully embodied by the outstanding enterprises. Therefore, this paper will be based on the majority of scholars on the practical application of value analysis in various industries, the use of literature analysis method, analyze a large number of references, summarize the value of the general application of the value of the investment method of the industry as well as scholars are more common on the value of the investment in various industries to carry out empirical analysis of the method. It helps investors to have a comprehensive understanding of investment value, and also enriches the research on investment value.

Through reading the excellent research results of the predecessors, it can obtain the referable basis and theoretical sources needed for this paper, and make innovations and extensions on this basis. Further read research reports and academic literature on stock investment value and related industry analysis at home and abroad, learn their analytical ideas and research methods, and summarize and synthesize them with the characteristics of enterprises. At the same time, the academic papers on stock valuation and factor analysis, and refer to the empirical methods in the papers to summarize the basis of the analysis in this paper. Finally, it summarizes the general applicable industries of value investment methods and the more common methods used by scholars to empirically analyze the investment value of various industries.

2. Literature Review

2.1. Research on the Value of Portfolio Investment

For the study of the value of securities investment, the early development of the capital market in the West has formed different schools of thought, from different perspectives to analyze the value of securities investment, there are four major schools of thought, in addition to the earliest Dow theory as the cornerstone of the technical analysis theory and behavioral finance in the 1980s to analyze the behavioral patterns of investors, and according to the assumptions of the formation of the value of investment in different schools and market schools. The value investing school and the market school. The difference in assumptions between the value school and the market school is in the judgment of the effectiveness of the market.

Eugene Fama put forward the efficient market hypothesis in the value investment school, the effectiveness of the capital market refers to the ability of the market to quickly adjust prices according to new information. According to the effectiveness of the market, the capital market can be divided into three categories: a weakly efficient market, a medium-strength efficient market, and a strongly efficient market. In a weakly efficient market, the price of a security can only reflect past prices and trading information; in a medium-strength efficient market, the price of a security can reflect all publicly available information, including historical prices and trading information. In a strongly efficient market, the price of a security can reflect all publicly available and unpublished information.

The market school of thought believes that markets are always efficient, that investment risk is primarily a function of market volatility, and that diversification helps to reduce risk. Harry Markowitz first associated mean and variance with return and risk, and Markowitz argued that any high return is based on a high level of risk. To reduce portfolio risk, the standard deviation can be reduced by increasing the variety of investment products with the same average return, thus reducing portfolio risk.

William Sharpe, John Lintner, Jack Treynor and Jan Mossin proposed the Capital Asset Pricing Model (CAPM) on the basis of asset portfolio theory and capital market theory, which explains the relationship between asset returns and systematic risk, and lays a theoretical foundation for the pricing of financial products in the financial market, and is widely used in practice. It has been widely used in practice. According to the value investing school of thought, the assumption of market validity is not always valid, and the key to investment is to accurately analyze the intrinsic value of a listed company and calculate the difference between it and the market value. Investors should focus on studying the financial statements of the company, assessing the intrinsic value of the securities based on the company's financial condition and profitability, and then searching for companies that are overvalued or undervalued.

Irving Fisher was the first to put forward the theory of the value of capital, he believed that there is a close relationship between capital and income and the value of the company, and put forward the budgetary NPV model, that is, the present value of capital depends on all the future cash flows that can be generated by this capital, and the magnitude of the present value not only depends on the future cash flows, but also has a great deal to do with the cost of capital, that is, the discount rate of the enterprise. Fisher's theory of capital value has made a creative contribution to the evaluation of the value of target companies by investors in the securities industry in the future.

Modigliani and Miller proposed the MM theory (the theory of capital structure without taxes) and the modified MM theory (the theory of capital structure with taxes). Initially, the theory of MM without taxes argued that changes in the ratio of debt to equity capital would not affect the value of a firm in the absence of assumptions, such as taxes, but since nearly all firms pay taxes, the modified MM theory was developed, and since debt allows firms to avoid some taxes when they pay taxes, i.e., the "tax shield effect," the value of a firm increases with the proportion of debt capital. However,

since nearly all firms pay taxes, a modified MM theory has emerged, in which the value of a firm increases as the debt-to-equity ratio increases because debt allows the firm to avoid paying a portion of its taxes when it pays taxes, known as the "tax shield effect".

2.2. Research of the Value of Investment in Domestic Firms

Because China's investment theory research on the securities market started late, so in the judgment of investment value, it will draw on the earlier development of the Western securities investment theory, after understanding the theoretical basis of the value investment school, the scholars have also begun to find the intrinsic value of the company's research:

Cui takes BYD as an example, and through analyzing its profitability, solvency and development ability, he concludes that BYD has formed its own perfect strategic layout in the new energy automobile industry [1]. Its strong investment in science and technology has made it increase its market share, and its various products are developing in a good direction, which is of good investment value. The direction of its research follows the trend of the world's development of new energy automobiles. Tian analyzes the development of new energy automobiles, and finds that the company has a good investment value [2]. Its research direction follows the trend of the world's development of new energy s. Sun studied about Tencent Holdings as a research object, selects listed companies in the Internet industry as the target industry for the study, and analyzes the company's financial indexes from five aspects, including profitability, operating ability, solvency, cash flow, and company growth, based on the financial data from 2016-2020 [3]. It goes on to value Tencent Holdings with segment valuation methods such as the price-to-book ratio and the price-to-earnings ratio. In the valuation method, Tencent Holdings conducts a value assessment. In terms of valuation methods, Li focuses on analyzing the basic theories involved in enterprise valuation, the construction of the model, and the calculation formula by comparing the advantages and disadvantages of various enterprise valuation methods, thus arriving at a valuation model applicable to enterprises with a relatively stable asset structure and high technology, which provides reference for investors to accurately choose the valuation methods. Zhang measured the value of the company through the residual income value model, and then chose the growth rate of main business income to represent the high growth of GEM companies [4]. He analyzed that the high growth of the top 50 GEM listed companies has a significant relationship with the company value and investment value.

2.3. Review of Literature

The risk of the value school comes from the accuracy of the assessment of the intrinsic value of the target company, which is the accuracy of the assessment of the company's future profitability. The value school tends to invest in a concentrated manner after conducting in-depth research on a company, and believes that the market price of the stock does not reflect the intrinsic value of the company, and believes that a company with a higher intrinsic value has a higher investment value in the event of a decline in the stock price, and therefore holds the stock for a long period of time. They believe that companies with higher intrinsic value have higher investment value when the stock price falls, so they will hold stocks for a long time, which is suitable for long-term investment.

According to the research of scholars at home and abroad, the main methods used in the empirical analysis of the company's investment value include factor analysis model, fuzzy comprehensive evaluation method, EVA method, etc. The factor analysis method is mentioned by many scholars. Factor analysis is a research method mentioned by many scholars, compared with other empirical methods, through the company's financial indicators, more objective, the operation is also relatively simple, and can be more direct to explore its impact on the investment value of the micro-factors. The scholars in the investment value of listed companies in the empirical analysis, most of them are based

on financial indicators, which also shows the necessity of financial indicators in judging the investment value of listed companies.

3. Value Investing

Value investing is an investment strategy whose core philosophy is to seek out undervalued stocks in the market, i.e. stocks whose market price is lower than their intrinsic value, and to hold these stocks for the long term until the market recognizes their true value. This strategy emphasizes in-depth analysis of corporate fundamentals and independent judgment of market fluctuations. It requires investors to have a certain level of financial analysis skills, to be able to identify and assess the intrinsic value of a company, and to have the patience to hold stocks until the market value is realized. In addition, value investors need to have strong conviction and discipline not to be disturbed by short-term fluctuations in the market. Representatives of value investing include Benjamin Graham and Warren Buffett. Graham is the founder of value investing theory, and his books *The Intelligent Investor* and *Security Analysis* are considered investment classics. Warren Buffett is one of the most famous practitioners of value investing, and his investment company, Berkshire Hathaway, has achieved superior long-term returns through value investing.

Currently, the mainstream valuation methods of enterprise value are categorized into absolute valuation method and relative valuation method. Absolute valuation is a method of estimating the value of a company based on its expected future cash flows, cost of capital, and discount rate, and is able to determine the intrinsic value of a company. The relative valuation method relies on market data by comparing the target company with similar companies.

4. Advantages and Disadvantages of the Value Investing Approach

The value investing approach is a long-term investment strategy that focuses on finding stocks whose market price is lower than their intrinsic value and holding them until the market recognizes their true value. First and foremost, it carries low risk. This is because value investors usually choose companies with stable earnings and good financial health, which tend to have strong market positions and competitive advantages, thus reducing investment risk. Secondly, the value investment strategy focuses on long-term investment, utilizing the power of time and the compounding effect, which can generate lucrative long-term returns for investors. Further, it capitalizes on market volatility. Investors can buy undervalued stocks when the market is in the doldrums and sell them when the market is booming, thus capitalizing on market volatility to gain profits. Meanwhile, since value investors tend to hold stocks for a long period of time and trade less frequently, the transaction cost is relatively low. In addition, value investment is a rational investment that emphasizes analysis based on company fundamentals and can avoid making impulsive investment decisions due to market mood swings.

However, the value investment method also has certain limitations. First, value investing requires patience to wait for the market to reassess undervalued stocks, which may take a longer period of time during which other investment opportunities may be missed. Then, determining the intrinsic value of a company is not an easy task and requires in-depth financial analysis and accurate judgment of the industry and the company's future prospects. In addition, investors can be affected by market irrationality, which can cause value investment strategies to underperform in the short term. More often than not, value investors may concentrate on a few stocks that they believe are undervalued, which may result in an under-diversified portfolio.

Overall, the value investing approach offers a sound investment methodology for those who are willing to conduct in-depth analysis and have the patience to wait for their investments to mature, however, it also requires a high degree of expertise and discipline as well as a deep understanding of market volatility.

5. Application and Practices of Value Investing

5.1. Application

Value investment is suitable for those industries with long-term growth potential, stable profitability and strong competitive advantages. Investors should choose investment sectors that suit them based on in-depth industry analysis and company research, combined with their own investment philosophy and risk appetite, mainly including stable growth sectors, sectors with moats, policy-supported sectors, cyclical sectors, technology innovation sectors, and sectors related to consumer upgrades.

Stable growth industries such as consumer goods, pharmaceuticals and healthcare, and financial services tend to provide sustained cash flow and good investment returns. Companies in these industries tend to have strong brands, stable customer bases and high market shares. Moat industries, such as unique technologies, patents, brands, and economies of scale, etc. Companies with significant moats may be preferred by value investors [5]. Government policies have a significant impact on industry development. For example, environmental protection, new energy, ecological construction and other areas may bring long-term investment opportunities due to strong policy support. Although cyclical industries such as steel and raw materials are subject to high price volatility, value investors can seek undervalued quality companies during industry downturns through a reverse investment strategy and wait for the industry to rebound to reap the benefits [6]. Companies that can continue to innovate and lead the industry, such as leading companies in cloud computing, artificial intelligence, biotechnology, etc., may also become targets for value investment. Sectors related to consumer upgrades, such as high-quality consumer goods, health foods, and online education, may also be areas of interest for value investors.

Overall, the main reasons why the value investing approach applies to these sectors are that they offer stable cash flows, long-term competitive advantages, opportunities for contrarian investments, and opportunities to profit from economic growth.

5.2. Practices

Among the industries for which the value investing approach is appropriate, many scholars have applied scientific valuation methods from various aspects of the company, the market, and the industry to assess the value of the enterprise.

5.2.1. Manufacturing Industry

The machinery manufacturing industry is moving towards the "fast track" development of new heights, increasing exports, international market competitiveness rapidly improved in the context of the heavy machinery manufacturing industry for China's economic and social construction has played a strong support for the overall development of the situation is good. At the company level, the author combines the information of the selected companies' annual reports and related announcements in recent years, as the well as the operation and financial status of the selected companies themselves, conducts an in-depth research on their profitability and growth, and utilizes a scientific value assessment model to make objective and fair valuation, so as to make a scientific and appropriate assessment of the value of the heavy machinery small and medium-sized enterprises. The author analyzes the profitability of the company, and analyzes the company's potentials and provides investors with a scientific basis for decision-making. Yu's research mainly analyzes the company's profitability, development ability and operating conditions [7].

5.2.2. New Energy Vehicle Industry

Lu analyzes the political, economic, social, and technological environments of the industry in terms of macro influencing factors, and clarifies that automobile industry has macro investment value [8]. Combined with the analysis of upstream and downstream industry chain, the author found that the industry layout has been extended from the vehicle to the upstream mineral resources, and identified the key links in the industry chain as the author as the market, and selected high-quality enterprises in the industry chain from the core idea of value investment concept.

Cui takes the value investment theory, which is more suitable for automobile industry, as the theoretical basis for analyzing the investment value of the automobile industry [9]. The policy history of the development of China's automobile industry is described in terms of supply-side policies and demand-side policies, and the current situation of China's new energy automobile industry is summarized. Then empirically, through reviewing the previous literature and information, 22 representative financial indicators are selected to construct the financial indicator system, and the ranking of the intrinsic value of the company is obtained by using the factor analysis method, which is compared with the ranking of the company's price-earnings ratio to analyze the underestimated companies, so as to give the investment advice. Finally came to the conclusion: there are more undervalued companies in the new energy automobile industry, the overall industry investment potential.

5.2.3. Photovoltaic Industry

Photovoltaic industry is China's strategic industries, is China's realization of carbon neutral carbon peak one of the important industries.

Lin first analyzed the industry background: with China's emphasis on renewable energy, China began to support the photovoltaic industry, photovoltaic industry is developing rapidly [10]. Under this investment opportunity, the author chooses LONGi stock as the investment value analysis object. The author mainly analyzes the investment value of LONGi from three aspects: industry level, company level and market value. The first is the industry level, mainly including the industry's supply pattern and demand. Secondly, from the company level, the author analyzes the company's main business, core competitiveness and financial indicators. And through the factor analysis including financial and non-financial indicators, the author analyzed whether the company has greater competitiveness in the listed companies in the photovoltaic industry. Finally, the relative valuation method is used to calculate the market capitalization of the company in order to provide investors with a reference for buying below a reasonable valuation.

5.2.4. Lithium Battery Industry

Lithium battery as an emerging industries, is the national key to the development of the industry, by the capital market. With the development of the economy, policy support for the strengthening of the lithium battery industry because of the high technology content, high growth of new, broad market prospects by a wide range of investors. Lin first analyzed the development of lithium battery status quo and industry characteristics, to find out the investment value of lithium battery listed companies and the main factors affecting their investment value [10]. Selected 60 A-share listed lithium battery companies, in addition to drawing on the financial indicators commonly used by previous scholars, combined with the characteristics of the lithium battery industry on the selection of indicators for innovation, adding non-financial indicators to supplement the analysis, factor analysis to derive a comprehensive score from 2019 to 2021. Combined with the performance of the three-year composite score, found that Crestec, aviation rainbow, Tianyuan shares, Derui lithium, Fangda carbon has a high investment value. Subsequently, the use of regression models and other important financial indicators

affecting the lithium battery is mainly the company's profitability and solvency, non-financial indicators is mainly the company's governance. And then ranked in the past year the top 15 companies scored rankings and price-to-book ratios for side-by-side comparisons, and further verification of the Crestec, aviation rainbow, Tianyuan shares, Deray lithium, Fangda carbon stock has investment value.

5.2.5. Pharmaceutical Industry

Pharmaceuticals is a hot market sector, with a certain degree of stability, is a good choice for value investors. Pharmaceutical industry is an important part of people's livelihood, with China's economic development, population aging trend, the improvement of living standards of the population and health awareness, in recent years, the residents of the medical expenditure is on the rise.

In the pharmaceutical sector, Hengrui Medicine as an example is explored the investment value of China's pharmaceutical sector listed companies, the use of fundamental analysis, first of all, through the study of macroeconomic policy, the industry, to understand the Hengrui Medicine in the market environment and the future development trend, digging the company's financial data and financial indicators, and analyze the company's financial data and financial indicators. The author analyzes Hengrui Medicine's operation situation from various aspects, and uses factor analysis to score the pharmaceutical companies by selecting five categories of financial indicators: profitability, solvency, operating ability, and innovation ability, and judges Hengrui Medicine's position in the industry based on the ranking of the scores. Finally, the author s use absolute valuation method and relative valuation method to calculate the intrinsic value of Hengrui Medicine. The investment value of Hengrui Medicine is studied quantitatively by making reasonable forecasts of cash flow and cost of capital, and by referring to the financial data of comparable companies in the same industry.

5.2.6. Consumption Growth Industry

In recent years, China's comprehensive strength has improved significantly, people's income level is also generally improved, in view of the continuous development of the current capital market, selecting the underlying assets with better investment value has become an urgent need for people.2015, the liquor industry has gradually had a significant recovery phenomenon, at the same time, the development of the Internet for the liquor of the consumer market to bring new development vitality, the effect of stock removal is particularly obvious. The development of the Internet has brought new development vitality to the consumer market, and the effect of de-inventorying is particularly obvious. The author takes "Shanxi Fenjiu", a listed company in the liquor industry, as the research object, and carries out the synthesis and valuation of Shanxi Fenjiu. Firstly, the current situation and development prospect of the liquor industry are analyzed, and secondly, the strengths and weaknesses of Shanxi Fenjiu in the development process are specifically analyzed by using the "SWOT analysis". As a result, it is found that, due to the substantial rise of the stock in the previous period, the enterprise value assessment is far lower than the current enterprise value, there is a certain premium, there is a risk in the short term, investors should be cautious to buy.

With China's residents' health awareness and income levels continue to improve, China's medical service demand is increasing day by day, just need attribute is very strong, the market space is very large. Even in the new crown epidemic affected 2020, in many industries by the huge impact of the situation, a lot of medical services industry companies against the market to achieve positive growth, excellent performance, with a high investment value. Zhang researched China's medical services industry and related enterprises to study the value of investment, the use of qualitative analysis of the method from the macro and micro level on the development of China's medical services industry status quo and the future prospects of in-depth research and discussion [11]. He concluded that China's medical services industry is developing more rapidly and has a broader outlook. From the

company's micro-influencing factors to start, selected a comprehensive and comprehensive response to the enterprise. Starting from the micro-factors of the company, he select 18 financial and non-financial indicators that comprehensively respond to the enterprise's profitability, solvency, operation, growth, innovation and governance, and calculate the comprehensive scores of 57 listed companies in the medical service category through factor analysis to find out the companies that have more investment value in comparison with the rest of the listed companies.

6. Conclusion

The value investing approach provides an investment strategy based on fundamental analysis of companies and a long-term investment philosophy, which helps investors realize stable investment returns and reduce investment risks. The value of a stock comes from the company's operation and is closely related to the company's ability to make profit, so the value assessment of a stock is essentially an assessment of the value of the company. Based on the above references, the investment value of a company can be assessed basically from three aspects: the industry in which the company is located, the company itself and the market situation.

The current and future development of the industry is mainly analyzed from the macro environment of political, economic, social, technological and other factors. For the company level is mainly divided into fundamental research and technical analysis of research.

Fundamental research is also known as the so-called "absolute valuation method", the main study of the company's financial indicators and non-financial indicators to determine the intrinsic value of the company. Financial indicators mainly include profitability, solvency, operating capacity, growth capacity and so on. For the analysis of the company's technical indicators is also referred to as the "relative valuation method", the common techniques include the price-earnings ratio, price-net ratio and price-sales ratio.

The analysis of the market is mainly to analyze the supply and demand situation. By examining the relationship between supply and demand for goods or services in the market, it is possible to understand and predict market changes and trends, assess the impact of market changes on consumers and producers, such as the impact of price changes on consumers' purchasing power and on producers' incomes, as well as to help people understand macroeconomic phenomena, such as economic cycles, inflation, unemployment, and ultimately, the impact on the value of a company's investment.

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