Research on the Influence of Dual Ownership Structure on Stakeholders: Based on the Case Study of "Xiaomi Group"

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Abstract: Based on the stock exchange of Hong Kong, China's first USES the "dual share structure of listed companies (millet group) as the research object, to explore the applied double voting rights in the framework, the fight for the interests of various stakeholders, and for the future of China's Shanghai and Shenzhen stock exchange to accept dual share structure of listed companies to provide a feasibility study Angle of view, at the same time to provide this voting architecture theory research significance, relevant research literature.

Keywords: Dual voting structure; Stakeholder; Xiaomi Group
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1. Introduction

Since the 20th century, dual-class share structure has become increasingly popular in the United States. After several rounds of reform, the SEC allowed new listings on the stock exchange to introduce dual-class shares. Since the beginning of the new century, especially from the subprime crisis to 2013, dual-class equity structure has been highly correlated with the characteristics of information, electronics and other industries in the United States. In 2017 alone, more than a quarter of Mainland Chinese companies listed in the US chose a different voting structure. From the very beginning, it was questioned that foreign capital markets widely adopted the dual-voting structure for listed companies in the industries of electronics and information, which further demonstrated the universality and profundity of the application. At the same time, Hong Kong, Germany, the United Kingdom and other countries and regions have also borrowed and learned from the United States this way.

Under this background, the Hong Kong stock exchange in 2014 released called "the concept of different voting rights structure file" public consultation opinion, including adopted in general meeting of shareholders of listed companies have different voting rights of dual class equity structure, should the stock exchange rules implementation architecture such as the United States for the application of any or all of the limit or increase the other additional restrictions or to any other restrictions to get limit? [HKEX Concept Paper] In 2016, HKEx set up an innovation board to conduct market consultation on the possibility of introducing a "dual voting" structure. In 2018, HKEx issued a new regulation allowing dual-structure companies to apply for IPO listing, which will take effect on April 30, 2018, starting the prelude of Dual-structure listing of Chinese companies in China. However, the institutional practice of the document is placed in certain types of enterprises, which must be innovative industrial companies. Xiaomi Group was the first to obtain a company license with a different voting structure, which was officially listed on the Hong Kong Stock Exchange on July 9, 2018. This is the first listed "unicorn", high-profile, whether successful or not, will leave a strong mark in the history of China's capital market.

2. Literature Review

As a contractual network composed of interest groups, companies have the important characteristics of the separation of ownership and control. In 1932, American scholars Adolf. Berle and Gardner. Means proposed in their book Modern Corporation and Private Property that the Modern Corporation had changed from being controlled by the owner to being controlled by the operator. [4] define agency problems, which refer to the agency costs caused by different utility functions between principals and agents under the premise of asymmetric information, namely the conflicts of interest between shareholders and management. Arrow (1985) pointed out two sources of agency problems through analysis: “adverse selection” and “moral hazard”. In the delegating relationship, both parties take their own interests as the core, which is prone to opportunism (Eisenhardt, 1989). Managers are more likely to seek personal gains for themselves without the most effective incentive mechanism [7].

At the end of the last century, economists generally believed that: due to the differences of interest groups, the role of enterprises in decision-making was different, so we should start with the different characteristics of stakeholders and companies, and divide them from multiple dimensions. Charkham (1992) divided the stakeholders into Commnunity Shareholders and Contractual stakeholders. Clatkson (1995) was divided into primary and secondary relationship stakeholders according to the degree of close relationship between stakeholders and enterprises. [6], on the basis of Clatkson’s method, further proposed two types of methods: one was core interests, strategic interests and environmental stakeholders, and the other was formal interests with corporate interests, namely direct and indirect stakeholders. Mitchell, Agle and Wood (1997) made the most outstanding contributions to the continuous research of stakeholder theory. Leuz and Verrcchia (2000) and Verrcchia (2001) pointed out in their discussion that the higher the degree of information disclosure can effectively reduce agency costs, so they advocated that companies should enhance the frequency and quality of information disclosure in the future sustainable development (Heal and Palepu, 2001). Bushman et al. (2004) pointed out from the analysis of the externality of corporate governance that, for external investors, the company’s disclosure of information increases the requirements on the governance system, so as to alleviate the moral hazard problem. Parveen et al. (2007) also drew similar conclusions.

Most foreign listed companies have diversified ownership structure. However, due to the imperfect capital market and regulatory requirements in China, most listed companies are restructured from state-owned enterprises with high ownership concentration. Therefore, in addition to the inconsistent utility function between shareholders and management, interests of minority shareholders will also be lost. Controlling shareholders tend to realize private interests through related party transactions, thus overinvesting in the case of insufficient supervision (Liu Jianhua et al. (2008)). Luo et al. (2015) pointed out in their analysis that due to the existence of agency problems, the financial constraint ability caused by them became stronger. Fan et al. (2016) analyzed from the perspective of the group itself and pointed out that the lower the agency cost between each other, the higher the efficiency of internal capital flow would be. Guariglia and Yang (2016) found that financial constraints and agency problems lead to reverse changes in investment efficiency, which may lead to lack of investment efficiency, while agency problems may lead to overinvestment. Ni Tingting and Wang Yuetang (2016) found that as the degree of separation of ownership and management increased, agency costs had a more profound impact on the investment behavior of group companies.

More existing literature analyzes the principal-agent theory and the interests of all stakeholders from the perspective of “one share and one right”. Sometimes, it is not practical in the analysis of dual ownership structure, so we need to learn and draw lessons from foreign experience to realize the analysis of China’s future market. Similarly, literature research focuses on contractual stakeholders. As an immature market, this paper also adopts contractual stakeholders to study.

3. Analysis of Dual Ownership Structure of Xiaomi Group

3.1 Definition

The dual-class share structure, also known as the different voting structure, is divided into two types of company shares: one common stock (Class A shares) with the voting principle of “one share, one vote”; The other is super-voting shares (Class B shares). Except for the difference in voting rights, there is no material difference in other aspects (property income, etc.), but Class B shares can only be transferred when they are converted into Class A shares under the usual articles of association of the company, and Class A shares are free to circulate. A fundamental question in the study of different voting structure is: if the company adopts different voting structure, whether the management, the company and the investors can obtain substantial benefits, and there will be some gains and some losses. What risks are hidden behind the benefits Xiaomi enjoys?

3.2 The Dual Ownership Structure of Xiaomi Group

It is the same separation of management and ownership, but dual-class share structure can overcome the disadvantages of the traditional "same share and same right" equity model, and can guarantee the control right of the founding shareholders for the company. Xiaomi Also adopted A 10:1 voting structure, that is, 10 votes per share for class A shares. One vote per share for class B shares. This operation can make the company refinance in the later development process, and also ensure that the proportion of shares is hard to be diluted, because the Class A shares hold higher voting rights, and they can still control the company's operation and management with small shares.

In addition, Class A shares under different voting structures are "non-tradable shares" and are not allowed to be transferred, subject to time and conditions, except for free transfer into Class B shares. This restriction does not affect management's control over the company even if A shareholder withdraws from the group. Of course, in the special case dominated by hostile takeover, the acquirer cannot gain control of the company by holding class A shares with higher voting rights, but can only hold Class B shares with the same ordinary voting rights.

3.3 The Influence of Implementing Dual Ownership Structure on Xiaomi Group

(1) Impact on the Founding Team

First of all, it is undeniable that equity financing, as the most important financing means of Xiaomi Group, is faced with the risk that the control right will be continuously diluted. Therefore, it is possible to continuously introduce foreign capital without losing the control right. Then the introduction of dual voting rights structure can effectively alleviate such control risk. As an Internet company, the control right of the company's management is in a relatively stable state in different voting rights structures, which can motivate the operation managers to devote themselves to the company's operation, improve

Table 1. The voting structure of Xiaomi Group

Number of Shares (shares) Amount of financing (USD)	Number of Shares (shares) Amount of financing (USD)	Number of Shares (shares) Amount of financing (USD)	Number of Shares (shares) Amount of financing (USD)	Number of Shares (shares) Amount of financing (USD)	Number of Shares (shares) Amount of financing (USD)	Number of Shares (shares) Amount of financing (USD)
Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio	Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio	Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio	Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio	Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio	Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio	Thousand yuan) enterprise valuation (thousand yuan in DOLLARS) in the total equity ratio
Example (%) the proportion of voting rights	Example (%) the proportion of voting rights	Example (%) the proportion of voting rights	Example (%) the proportion of voting rights	Example (%) the proportion of voting rights	Example (%) the proportion of voting rights	Example (%) the proportion of voting rights
(%)	(%)	(%)	(%)	(%)	(%)	(%)
Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547	Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547	Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547	Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547	Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547	Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547	Class A Ordinary shares 669,518,772 shall not apply 31.9706 82.4547
Class B Ordinary Shares 374,158,150 not applicable Not applicable	Class B Ordinary Shares 374,158,150 not applicable Not applicable	Class B Ordinary Shares 374,158,150 not applicable Not applicable	Class B Ordinary Shares 374,158,150 not applicable Not applicable	Class B Ordinary Shares 374,158,150 not applicable Not applicable	Class B Ordinary Shares 374,158,150 not applicable Not applicable	Class B Ordinary Shares 374,158,150 not applicable Not applicable
Series A Preferred Stock 392,591,302 10,250 18,398 18.7469		Series A Preferred Stock 392,591,302 10,250 18,398 18.7469	Series A Preferred Stock 392,591,302 10,250 18,398 18.7469	Series A Preferred Stock 392,591,302 10,250 18,398 18.7469	Series A Preferred Stock 392,591,302 10,250 18,398 18.7469	Series A Preferred Stock 392,591,302 10,250 18,398 18.7469

work efficiency and achieve the consistency of goals.

Second, different voting structures can motivate founders to invest more innovation and human capital into Xiaomi. Xiaomi was founded in 2010 and went public in only 8 years. Its rapid rise is inseparable from its innovation, which, as the most important attribute of a new enterprise, relies on its founder's original ability and keen insight. Therefore, once the control right of Xiaomi is changed, the loss of the founder will be caused by many aspects, such as intellectual property rights and human capital, etc., which will seriously hinder the speed of innovation development and the accumulation of knowledge on innovation ability of enterprises such as Xiaomi electronic technology and Internet. Compared with holding Class B shares, the original shareholders bear greater risks in investment purpose, resource utilization, enterprise development and other aspects than outsiders. Therefore, the dual voting structure is like the equity incentive. It constantly focuses on the team's dedication and continuous innovation ability, increases the sense of belonging and cohesion of the enterprise, and makes the long-term value of the company the goal of the founding team.

The dual voting structure is seen as a way for innovative companies to protect themselves from short-term market behaviour. The main voting groups are groups of fund managers who are more focused on short-term rises in the value of their shares. In the financial market, institutional investors are excessively concentrated with their sufficient capital strength, which will change the nature of equity investment. In order to avoid this negative impact, the dual voting structure has become the main way to address the short-term interests of stakeholders. At the same time, it is regarded as a tool for management to resist hostile takeover, and the probability of successful takeover is reduced under the dual voting structure. Institutional investors, many of whom are the first to engage in "hostile takeovers", invest in the public not just for a simple return on capital, but also for a timely campaign for voting rights and control. The different voting structure separates Xiaomi's control from its cash flow, and only 10 of Xiaomi's outstanding B shares are worth one of its A shares, making it more difficult to acquire the company in a hostile way of its A shares, making it more difficult to acquire the company in a hostile way.

(2) Impact on the long-term value of the group

The different voting structure is conducive to realizing the long-term value of Xiaomi. Different voting structures highly centralize voting rights to the founding team, which in turn controls the company's operations. In China's stock market, speculators outnumber investors. Most investors tend to change the company's development direction in pursuit of short-term stock price fluctuations or short-term gains. However, as the founders of Xiaomi,

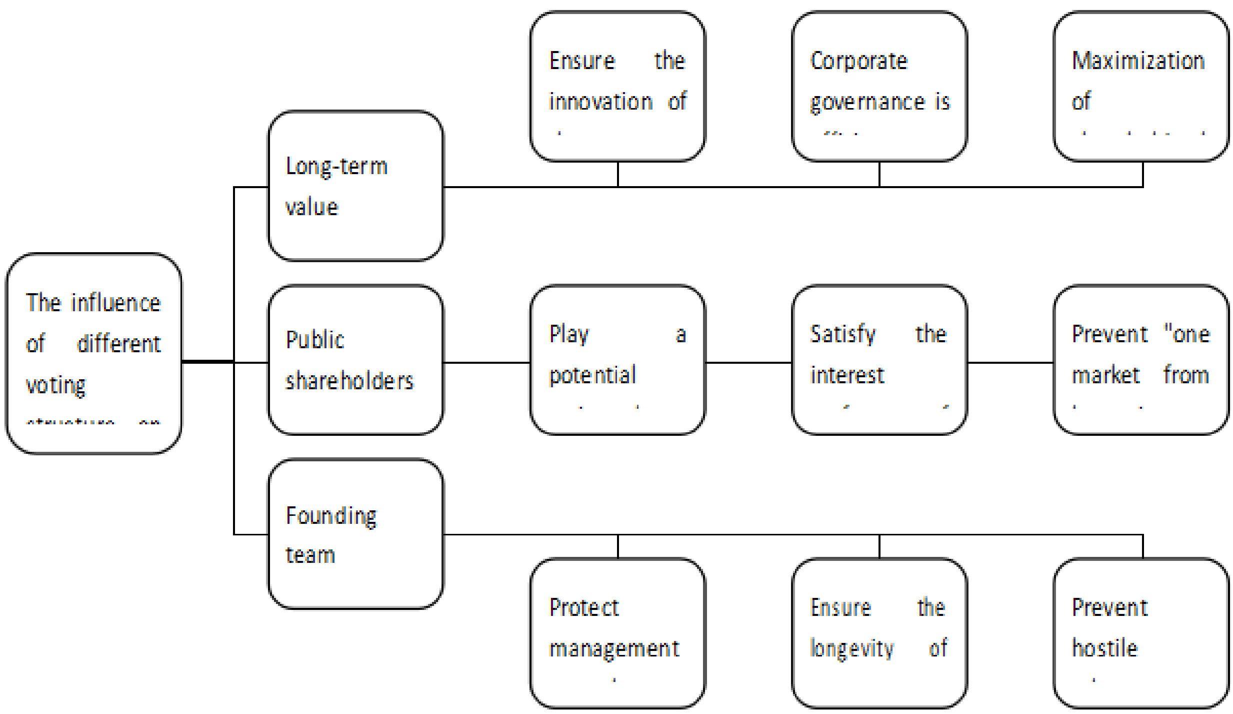

Figure 1. Influence of dual ownership structure on Xiaomi Group

they are more focused on its execution business model and long-term strategic layout and pursue Xiaomi's long-term gains. The granting of rights to the founders will lay a good foundation for the sustainable development of Xiaomi. The control of the company by the founders can overcome the collective action problem and enable the controlling shareholders to invest more flexibly and bear debts, so as to realize the enterprise value of Xiaomi.

At the same time, the dual voting structure agrees that it is easier for the management to set long-term goals for the company and ensure its innovation. A typical example is the Google company in the United States, which adopts this approach in order to maintain the management's ability to innovate. Different voting structure can help managers to give full play to their advantages, so that the company can develop better. Especially for Internet companies like Xiaomi, they need the ideas of entrepreneurs and need to put a lot of effort into the implementation of the ideas. Because it is the input of these special human capital will guide or attract market capital to allocate to individual enterprises. Ultimately, investors who provide capital to companies also benefit.

(3) Influence on public shareholders

As an important characteristic of joint stock limited company, the management enjoys the right to manage the company, while the possibility for shareholders to participate in the management of the company is decreasing. Because of information asymmetry and transaction cost, it is easy to cause adverse selection and moral hazard of senior managers in decision-making, thus increasing the risk of shareholders' interests. Under the different voting rights structure, shareholders' voting rights and usufruct, external holder shareholders and founding team management have a clear division of labor, that is, common shareholders assignment control has enjoyed remuneration, to avoid the small and medium-sized shareholders (as opposed to "with shares with right to" architecture) "free-rider" negative voting behavior, the founding team has control, so as to give full play to the role of the potential voting rights.

At the same time, the dual voting structure effectively reduces the cost of collective decision-making, because it empowers the management, improves the scientific nature of decision-making, and prevents the company's internal control from being affected by the high cost of information transmission and the uneven ability of shareholders. Therefore, as an effective share allocation structure, the dual voting rights structure is the result of the interest coordination between different types of shareholders. It not only satisfies the interest preference of shareholders, but also enables different shareholders to perform their duties, thus achieving efficient corporate governance.

(4) Negative impact

In the face of market investment, Xiaomi has two shares, A and B, but it is stingy in accepting investment and handing over rights. This is the point at which different voting structures are being questioned: is management digging in to protect itself?

The main reason for the scepticism is that different voting structures do lead to proxy problems. First, since the management has the control over the enterprise, it tends to pay high salaries as its own return, or occupy the company's resources. If it cannot meet the requirements, it requires luxurious offices, and in-service consumption becomes an effective substitute. Second, through related party transactions, transfer the assets in the enterprise to themselves at a low price for personal gain. These are actions that benefit management at the expense of outside shareholders. At the same time, even if a different voting structure is adopted to successfully resist a hostile takeover with control, management will still actively introduce other regulatory mechanisms to replace external competition. This is because capital markets price a company's shares according to its management performance. If investors believe that a company will behave in a way that hurts consumers, its share price is bound to fall.

Under the traditional "one share, one vote" principle, if a company takes money from investors, it should be entitled to shareholder vote, which is the basic rights of investors. After all, Xiaomi relies on investors for its blood, so there should be a place for them. Of course most people invested capital, more the pursuit of interests, for ordinary people mass, earn price difference as long as, the size of the voting rights are not important, but for large shareholders, voting is a kind of security for their assets, different voting rights structure of situation is caused by public shareholders, watching others spend their money; But for the founder of Xiaomi, he can enjoy sufficient cash flow without delegating power to others, which undoubtedly imposes the management risk of the company on the public investors without compensation.

Xiaomi adopts a different voting structure to stand in the perspective of the company, which is of great significance to the founding team and the long-term development of the company, but harms the interests of external shareholders. As long as Xiaomi has a future, the different voting structure makes sense.

4. Conclusions

This paper takes a special case study of Xiaomi Group to illustrate that the Hong Kong Stock Exchange has revised the "same share, same right" listing rule, because in recent years, a large number of high-quality enterprises have adopted dual-class share structure to list in the United States, resulting in the loss of resources of local Chinese enterprises. Although dual share structure has its prey, but this is the developed capital market also is unable to avoid, but millet group listed on the Hong Kong stock exchange provides a reference for mainland China, although our country because of the special capital market structure, market efficiency and considering the reality and regulators interests balance, will be in the future using dual shareholding companies to list in mainland China to make rational evaluation, and introduced or modify the corresponding rule of IPO, make Chinese companies can realize the localization of dual shareholding listed.

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