

## Research on Corporate Governance Model -- Based on the Case Analysis of Jingdong and Alibaba

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**Abstract:** The growth and development of enterprises need the support of huge amount of funds. Ali and Jingdong need a large amount of funds to support their operation. The two e-commerce giants choose to go public for financing, and financing will dilute the equity of the founders and their teams. Through the introduction of Jingdong and Ali, as well as the changes of ownership structure after listing, this paper analyzes their governance modes, discusses the similarities and differences between the two-tier ownership structure and partner system, and analyzes the potential risks of these two governance modes, so as to provide reference for other companies' governance modes. At the same time, some suggestions and countermeasures are put forward.

### 1. Introduction

#### 1.1 The Basic Introduction of Jingdong and Its Governance Structure

Liu Qiangdong founded Jingdong in Zhongguancun in 1998, and began to enter the field of e-commerce in 2004. With the continuous growth and development of enterprises, Jingdong began to introduce external capital. During the three years from 2007 to 2010, Jingdong issued a total of convertible redeemable preferred shares, divided into A, B and C rounds, and successfully raised \$169 million. However, because the preferred shareholders only enjoy the priority and have no voting right on the company's affairs, they are unable to participate in the actual operation of JD. Jingdong chose to issue preferred shares to keep founder Liu Qiangdong's control over Jingdong. In the process of the continuous growth of the enterprise, it needs to refinance, and Jingdong finally made the decision to be listed in the United States. However, it faces the problems of increasing the number of common shares and diluting the founder's equity. In order to maintain his control over Jingdong, Liu Qiangdong needs to re-establish the equity structure of Jingdong before listing, and the double-layer ownership structure system can enable the founders to protect the control right of the company. By designing different voting rights, the founders and their teams can have super high voting rights, thus realizing the control of the company.

#### 1.2 Dual Ownership Structure

The double ownership structure divides the company's shares into two categories: A and B. Class A shares are mainly issued to external investors with only one vote per share; at the same time, class B shares held by the management can cast 10 votes. In case of major changes in the future, A and B shares will enjoy the same interest and distribution rights of the company, and B shares can be converted into A at the ratio of 1:1. The design of separating the equity and voting rights is the biggest advantage of the two-tier ownership structure. It secures more voting rights of the company in the hands of the founders and their teams who hold a small amount of equity, rather than the major shareholders of the company, so that the founders and their teams have absolute control over the company. When Jingdong was listed on the Nasdaq Stock Exchange in 2014, it chose a typical dual stock structure. In its prospectus, it clearly agreed on the A and B equity system. A share has only one vote, B share has 20 votes. Liu Qiangdong team holds 23.1% equity of Jingdong. In the prospectus, it is clearly stipulated that only two companies are actually controlled by Liu Qiangdong. As a result, Liu has 83.7% of the voting rights of the company.

## **2. Introduction to Alibaba**

### **2.1 Alibaba's Basic Introduction and Governance Structure**

Jack Ma and his founding team founded Alibaba Group in an apartment in Hangzhou in 1999. At present, Ali has developed into a leading large-scale e-commerce company in the world, and its business structure is diversified. Since its establishment, it has been constantly financing. From 1999 to 2004, Alibaba has carried out three times of financing, which has laid a solid economic foundation for its follow-up development. In 2005, Ali announced that it had reached a strategic cooperation agreement with Yahoo. In this strategic agreement, Alibaba acquired all the assets of Yahoo China, and obtained 1 billion US dollars of investment funds from Yahoo and the exclusive right to use the brand and technology of Yahoo in China. At the same time, Yahoo got Alibaba 35% of the voting rights and 40% of the economic benefits. This strategic cooperation solved the capital problem for Ali, but it posed a threat to Ma Yun and his founder team. With the rapid development of Alibaba's business and the launch of Alibaba's overall listing plan in 2012, for Ma Yun, the listing is facing the problem of stock dilution and loss of control right. One of the ways is to buy back the shares held by Yahoo. Alibaba successfully completed the buyback of half of Yahoo's shares in September 2012. In addition, according to the agreement signed to buy back Yahoo, if Alibaba can successfully IPO before December 2015, it will have the right to buy back half of the remaining shares (20%) held by Yahoo. After the control dispute, when Ali was listed in 2012, the group introduced the partnership system to enable the founders and their team partners to control the company.

### **2.2 Ali's Partnership System**

In 2012, Alibaba's preferred place for listing was Hong Kong. According to the principle of equity equality, once Ali is listed in Hong Kong successfully, the risk of being maliciously acquired will be further increased. At the same time, Ma Yun and his founding team will no longer be able to control the shareholders' meeting and the board of directors with the shareholders' agreement. At that time, the only choice Ma Yun faced was a dual ownership structure and a partnership system. At that time, the Hong Kong Securities Regulatory Commission did not allow listed companies to adopt a dual ownership structure. In addition, Ali itself was founded by 18 founders. Therefore, alibaba.com chose the partnership system when it went public. Through this system, the founders and their teams sought to dominate the board of directors Ali shares to achieve the purpose of financing, but also to achieve control of the company, occupy a majority of the board of directors. According to Alibaba's 2014 IPO prospectus, Alibaba partners are not only shareholders of the company, but also operators of the company. For the nomination of Group partners, the approval of more than 3 / 4 of the original partners in principle of one person, one vote is required. Only employees who have worked in Alibaba for five years are eligible to be candidates. Through this system, partners can have the right to nominate more than half of the directors to realize the control of the company. Alibaba's "partner system" enables the partner team to enjoy the right to actually control the company, forming a scientific decision-making mechanism of "the partner decides the board of directors and the board of directors decides the company". Ali's partnership system to a large extent vetoed the "capital majority" principle in most corporate governance, and realized the effective control of the company by the partner team.

## **3. A Comparative Analysis of the Ownership Structure of Ali and Jingdong**

### **3.1 Similarities**

Firstly, control is in the hands of the founders and their team. Secondly, it is conducive to prevent external hostile takeover. For listed companies, issuing shares for financing is bound to dilute the shares held by the founders and their teams. When external investors want to take over the company maliciously and control the company, the two systems play their roles very well. The malicious buyer buys the company's shares but does not enjoy the dominant power of the company.

In this case, the idea of hostile takeover will be abandoned, And can stabilize the normal operation of the company. Finally, it is conducive to the long-term development of enterprises. When the control right is in the hands of the founders and their teams, the enterprise can select the management who is highly consistent with the organizational culture and business philosophy of the enterprise, which is conducive to the sustainable development of the company's daily operation and long-term strategic decision-making.[1]

### **3.2 Differences**

There are some differences between the two in some specific implementation contents. First of all, the way in which the two hold the right of control is inconsistent. The founder of JD and his team control the company through a large number of voting rights, while Ali's partner team has the right to nominate the board of directors to occupy the dominant position and control power of the board of directors. Finally, the inheritance of voting rights is inconsistent. In JD, shareholders with voting rights can always retain or inherit their voting rights. However, under Ali's partnership system, once a partner leaves the enterprise, he will lose all his rights, such as the right to nominate directors and enjoy the company's profits, with the exception of permanent partners.[2]

## **4. Risk Analysis of Equity Governance Structure**

Although these two systems effectively protect the control rights of the founders and their teams, the unique governance model makes the enterprise have unique advantages, but there are also many risks.

First, the two systems may pose potential threats to the interests of minority shareholders. The founders and their teams firmly hold the control of the enterprise, and all the decisions of the company are made by them and their teams. It is easy to make strategic decisions that are more beneficial to them, thus damaging the interests of small and medium shareholders. Second, it affects the transparency and information disclosure of the company. When the companies disclose information to the outside world, the information disclosure methods of JD and Ali are still similar to those of single equity structure companies, mainly disclosing the information of major shareholders, ignoring the information disclosure of founders and their teams who have actual control over the company. Third, it is easy to cause related party transactions. For the founders and their teams who control the company, they need less investment. They can start other companies with their own funds, or invest in other companies. In this way, they are very easy to have related party transactions when they have great control over the company. Due to the asymmetric information, for the external supervision mechanism, they often do not have a good understanding of the internal information of the enterprise To facilitate the generation of related transactions.

## **5. Enlightenment on Governance Structure**

Through the comparative analysis of the two governance models, this paper gets some enlightenment.

Firstly, we should improve the protection mechanism for the interests of small and medium-sized shareholders. Under these two governance modes, the discourse power of small and medium-sized shareholders is too weak, and they lack professional knowledge structure, so they can only bear the risk loss, and the enterprise should also take the corresponding responsibility; at the same time, the corresponding institutions should also improve the risk prompt mechanism for the small and medium-sized shareholders, and provide more channels for rights maintenance, which not only protects the interests of small and medium-sized shareholders, but also benefits the founders and teams of enterprises Good spur, make the enterprise good and efficient operation.

Secondly, improve the enterprise information disclosure mechanism and improve the transparency of the company. For these two kinds of governance structures, companies often disclose less information about the operation of founders and their teams, which makes it impossible for the outside world to understand the relevant matters and operation rules of the

enterprise's equity structure, which leads to the inability to judge the risk of investment in advance. Therefore, it is necessary to improve the enterprise information disclosure system, improve the transparency of the company, and let the company run healthily in the sunshine.

Finally, improve the right supervision mechanism to prevent the abuse of shareholders' rights. [2]The use of these two governance structures leads to the separation of ownership and decision-making power. The actual controller of the company plays a leading role in the company's business decision-making. Therefore, it is easy to make a decision that is beneficial to the company itself, thus losing the interests of other shareholders. At this time, the enterprise stakeholders should strengthen the supervision of the actual controller. Therefore, for these two governance models, we must establish an effective external supervision mechanism to check and balance the relevant interest conflicts, and prevent the shareholders with actual control rights from abusing their power.

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