The Dual-Class Share Structure in the Digital Economy Era: Analysis of Shareholders' Equity

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Abstract. The dual-class share structure has been widely concerned since its inception, and choosing a dual-class share structure has become a new trend in new economy enterprises since the digital economy era. This article is guided by the increasing control of the founding team and whether there is any loss of shareholder equity under the dual-class share structure. Based on the listing experience of the emerging dual-class share structured enterprises in the digital economy era, and based on a systematic review of classic research, this article combines the behavior of the dual-class share structure managers in the digital economy era and the internal and external supervision and constraint mechanisms of the enterprise. Following the logical approach of "traditional dual-class share structure—technology empowerment—dual-class share structure in the digital economy era". Under this logic, this article explores the agency costs of a dual-class share structure in the new era from the perspectives of traditional managers and shareholder behavior analysis, as well as the changes in agency costs under the new trend of the digital economy, and further analyzes whether shareholder rights have been violated.

Keywords: dual-class share structure, shareholders' equity, corporate value, and digital economy.

1 Introduction

Since the rise of Alibaba's listing in the United States in 2014, the research on the dual-class share structure has shown more and more vigorous practical vitality and richer academic research significance due to the revision of the listing rules of each exchange and its close connection with the reform of the Socialist market economy. In recent years, with the rise of platform economy, sharing economy and other new economic forms, the digital economy has shown a powerful role in the growth of enterprise value centered on digital information technology, which profoundly affects the internal logic of economic and social production, the production mode of factors, and the consumption habits of consumers, and is increasingly attracting the attention of various stakeholders from enterprises and governments. Existing studies mostly focus on the role of dual-class shares in the protection of control rights of the founder team, but the balance between the internal corporate governance mechanism and external

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market constraints under the dual-class share structure is under-explored. The application of a dual-class share structure has prevented the dilution of control rights of the founding team in the New Economy Company, ensuring the stability of the company's long-term development. This study aims to explore how digital economy firms can balance the interests of founders and external shareholders through internal control and external monitoring mechanisms to enhance corporate value.

2 Theoretical Analysis

2.1 The Institutional Background of the Dual Ownership Structure

From the perspective of the capital market, the two-tier shareholding structure increases the first class agency costs to the detriment of other investors, which in turn affects the smooth operation of the entire capital market (Zhang Q H,2019)[1];From the perspective of supervision mechanism, the lack of sufficient incentives to realize the enterprise value and the emergence of speculation did not reduce the distrust of external investors in the founding team (Zheng Z G,2021) [2]; Characteristically, the dual shareholding structure concentrates control in the hands of the founding team and increases economic power aggregation(McGuire et al, 2014; Begley,1995) [3][4].

Overall, the establishment of differentiated voting rights in a dual-class share structure ensures the control of the founding team, but it also brings about the consequences of further strengthening the weak position of external shareholders.

2.2 New Trends in the Digital Economy Era

In the digital economy era, in response to the trend of the times, a large number of new economy enterprises have emerged. Due to the light asset structure of new economy enterprises, their financing difficulties have become obstacles to their development path. The degree of information asymmetry is one of the indicators that affect external investors' choice of investment target enterprises. The higher the degree of information asymmetry, the higher the agency cost for external investors to invest. The development of digital information technology greatly reduces this information cost. The performance of enterprises in the product competition market is transmitted to external investors through convenient information technology, indicating that their shareholder equity is expected to increase, In order to attract external investors to invest (Zhu, 2019) [5].

3 Positive Incentive Factors for External Investors to Choose Dual-class Share Structure Enterprises

3.1 Internal Constraints

Institutional Design. For institutional investors, as they manage others' assets for investment, they tend to pay more attention to behaviors that pose risks to the company's development. Therefore, in order to attract external investors to invest, meet the financing limit of the enterprise and reduce financing costs, the enterprise must establish self restrictions in its articles of association as a protection system for external investors. The higher the self imposed limit, the greater the attractiveness of a dual tier equity structure to external investors, and the lower the risks brought by the dual-class share equity structure.

Since the contribution of dual shareholding structure to the growth of firm value decreases as the size of the firm increases so a sunset clause needs to be introduced. The sunset clause refers to the conversion of high-level stocks into low-level stocks when certain conditions are met. Due to different triggering reasons, sunset clauses can be divided into time based sunset clauses, event based sunset clauses, and performance based sunset clauses.

Corporate Culture. In new economy enterprises, such as cultural and media enterprises, the founding team has an absolute sense of identification with corporate culture, which has become the driving force for the founding team to defend corporate culture and enhance corporate value. Corporate culture, as an intangible asset that can provide a sustainable competitive advantage for the enterprise, has intangible control over anyone in the enterprise and constrains the speculative behavior of the founding team. As a means of enhancing the competitiveness of enterprises, a corporate culture that encourages innovation and advocates ethical responsibility can motivate employees, including the founding team, with a consistent willingness to work together to enhance the competitiveness of the enterprise. The combination of intangible corporate culture and tangible corporate systems constrains and controls the behavioral direction of the founding team, thereby achieving the development goals of the enterprise within the established strategy.

Independent Director System. The universality of information technology applications in the digital economy era enables directors to occasionally understand the increasingly complex business models and business models of enterprises through various channels, leading to an increasing level of specialization. In the context of the weakening of the supervisory function of directors, independent directors should be given more power, and their supervisory function should be fully utilized through the selection of qualified board members and the strengthening of their binding effect on management; Increase the responsibility of independent directors and innovate corporate governance mechanisms, such as independent directors serving as the chairman of the director nomination committee, and corporate governance committees composed entirely of independent directors, to reduce the supervision and agency costs of enterprises under a dual ownership structure.

3.2 External Supervision

Securities Regulatory Authorities. The concern of increased agency costs caused by the separation of voting rights and cash flow rights can be reduced after the securities regulatory authorities evaluate the feasibility and safety of the application for a dual tier equity structure in listed companies.

In the investor protection system of the Science and Technology Innovation Board, restrictions are imposed on the holders' qualifications, proportion arrangement, voting matters, and transfer of special shares of the dual-class share structure. Special voting rights can only be established at the time of listing, and their voting rights cannot exceed ten times the voting rights of ordinary shares; In major matters of the company (such as amending the company's articles of association, company changes, etc.), the voting rights of special shares and ordinary shares are the same.

Information Disclosure System. Information asymmetry, as a pre supervision mechanism, can enhance enterprise value by reducing managers' shortsightedness. There is a natural problem of information asymmetry between external investors and internal founding teams in enterprises. In the era of the digital economy, the information controlled within enterprises can achieve more complete, sufficient, and timely disclosure, reducing the agency cost for external investors to obtain information.

From the perspective of managers' behavioral constraints, in the digital economy era, regulators rely on cash technologies such as data analysis to greatly enhance their information collection capabilities, which can alert managers to avoid the motivation to conceal private information. The development of various internet platforms makes it easier for external investors to analyze and compare investment target companies. Investors often obtain target company information indirectly through auditors, financial reports, and other means before making investments. In the era of the digital economy, the rise of new information disclosure tools such as Weibo and Today's Headlines has made information more timely. Through comments from internet users and interest analysts, investors can also receive instant information feedback. With the increasing professionalism and complexity of information disclosed by enterprises, artificial intelligence algorithms such as machine learning have played an important role in reducing investor information search costs and compensating for analytical capabilities.

Intermediary Mechanism. Institutional investors verify the credibility of corporate disclosure information by analyzing the profitability and financing repayment ability of the enterprise, and the financing cost of the enterprise can be interpreted as the agency cost of institutional investors.

In order to maximize their own profits, institutional investors will focus on and evaluate the target enterprise through information collection and professional judgment advantages. The more attention institutional investors pay to a company, the more reliable its information is. In addition to institutional investors, auditors constrain management from encroaching on company interests and protecting shareholder value by auditing the financial system and quality of financial reports of the company during their tenure. In the era of digital economy, mobile Internet technology and Big data technology increase the transparency of information disclosed by enterprises. Based on the perspective of decision-making optimization, multi institutional investors use a wide range of data mobile phone channels to capture the information of target enterprises and improve investment efficiency; The application of blockchain technology is increasing day by day, and auditors have a more cautious attitude during the audit process, investing more audit resources, making it easier to make non-standard audit opinions. This will strengthen the supervision role of the founding team, thereby making their work behavior dedicated to improving the value of the enterprise.

4 Case Study

Meituan is a typical dual shareholding structure company, and the analysis of Meituan's financial indicators helps to further understand the role of dual shareholding structure in promoting the interests of outside investors in the digital economy era.

Table 1. ROE Scenario 2017-2023

Indicator	2017	2018	2019	2020	2021	2022	2023
ROE(%)	46.64	-133.49	2.43	4.82	-18.74	-5.19	9.11

As shown in Table 1, Meituan's ROE indicator has turned from negative to positive since its IPO in 2018. In 2021, due to the business expansion on several promotional campaigns to market, advertising and user incentives increased coupled with the impact of the epidemic, the ROE presented a negative number; although in most of the time in 2022 its arrival, hotels and tourism business was affected by the epidemic, its ROE indicator showed a trend of recovery. Along with the economic recovery brought about by the end of the epidemic, Meituan's ROE in 2023 returned to positive and far exceeded its performance before the epidemic.

Table 2. DuPont Analytics 2017-2023

Indicator	2017	2018	2019	2020	2021	2022	2023
Total Asset Turnover (times)	0.41	0.54	0.74	0.69	0.74	0.90	0.94
Net sales margin (%)	-0.56	-1.77	0.02	0.04	-0.13	-0.03	10.75
Asset gearing ratio (%)	148.43	28.3	30.27	41.39	47.83	47.36	48.14

Table 2 shows that the overall trend of Meituan's total asset turnover ratio is increasing, which indicates that Meituan's capital turnover speed is accelerating, the company's efficiency in the utilization of capital is constantly improving, and the efficiency of asset investment is getting better and better. The net sales margin shows a trend of rising, then falling and then rising, indicating that since the listing in 2018, the cost of Meituan's main business income has been continuously reduced; in 2020-2022, due to the epidemic and the development of new businesses such as Meituan Preferred, the net sales margin declined, but it was still higher than the pre-listing index, and after the end of the epidemic in 2023, the index reached a new historical high. After the listing, the main source of corporate funding was changed from debt to equity, and the gearing ratio dropped significantly; the gearing ratio reached a minimum value of 28.3% after the listing, and has since been maintained in the normal range of 40% to 50%, indicating that Meituan is able to maintain good financial leverage to ensure the benign operation of the enterprise. The relative stability of the financial leverage ratio and the increase in net sales margin indicate that the growth of Meituan's ROE mainly comes from the increase in revenue, while its risk tolerance shows a gradual enhancement of its profitability and cost control ability shows a trend of gradual improvement.

5 Conclusions

In the era of digital economy, the development of information technology has penetrated into all aspects of social and economic development, and the agency cost of dual-class share structure has been reduced under the influence of the digital economy. Overall, due to the increase in corporate value, shareholder rights and interests have not been infringed upon. Therefore, even if the dual-class share structure has various drawbacks, external investors will still choose this type of enterprise for investment.

This article only provides a simple analysis of the shareholder equity of dual equity structured enterprises in the digital economy era at the theoretical level, and specific empirical research methods need to be further explored.

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