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Research on the Governance Effect of AB Stock Model

-- Taking Didi Dache as An Example

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Abstract

The AB stock model originated in the capital markets of developed countries such as Europe and the United States. It divides stocks into two categories, in which each share of Class A has 1 voting right, and each share of Class B shares has several times the voting power of Class A stocks., The earnings rights are the same per share. Using SWOT analysis method, with Didi Dache as the research object, analyze and study the governance effect of its AB-type equity structure.

Keywords

AB stocks; SWOT analysis; Corporate governance.

1. Introduction

Didi Travel has changed the traditional taxi-hailing method and established a modern travel method for users in the era of mobile Internet. Compared with traditional taxi-hailing, the birth of Didi Dache has changed the traditional market structure and overturned the concept of traditional taxi-hailing. It uses the mobile Internet to integrate online and offline, from the initial online booking stage of taxi-hailing to Use online payment to get off the bus, draw an o2o cycle closely connected with the passenger and the driver, maximize the passenger's taxi experience, change the traditional taxi driver and other passenger methods, save the cost of communication between the driver and the passenger, reduce the empty driving rate, and maximize the saving of drivers and passengers The resources and time of both parties will be listed in the United States in the early morning of July 1, 2021.

This article uses the behavioral analysis object of Didi Dache to analyze the governance effect of Didi Dache's use of AB shares in its listing using SWOT analysis and puts forward some corresponding insights.

2. Introduction to Related Concepts

2.1. AB Stocks

The AB stock system, also known as the dual shareholding system, is a system that differs from the "One Share One Vote (OSOV)" principle of the traditional company law. The shares of specific holders have different amounts of voting rights. , The purpose is to protect the founder's absolute control of the company. This structure divides stocks into two types, A and B. Type A follows the principle of one share, one right, and Type B follows the principle of one share with multiple rights, and the holders of Type B are the company's founders or senior managers.

2.2. SWOT Analysis

SWOT analysis is the most used technique for comprehensive analysis of internal and external environments. A method for comprehensive analysis of internal and external environments proposed by Andrews and others. Strengths and Weaknesses belong to internal factors and

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analyze internal conditions. Opportunities and Threats are external factors, analyze external conditions. The various factors obtained from the investigation are sorted according to the degree of influence, and the SWOT matrix is constructed.

3. The Implementation Process and Motivation Analysis of Didi Dache's AB Stock Model

3.1. Presentation to Didi Travel

3.1.1. Introduction to Didi Travel

Didi Dache was established on July 10, 2012. It is a company that combines online and offline services in 13 places including Tianjin, Hangzhou, Beijing, and Wuhan. It includes a series of service-oriented business activities such as private cars, express trains, and rides. Listed on the New York Stock Exchange in the United States in 2021, with the stock code DIDI.

3.1.2. Didi's Listing and Financing History

On July 1, 2012, the founder Cheng Wei obtained millions of RMB in financing through angel investor Wang Gang as the initial founding capital of the company. Because of the huge capital support required at the beginning of its establishment, Didi conducted several rounds of financing. With further development and improved business models, some businesses restrict the introduction of foreign capital and Didi built a VIE structure to lay a solid foundation for more subsequent financing. However, even after many rounds of financing, Didi still continues to lose money. While A-shares require the company to be profitable for three consecutive years, while Hong Kong stocks have had a net profit of no less than 20 million Hong Kong dollars in the most recent year, so Didi was forced to choose to list in New York on July 1, 2021.

3.2. The Implementation Process of the Didi AB Share Model

When Didi was founded in the early days, Cheng Wei, as the founder, was the largest shareholder. In July 2012, Didi received a multi-million-yuan investment from angel investor Wang Gang and established Beijing Xiaoju Technology Co., Ltd. on July 10. After 3 months of preparation and driver promotion, it went live in Beijing on September 9. In December, Didi Dache received a US$3 million round of financing from Jinshajiang Ventures in Series A. In April 2013, the Series B financing was completed. Matrix China and Tencent invested 15 million U.S. dollars so that Didi can quickly occupy the market, and then Didi Dache can occupy 59.4% of the market share, which exceeds the total market share of other taxi software. In 2014, it completed the C round and D round financing, a total of 800 million US dollars. In March 2014, the number of Didi users exceeded 100 million, with an average daily order volume of 5.21 million. From 2015 to 2021, Didi raised dozens of times.

Multiple rounds of financing are only the beginning of development. Didi, which is undergoing rapid expansion, needs more financing. New investors are bound to pose a threat to the position of the founders and original investors. Therefore, the issuance of AB shares—— The shareholding structure design of the same share with different rights can still hold the control of the company even when the shares are diluted.

On June 10, 2021, Didi formally submitted its IPO prospectus to the United States Securities and Exchange Commission (SEC) and listed on the New York Stock Exchange with "DIDI" as the stock code. The prospectus shows that before the listing, all the directors and senior executives of Didi held a total of 10.5% of the shares and 20.1% of the voting rights. Among them, Didi founder, chairman and CEO Cheng maintains a 7% stake in Didi and holds 15.4% of the voting rights. Liu Qing, co-founder and president of Didi, holds 1.7% of the shares and 6.7% of the voting rights. The senior vice president Zhu Jingshi holds less than 1% of the shares but has 2.3% of the voting rights. Chief technology officer Zhang Bo and online car-hailing business CEO Sun Shu all hold shares. Among institutional investors, Softbank Vision Fund Entity holds up to

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21.5% of shares and 21.5% of voting rights, Uber holds 12.8% of shares and 12.8% of voting rights, and Tencent holds 6.8% of shares and 6.8% of voting rights.

On June 28, 2021, when the listing is about to go public, Didi announced that it will issue 66,711,066 additional shares to executives as a surprise, of which 70.8% belongs to Cheng Wei, 24.1% belongs to Liu Qing, and the remainder belongs to other senior executives. According to the pricing, the additional issuance incentive is approximately RMB 24 billion, of which Cheng Wei is approximately 17 billion yuan, and Liu Qing is approximately 5.8 billion yuan. This has helped Cheng maintains shares to increase from 2.9% to 4.2%, and Liu Qing's shareholding from 0.3% to 1.4%. Three managers including Cheng Wei, Liu Qing and Zhu Jingshi collectively hold 59.5% of the company's voting rights. It is precisely because of the implementation of the AB share model that Cheng Wei; Liu Qing and their team can still maintain controlling voting rights under the condition of such a distribution of equity.

3.3. Motivation for the Implementation of the Didi AB Share Model

3.3.1. Fight for Internal Control

Since its establishment, Didi has carried out a large amount of financing in order to be able to expand its scale and go public, but the premise of all this is that it needs a large amount of cash flow to support its normal operation. The future development potential of the new company and the founder's ability to deal with various situations are what investors are most concerned about. While attracting investors to invest and enhancing the company's own competitiveness, the contradiction between the founder and the investor will be It appears that the most important manifestation of this contradiction is the struggle for corporate control. To avoid the dilution of control, the founders can smoothly execute the original vision and long-term strategy of the company. The implementation of the AB share model can smoothly solve this type of problem.

3.3.2. Improve the Sustainable Development and Performance of Corporate Strategy

Didi is a company pursuing long-term profits, and the large amount of financing in the early stage has caused the outside world to doubt Didi's operational capabilities. Didi's revenue in 2018, 2019, and 2020 was 135.3 billion yuan, 154.786 billion yuan, 141.736-billion-yuan, revenue in the first quarter of 2021 was 42.163 billion yuan (approximately US$6.435 billion), compared with 20.472 billion yuan in the same period last year. However, Didi's net losses in 2018, 2019, and 2020 were 14.979 billion yuan, 9.733 billion yuan, and 10.608 billion yuan (approximately US$1.619 billion). Didi's profit in the first quarter of 2021 was 5.483 billion yuan (approximately 837 million yuan). USD), the net loss in the same period last year was 3.972 billion yuan. Didi's Adjusted EBITA (non-GAAP) in 2018, 2019, and 2020 will be -8.647 billion yuan, 2.764 billion yuan, and 8.381 billion yuan, respectively. To achieve positive cash flow, Didi is not only determined to expand in new businesses, but also continues to invest heavily in technology research and development, ultimately relying on continuously growing cash flow to create value for shareholders. Therefore, we should not use the current financial data to view Didi but should pay more attention to the future development of Didi. Moreover, Didi is not satisfied with the advantages and market of its existing business. It urgently needs to explore new industries and fields and be able to quickly grab market share in other fields. If the strategy of "one share, one right" is adopted, when the current net profit is not optimistic, shareholders will first consider their own interests when the company expands and develops and consider the acquisition of short-term benefits or even sell stocks. However, under the dual-shareholding structure, Didi was able to open new markets in the original situation of huge financial losses. It also guaranteed the foundation for Didi's long-term profitability. Dual shareholding enabled Didi to expand into new markets and seize market share., Allowing shareholders to temporarily lay aside short-term interests to ensure the implementation of the long-term interests of the company.

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4. Using SWOT Analysis to Study the Governance Effect of Didi Dache's AB Stock Model

4.1. Advantages (S)

4.1.1. Protect the Actual Control of the Founder

With the development of my country's economy and the improvement of technology, the capital market has been continuously improved, and mobile Internet travel companies have gradually become smaller and better, but still need a lot of capital to be introduced. Institutional financiers rely on their strong financial strength to provide impetus for Didi's expansion to solve the funding problem that founder Cheng Wei lacks. Therefore, as the number of institutional financiers continues to increase, and the shareholding of enterprises has gradually increased, but This will inevitably increase the willingness of financiers to compete for actual control. Financiers no longer satisfy the dividend income but hope to participate in the company's daily production and operation decisions and participate in company-related business activities to obtain long-term benefits. Therefore, the identity of the financier has changed from a financial financier who relies purely on short-term speculation and price differences to obtain economic benefits to a strategic financier.

For Didi, the founder, Cheng Wei, initially had only corporate-related professional talents, and could not meet the funding requirements for future corporate expansion. He could only seek help from external financiers, but this would lead to a crisis of control and equity dilution. The change of financiers from financial financiers to strategic financiers will make it difficult for the founder Cheng Wei to control the actual power, which will inevitably affect the development direction of the company and miss many development opportunities. To solve such problems, companies usually adopt a dual-shareholding system through institutional innovation to ensure the company's founders, major shareholders, and senior managers have control rights after the company is listed. The founder's multiple voting rights are to ensure that the founder can be in the highest position in the company's control rights, to encourage the founder to make flexible decision-making management, avoid short-term behavior, and improve the stability of corporate governance.

4.1.2. Improve the Quality of Corporate Governance Structure

With the increase in the number of Didi financings, the company's business decisions will gradually be biased towards the short-term interests expected by the financiers, but this decision-making behavior will usually bring negative effects to the company's long-term development, and once the company encounters difficulties, it will be profitable Sexual financiers will make decisions more rationally through the ratio of return on investment, which will inevitably violate the founder's business philosophy and form a contradiction, and this contradiction will directly affect the follow-up development of the company and result in a corporate governance system. pickle. Therefore, the founder has a significant impact on the business performance of the company, and letting the founder have control is the optimal corporate governance structure. In the current era, the traditional equity system based on one share and one right cannot maximize the founder's ability and value. Choosing the AB type equity system can better bring the best corporate governance structure to the enterprise.

4.1.3. Have Good Financial Performance and Protect the Interests of Stakeholders

The study found that the founder, as the actual controller, can have a significant impact on the company's innovation activities and has a positive effect on the company's long-term performance, while the influence of control on the company's performance is an anti-"U"-shaped change, and the company's performance will as the founder's control increases, it increases, but once it reaches its peak, it will change in inverse proportion. This phenomenon generally occurs under the dual equity system. Therefore, Didi Chu's listing by establishing an

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AB-type equity system can enable the founder Cheng Wei to control the control rights, but also protect the interests of stakeholders, relying on the advantages of the system to build a company for the company. To provide a good business environment and provide a backing for the stable development of the company, thereby bringing sustainable benefits to stakeholders, the AB-type equity system is an optimized governance system that enables the founders to focus on corporate interests and interest-related Based on the rights and interests of the employers, thereby improving the financial performance of the enterprise.

4.2. Disadvantages (W)

4.2.1. The Contradiction Between the Founder and the Financier

Although the AB-type equity system fully protects the founder's actual control of the company, but with a small shareholding ratio, he must bear the greater financial risk of the company and can only share fewer residual profits. This will inevitably cause the contradiction between the founder and the financier, the AB-type equity system violates the "capital majority" of the traditional equity system and the "one share, one right" system principle of the company law, and does not conform to the principle of matching income and risk, Will inevitably lead to inefficient management decisions caused by high agency costs. If the AB-type equity system is abused by top managers or even founders for personal gain, the agency cost will more than double. At this time, the founders will make decision-making criteria that favor the interests of top managers, thus harming the interests of the company., Have a negative impact on corporate governance.

4.2.2. Damage to the Interests of Small and Medium Shareholders

The foundation of corporate control is the voting rights of shareholders. Shareholders with higher voting rights have higher voices, and their status is naturally higher than that of small and medium shareholders. For small and medium shareholders, although they have a considerable shareholding ratio, the proportion of voting rights is significantly less than the shareholding ratio. This creates a hidden danger to the interests of small and medium shareholders in the future, and the problem of information asymmetry is a direct key element that directly causes damage to the interests of small and medium shareholders. Therefore, the AB-type equity system damages the voting rights of small and medium shareholders and indirectly damages the interests of small and medium shareholders. The interests of shareholders.

4.2.3. Only Recognized By A Few Countries for Listing

According to EU research data, there are only 8 countries that allow dual-shareholding systems to be listed, while the UK only allows companies to use the AB-type shareholding system for standard listings. France allows any shareholder with a shareholding period of more than two years to apply. The one-share two-rights system, the former strictly restricts the AB-share system, and the latter does not give shareholders actual control rights. So strictly speaking, only 6 countries allow the AB type equity system. In the capital markets of the Asia-Pacific region, Australia, South Korea, Singapore, and Japan all prohibit listed companies from issuing AB shares, and dual-shareholding structures are prohibited at the corporate law level. China needs to meet certain requirements before it can be used in the country by way of depositary receipts. It is listed, but the restriction requirements are high, and it is not easy to implement. Therefore, Didi's choice to go public in the United States was also forced by helplessness.

4.3. Opportunity (O)

4.3.1. Provide Domestic Listing Opportunities for Overseas Listed Companies

On March 30, 2018, the China Securities Regulatory Commission issued a "Several Opinions on the Pilot Program of Innovative Enterprises Issuing Stocks or Depositary Receipts" to encourage pilot companies that meet the conditions to be listed in the country by issuing stocks

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or depository receipts. And allow pilot red-chip companies to retain special equity structures. This provides a new path for Didi, which has an AB-type equity structure and chooses to be listed overseas, to return to A shares. On April 24, 2018, the Hong Kong Stock Exchange officially announced the consultation summary of the "Listing System for Companies in Emerging and Innovative Industries", announcing that the latest "Main Board Listing Rules" will take effect on the 30th of the month and will accept dual-class structure companies to list in Hong Kong from the same day. Apply. The Hong Kong Stock Exchange has introduced the practice of listing issuers with dual equity structures in Hong Kong, which also provides a certain reference for the changes in the relevant provisions of the Mainland Company Law.

4.3.2. Use of IPO Funds Raised

Didi uses an initial public offering (IPO) to obtain a large amount of funds, which are used for Internet construction to enhance Didi’s innovation capabilities, open the market, and promote the company’s long-term strategic development. In addition, IPOs can enhance corporate visibility and goodwill value. The AB-type equity system can make Didi's senior management free from short-term business pressure and fully use it for the sustainable development of the company. However, China's capital market was opened late, and its development is not yet sound. There are big problems in some equity financing for enterprises, and many system constructions are in the exploratory stage, and the opportunities of the dual equity system have been revealed.

4.4. Threat (T)

4.4.1. Limits the Role of Supervisory Mechanisms

Since the Cayman Islands has no mandatory requirements for the establishment of a board of supervisors and a regular annual meeting of shareholders, the lack of a board of supervisors will result in restrictions on the rights of employees, which greatly limits the internal supervision mechanism of Didi. In addition, under the implementation of the AB-type equity system, the board of directors Most of the members are nominated by the founder or his team, and the board of directors has many powers. Once the supervision mechanism fails, it will have an all-round impact on the investment, financing, and business activities of the company.

Under the AB-type equity system, the lack of voting rights of Class A shareholders will lead to the loss of the supervisory function of the board of directors, and the company’s infringement of the interests of Class A shareholders cannot be discovered in time. The imperfect systems of the board of supervisors and independent directors restrict the supervision mechanism to a large extent.

The lack of a supervisory mechanism will make the information disclosure system difficult. Founders and senior managers can determine the degree of information disclosure. They will meet the minimum requirements of market supervision with the minimum degree of disclosure, and this opaque operation will directly harm Shareholder interests. In particular, the founder and his team made false information disclosures to achieve illegal purposes. Didi was ordered by the Office of the National Cyber Security and Information Committee on July 4, 2021, to take down the APP. Prior to this, China would rather pay for the Chinese concept stocks. The cost of not listing in the United States for two years will never allow the SEC to take away an audit paper. However, Didi ignored this rule and still went public in the United States, and the dual-shareholding system can shield objectively unfavorable internal information, which will make the interests of investors unable to be protected.

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5. Enlightenment and Suggestions

5.1. Strengthen the Incentives and Constraints for Senior Managers

5.1.1. Advocating Equity Incentive Policies

It is very important for listed companies to use equity incentives to manage talents. Correct equity incentives can effectively avoid the emergence of moral hazard and adverse selection by management. By tying individual interests with collective interests, it helps to strengthen the enthusiasm of senior management, and it can also strengthen the close contact between the management and the company, to achieve the most ideal stability of the company.

5.1.2. Restrictions on the Voting Rights of Senior Managers

AB-type equity system companies are prone to founder-centered centralization. Shareholders with controlling rights have greater advantages in the management and decision-making of the company, so they should restrict their super voting rights and prescribe various behaviors in advance., To prevent the moral hazard of founders and senior managers, and to better protect the rights and interests of small and medium shareholders and attract various financiers to invest in listed companies. This can prevent management from abusing power and maximize shareholder benefits.

5.2. Improve Internal and External Supervision Mechanisms at the Institutional Level

Corporate supervision can be divided into internal supervision and external supervision. From an internal point of view, the company should strengthen the construction of the board of directors. First, it is necessary to ensure that the board of directors has at least 8 or more members. The more the number, the greater the mutual supervision and restraint. close. Second, to truly independent directors, the election of independent directors should avoid relations with other management, and independent directors should be evaluated and supervised accordingly to ensure that the implementation of the AB-type equity system is legal and reasonable. Third, we must formulate corresponding rules and regulations to ensure the stability of the board of directors. The stability of the board of directors is the foundation for ensuring the stable operation and development of enterprises. From an external point of view, a sound legal supervision system and social audit supervision have played a very important role in restricting the rights of managers. For listed companies that adopt the AB-type equity system, the law is the most important control factor for the company and the controller. These relevant laws and regulations can restrict the scope of information disclosure and punishment measures to senior managers, so that companies must be responsible for disclosing financial information, company structure, important personnel, and other information. While protecting the legitimate rights and interests of the founders, it is also necessary to limit the abuse of rights. Supervisors and managers must perform their due duties to protect the rights of investors and promote the development of the company.

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