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A Study on the Motivation and Economic Consequences of Corporate Controlling Equity

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Abstract

This study analyzes the motivations and economic consequences of corporate controlling equity behavior among Chinese listed companies, especially in the context of high-quality development goals. Through qualitative case analysis of firms such as Greenland Group, Alibaba, and Vanke, the research identifies three dominant motives: shell listing, strategic fit, and merger & acquisition (M&A) demands. Economic consequences include stakeholder conflicts, shareholder agency issues, and stock volatility. By adopting agency theory and stakeholder theory frameworks, this study recommends implementing equity checks and balances, aligning control with strategy, and ensuring long-term financial sustainability. The findings contribute to understanding how control dynamics shape corporate governance and financial performance in emerging markets.

Keywords: corporate controlling equity, equity structure, stakeholder conflict, M&A, corporate governance, China

1. Introduction

Corporate controlling equity - referring to majority or influential ownership stakes that determine strategic decisions - is a critical issue in the governance of listed companies. As China accelerates toward high-quality economic development, the governance structures of its enterprises, particularly the concentration of equity and ownership dynamics, have attracted increasing attention from policymakers, investors, and researchers.

Despite widespread discussion of equity pledges and control-related disputes, little systematic research has been done to analyze the motivations for acquiring controlling stakes and the consequences for stakeholders and financial outcomes in Chinese capital markets. This study fills this gap by addressing the following research questions:

1. What are the primary motivations for controlling equity acquisitions in China?
2. How do control dynamics impact stakeholders and corporate financial performance?
3. What governance mechanisms can mitigate the risks of control-based behavior?

To address these questions, this paper uses case-based qualitative analysis of well-known Chinese companies engaged in control maneuvers and hostile takeovers.

The report of the 20th National Congress of the Communist Party of China (CPC) pointed out that "high-quality development is the primary task of building a modern socialist country in an all-round way". Along with the further deepening of the task of high-quality development of China's enterprises, corporate governance has become a focus of attention for enterprise development. Listed companies are an important part of China's enterprises and generally involve corporate holding issues. Corporate holding often faces problems related to equity pledges, equity checks and balances, and equity separation reform. Corporate holding is often to seek to maximize benefits and achieve strategic goals such as strategic synergy or market value-added. Existing studies have delved into the motivations and economic consequences of the reforms. In the case of equity pledges, the essence is to pledge equity or related economic rights to a creditor as a pledge to obtain loan funds (Gong Junqiong, 2015) [1]. Controlling shareholders' equity pledging often stems from motives such as risk transfer (Gong Junqiong, 2015) [1], cash capital increase (Ren and, 2014[2], and strengthening control (Liu Xinbing, 2016)[3], and has an impact on corporate innovation (Wenwen et al., 2018) [4], and profit forecasting (Ye Yingying et al., 2021) [5]. In addition, it may also cause the risk of hollowing out behavior of major shareholders (Ding, 2017) [6]. In terms of equity checks and balances, the goal of equity checks and balances mainly lies in the governance relationship between shareholders and stakeholders, especially the second largest shareholder plays a role in monitoring and checking the first largest shareholder (Hao Yunhong and Wang Xi, 2015) [7]. Existing studies have focused on the governance effects of equity checks and balances on areas such as technical efficiency (Sun Zhaobin, 2006) [8], firm value (Wu Hongjun and Wu Shinanong, 2009) [9], and financial risk (Liu Xin et al., 2014) [10]. On the issue of equity separation reform, the main focus is on the share reform consideration and the specific impact on the capital market, and it has a significant role in promoting the corporate governance system (Zhang Xueyong and Liao Li, 2010)[11], but the current research is not specific enough to explore the issues involved in corporate holding. Therefore, based on the existing research, this paper introduces relevant cases for specific analysis to provide relevant path guidelines and policy recommendations for improving corporate governance.

2. Motivation Analysis of Corporate Holdings

2.1 Shell listing

Given China's strict and complex IPO listing process, coupled with the intensified international competitive environment in recent years, enterprises may face extremely high time costs for listing and financing, resulting in missed strategic opportunities. Therefore, enterprises may realize the shell listing through the equity distribution reform or introducing strategic investment, so as to quickly meet their own capital needs. For example, Greenland Group implemented a shell listing in 2015. Through the introduction of PE to ensure that the public shareholding is greater than 10%, to optimize the shareholding structure of the LP structure, confined to the “Administrative Measures for the Acquisition of Listed Companies” before the revision of 2014, the original major shareholders of the shareholding are diluted to less than 30% to avoid triggering the offer to buy, so as to borrow Jinfeng Investment, a high-quality “shell resources” successfully completed the shell listing. Shell listing. In addition to clarifying the general rules of listing process, enterprises should also pay close attention to the restrictions of shareholding structure and possible delisting risks. Enterprises through shell listing, on the one hand, can realize their own listing objectives, meet the urgent financing needs at different stages of development, and provide financial support for subsequent scale expansion, technological innovation, market expansion and potential mergers and acquisitions. On the other hand, shell listing is also an opportunity and means to optimize its own shareholding structure, through the introduction of external strategic investment and shareholders' shareholding ratio, to improve the level of corporate governance, improve the efficiency of corporate decision-making, and provide new vitality for the sustainable development of the enterprise.

2.2 Selection of Strategies

Different strategic business models determine the holding choices of enterprises. In a competitive market, enterprises need to choose a reasonable strategic business model based on their life cycle and strategic positioning. Analyzed from the perspective of life cycle, in the growth period, enterprises usually choose to expand their scale and implement diversification strategy, which will prompt enterprises to involve in as many fields related to their main business as possible. The enterprise reduces cross-industry barriers through multiple shareholdings, which facilitates the implementation of diversification strategies and thus realizes expansion. When the enterprise enters the maturity stage, it will stop the scale expansion and prefer to increase the control of the main enterprise, so the enterprise is more inclined to increase the proportion of shareholding in a few enterprises at this time. Analyzed from the perspective of strategic business model, different strategic positioning has its own business model and profit model, and enterprise holding will affect its own cash flow structure and key resource capacity. For example, Ali Group and Jingdong Group have different strategic business models. Alibaba is a platform e-commerce model, with an asset-light platform model at its core, investing in growth and expansion, and tending to extend its business into different areas for rapid expansion, which helps to construct competitive barriers and build a corporate ecosystem. Jingdong is a self-operated e-commerce model, a heavy asset operation, mainly investing in logistics and warehousing, and its shareholdings and acquisitions are more inclined to the core links of the supply chain, bringing together various types of suppliers and strategic partners through the network effect. Enterprises according to their own strategic business model to choose the specific direction of corporate holdings, help to reduce their own barriers to entry, the establishment of barriers to competition, the rapid realization of diversified development, integration of their internal and external resources.

2.3 Mergers and Acquisitions

In order to comprehensively and effectively promote the long-term strategic layout of the enterprise, the enterprise may inevitably face a series of complex and changing challenges in the course of its development, among which the most prominent one is the fierce control right dispute directly triggered by the merger and acquisition of the enterprise and the counter-merger of the enterprise. For example, in the dispute between CSG and Bao Neng, Bao Neng Department has been pushing forward the diversified strategic layout, and has raised its shares several times with the intention of acquiring CSG, although CSG has carried out the counter-acquisition strategy by amending its articles of association and increasing its shareholding, but it still ended up in failure in the end. Compared with the CSG, Vanke resold to Shenzhen Metro by introducing the strategy of "white knight", which not only effectively enhanced the stability of Vanke's shareholding, but also successfully thwarted the takeover plan of Baoneng. The differences between the two are mainly reflected in the differences in the shareholding structure and external support. South Glass Group is easy to be Baoneng system strategy, the core problem lies in the dispersion of equity, so the enterprise holding is the key to mergers and acquisitions of equity disputes. Including the "similar shareholding ratio" shareholding structure of Oriental Silver Star, different interests drive many parties to fight for shareholding, and how to reasonably hold the shareholding determines the success or failure of the strategic development of the enterprise. Therefore, it is necessary to pay great attention to the optimization and management of the shareholding structure, and measure how to promote the sustainable development of the enterprise through reasonable holding, and cope with the potential risks of mergers and acquisitions.

3. Method

This research adopts a qualitative case study methodology. Firms were selected based on media prominence, financial relevance, and recent involvement in ownership disputes or strategic control changes. Data sources include financial reports, corporate disclosures, and public analyses. The analytical framework includes thematic coding of control motives, stakeholder impacts, and financial outcomes. This design allows for in-depth understanding of real-world implications.

4. Analysis of the Economic Consequences of Business Holdings

4.1 Impacts on Stakeholders

This research adopts a qualitative case study methodology. Firms were selected based on media prominence, financial relevance, and recent involvement in ownership disputes or strategic control changes. Data sources include financial reports, corporate disclosures, and public analyses. The analytical framework includes thematic coding of control motives, stakeholder impacts, and financial outcomes. This design allows for in-depth understanding of real-world implications.

Corporate holding can determine the company's development strategy and business direction, which will have different impacts on different stakeholders. For controlling shareholders, it is not only a means of grasping the business strategy of the enterprise, but also a source of reliable earnings for themselves. For example, Silverstar Group has been utilizing its status as a major shareholder to gain control gains to the detriment of the entire company, with the strategic goal of utilizing its control advantage to gain additional gains. However, the opportunistic behavior was strongly responded by the second largest shareholder, Yu Shang Group, which created a multi-stakeholder dispute among Silverstar Group, Yu Shang Group, and Dongxin. For management, there may be a principal-agent problem between shareholders and management. Equity fluctuation will affect the agency cost and the operation of the main body of the company therein, and different holding behaviors may lead to self-interested behavior or insider trading by the management. The Yu Shang Group had insider trading when it was engaged in equity competition, which in the end affected its own merger and acquisition plan instead. For external investors, changes in corporate holdings can affect investors' confidence in the company. The dispute between Silver Star Group and Yu Shang Group has attracted the attention of many investors, many of whom have begun to pay close attention to the progress of this equity battle. In addition, anticipation of possible future restructuring or business transformation of the company often leads to increased investor demand for Orient Silverstar shares.

4.2 Impact on Corporate Financial Performance

Corporate holding affects the efficiency of management's decision-making and influences equity dividends and stock price trends. In highly concentrated enterprises, controlling or major shareholders are often able to participate more directly in the daily operations and major decisions of the enterprise. This centralized power structure makes the decision-making process more rapid and efficient, which helps enterprises seize market opportunities and respond to market changes in a timely manner, thus enhancing financial performance. The shareholding structure of an enterprise affects the formulation of dividend policy. If the dividend policy is too biased in favor of large shareholders, it may harm the interests of small shareholders and weaken the investment willingness of small and medium-sized shareholders, which in turn affects the financial performance of the enterprise and the performance of the stock price. Changes in corporate holdings can affect investor behavior. For example, the restructuring of Oriental Silver Star is expected to become an important factor to attract investors, who pay more attention to the potential restructuring value of Oriental Silver Star and follow the investment, which in turn promotes the sharp rise of Oriental Silver Star's share price. Therefore, corporate holding not only directly affects the management's decision-making efficiency, but also profoundly affects the financial performance and the trend of stock price.

When formulating and adjusting the holding structure, enterprises should fully consider the market environment, investor expectations and corporate development strategy to ensure the sustainable growth of corporate financial performance and the stability of stock price.

4.3 Extended Case Study: Vanke vs. Baoneng

A particularly illustrative case in China's capital market history is the high-profile hostile takeover attempt by Baoneng Group on Vanke. The takeover unfolded in 2015–2017, during which Baoneng rapidly accumulated shares of Vanke through its subsidiaries and became the largest shareholder. This triggered a governance crisis as Vanke's management strongly opposed the move, arguing that Baoneng lacked a long-term vision and the necessary operational experience.

The conflict escalated with public statements, board disputes, and intervention from regulatory bodies. In a strategic countermove, Vanke brought in Shenzhen Metro Group as a "white knight" investor, significantly diluting Baoneng's influence. The event raised crucial issues about shareholder rights, board independence, and regulatory gaps.

From an agency theory perspective, the case highlights how hostile takeovers can challenge entrenched management but also lead to instability. It also reflects how the state can intervene in capital markets through SOEs like Shenzhen Metro, complicating the traditional dynamics of control and governance.

4.4 The Role of Institutional Investors in Corporate Control

Institutional investors have become increasingly influential in shaping corporate governance. Unlike fragmented retail investors, institutional investors possess both the resources and expertise to monitor management effectively. Their presence can act as a counterbalance to dominant shareholders, enhancing accountability and reducing agency problems.

In China, the role of pension funds, mutual funds, and insurance firms is growing. For example, China's National Social Security Fund (NSSF) has stakes in several major firms and often exerts soft influence on governance issues. When institutional investors coordinate, they can shift power dynamics, sometimes even influencing board composition and strategic direction.

Their involvement also correlates with improved financial performance. Firms with strong institutional ownership tend to have more transparent disclosure practices, stronger internal controls, and more strategic long-term planning. This reinforces the need to create a regulatory and market environment conducive to attracting and retaining institutional investment.

5. Conclusions and Implications

Corporate holding can affect stakeholders and corporate financial performance due to shell listing, strategic choices, mergers and acquisitions, and other motivations. This paper introduces relevant cases such as Greenland Group, South Glass Group, Ali Jingdong to analyze the motivation of corporate holding, and further explores the economic consequences of corporate holding by borrowing the case of Dongfang Yinxing. Based on this, this paper puts forward the following suggestions: first, build a reasonable equity check and balance mechanism. China's listed companies should choose a reasonable shareholders' check and balance mechanism according to the market environment and their own development strategy, in order to prevent undue competition among shareholders, and avoid corporate splits or hostile mergers and acquisitions due to the contention for control. Specifically, through the introduction of strategic investors, optimize the equity structure, strengthen the function and independence of the board of directors, the implementation of equity incentive plans and other ways to achieve mutual constraints between shareholders and collaboration, and jointly safeguard the overall interests of the enterprise and long-term development. Second, clarify the strategic positioning of the enterprise. Different strategic orientations and business model choices often indicate different development trajectories and potential challenges. Mergers and acquisitions should be based on long-term development strategy, clear synergies between the M&A target and the core competitiveness of the enterprise, requiring the enterprise to have deep industry insight, keen market perception and accurate value assessment capabilities. Third, pay attention to the sustainability of financial performance. The financial performance of the enterprise holding should not be improved at the expense of long-term healthy development. In the short term, although it may be possible to realize the bright financial data through capital operation, but the lack of substantial business growth to support the growth is difficult to sustain, the enterprise should focus on enhancing the core competitiveness, to achieve steady growth.

6. Conclusion and Implications

This paper demonstrates that corporate controlling equity in China is driven by a mix of strategic needs, market access challenges, and defensive imperatives. However, concentrated control can undermine stakeholder trust and generate financial volatility.

Recommendations:

1. Establish equity checks and balances: Empower boards and introduce institutional investors to balance dominant shareholders.

2. Align control with strategic objectives: Ensure that control acquisitions serve long-term goals, not short-term gains.

3. Protect minority shareholders: Implement regulatory measures to curb opportunistic control behavior.

4. Maintain financial sustainability: Avoid using control mechanisms to inflate short-term metrics at the expense of future growth.

Limitations and Future Research:

This study is qualitative and limited to prominent Chinese companies. Future research could include empirical data analysis across sectors or countries to validate and expand findings.

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