

A Review of the Relationship Between Corporate Governance and Equity Distribution System of Listed Companies

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Abstract: Corporate governance is the main part of the operation of the enterprise, the main way to plan and regulate the direction of the operation of the enterprise and ensure the maximization of the interests of shareholders. In corporate governance, from the perspective of corporate finance, optimization of equity can be better corporate governance and responsibility allocation, can help enterprises to be able to reduce the friction between managers and investors, managers and managers, managers and employees, can be better stabilized and sorted out to allocate the corporate structure. Therefore, this paper mainly analyzes the relationship between corporate control structure and cash dividend policy, i.e. equity allocation. Aims to explore the reasonable use of equity allocation strategy to optimize the management of the enterprise, increase the stability of the enterprise operation, and maximize the interests of the enterprise. At the same time, this paper chooses NVIDIA and Huawei as cases, through analyzing the equity allocation system of these two companies to provide other different enterprises with corresponding ideas and strategies.

Keywords: Corporate Governance, Equity Allocation, Corporate Structure, NVIDIA, Huawei.

1. Introduction

Corporate governance is the main part of enterprise operation, and enterprise managers plan and standardize the direction of enterprise operation through corporate governance. In some special times such as epidemics, some enterprise management strategies will be adopted to bring the enterprise back to life. Corporate governance is the set of procedures, practices, policies, laws and institutions that influence how a company is led, managed and controlled. The approach to corporate governance also encompasses the relationship between the stakeholders within the company and the many objectives of corporate governance [1]. Key stakeholders include shareholders, managers, and directors. Other stakeholders include catalysts, suppliers, customers, banks and other lenders, government policy administrators, the environment and the community at large [2].

Corporate governance is divided into two parts, the narrow sense of corporate governance, refers to the owners (mainly shareholders) for the operator of a mechanism of supervision and checks and balances, that is, through a kind of institutional arrangements to rationally define the relationship between the rights and responsibilities of the owners and operators of the company. Broadly speaking, corporate governance refers to the coordination of the interests between the company and all stakeholders (shareholders, creditors, employees, potential investors, etc.) through a set of formal or

informal, internal or external systems, in order to ensure the scientific and effective decision-making of the company, so as to ultimately safeguard the interests of the company in all aspects [1-3].

The goal of corporate governance is to ensure the maximization of shareholders' interests and to prevent the deviation of the interests of operators and owners. Its main feature is the internal governance through the corporate governance structure consisting of the general meeting of shareholders, the board of directors, the supervisory board and the management. The main purpose is to serve the balance and win-win cooperation between the owners and operators of the company [4]. Among the methods of corporate governance, from the perspective of corporate finance, optimization of equity can be better corporate governance and responsibility allocation, can help enterprises to reduce the friction between managers and investors, managers and managers, managers and employees, can be better stabilized and sorted out the distribution of corporate structure. So this paper mainly tells about the relationship between corporate control structure and cash dividend policy, i.e. equity allocation. And the purpose of our research is to investigate how to rationally use the equity allocation strategy. The significance of the research is that appropriate equity allocation can help increase the stability of the firm, maximize the concentration of the firm's power and help the firm to run. And the result of this article is to provide some relevant ideas and strategies for enterprises to implement.

2. Equity distribution in the company

Equity distribution are shares given to employees or investors by a company in order to incentivize them or attract them [5]. These shares represent the employee's or investor's ownership in the company, including participation in the company's decisions, sharing the company's profits, etc.

2.1. Principles

From the early stage of business to mature operation, a company will face a variety of problems, of which the most serious and most common two types of problems are uneven distribution of benefits caused by the management of the disagreement, and the lack of motivation of employees to the company's identity is not strong, the emergence of these problems can be shaken to the root of the company [6]. Taking Luckin Coffee as an example, in January 2023, more than thirty executives of Luckin joined forces with the company's chairman, Guo Zhenyi, to take bribes and abuse their power. Although the company's internal investigation did not find any evidence of Guo's misconduct, the root cause of these problems is the irrational division of interests, and the best way to solve these problems is the distribution of shares.

There are established principles that are usually followed in the allocation of equity in a company. The first is the principle of equity, which means that equity distribution should fairly reflect the contribution of each founder, employee or investor to the company. A founder who provides creativity and execution may receive more equity. In addition, a founder who is fully engaged while others are part-time, that full-time founder may receive more equity [6]. The next principle is the incentive principle, which states that equity distribution should motivate team members to work hard for the long-term growth and success of the company. Employees may receive equity or options through an equity incentive program, and this is usually tied to their position, performance, and contribution to the company. The third is the principle of control, which means that the founders and core team should retain enough equity to maintain control over the company's strategic decisions, but need to follow the principle of dynamic adjustment at the same time [7]. As the company grows, equity distribution may need to be adjusted based on new investments, performance and other factors. Especially in the early stages of a startup, it is often recommended to make equity divisions in a way that leaves room for subsequent equity adjustments. For example, start by determining that the COO

and CTO own 15% and 20% of the equity, respectively, and reduce each of the remaining individuals' shareholdings by 5% first and place them all in the equity pool [8]. Subsequent to the company's development stage according to the different stages of the project, based on each person's contribution to the adjustment of equity. In addition, there needs to be an exit mechanism to deal with the equity of the founders or key employees when they leave the company. The equity grant system is generally chosen to be granted on an annual basis, but if a partner leaves in the middle of a project, equity can be granted on a pro-rata basis based on the time already served, and the remainder can be reallocated or placed in an equity pool [9]. In addition, personal life goals need to be taken into account, i.e., consider factors such as the founder's personal life goals and needs, which may affect his or her contribution and commitment to the company. For example, some founders may need more cash for family or other personal reasons and therefore be willing to accept less equity. Finally, additional considerations for the CEO need to be added. In startups, the CEO usually takes on more responsibility and risk and will create far more value than others and therefore may receive more equity, which should be divided based on the value created [10].

2.2. Advantage

Equity distribution is an effective incentive that encourages employees to be more engaged by linking their personal interests to the long-term success of the company. Startups often offer equity or options as an incentive to key employees as a way to motivate them to put more effort into the growth and success of the company. Such incentives are usually closely linked to the employee's position, performance and contribution to the company. At the same time, a fair and transparent distribution of equity is critical to attracting external investors, not only by providing them with the potential for financial returns, but also by meeting the capital needed to grow the company. Investors receive shares through their investment, which also builds investor confidence and lays the foundation for subsequent financing. In addition, through equity allocation, the company ensures that all key stakeholders are rewarded according to their contributions, including the allocation of equity among founders, which is usually based on their role, time and resources invested, and contribution to the company's growth [6].

Equity allocation also affects a company's governance structure, as equity percentages are usually linked to decision-making and control. Founders or investors with a higher percentage of equity may have more influence in the company's strategic decisions. To ensure compliance with relevant laws and regulations and to optimize tax efficiency, companies often seek advice from legal and financial experts when making equity distribution, as different types of equity may involve different tax treatments and rights. In addition, equity distribution can be used in conjunction with a company's long-term goals and performance metrics as a tool to incentivize team members to drive innovation and growth in the company, encouraging employees and founders to focus on achieving those goals and thus driving the company's overall growth [10].

2.3. Disadvantage

Companies issue more shares during the development stage in order to attract investment and motivate employees. While this helps the company's short-term capital needs and employee motivation, it also dilutes the percentage of equity of founders and early investors, resulting in their having less control in company decisions. The issuance of new shares by a startup in a Series A round of financing may result in a decrease in the percentage of equity of early shareholders, thereby reducing the influence of early shareholders in the future direction of the company. In addition, equity distributions may introduce tax and legal complexities. For example, equity incentive plans can involve complex tax treatment, employees may be required to pay capital gains tax's when exercising

options, etc. In addition, different countries have different tax and corporate laws governing equity distribution, which increases a company's compliance costs [9].

The manner and fairness of equity allocation is also a factor to be considered. Unfair allocation may cause dissatisfaction and conflicts among employees, which in turn may affect the productivity of the team. The vesting period in an equity incentive plan serves to protect the company by limiting employee mobility by requiring employees to work for the company for a certain number of years before they can receive all of their equity, which, however, can limit employees' career choices. In addition, if a company overemphasizes equity incentives, it may lead to a corporate culture that focuses too much on short-term financial returns at the expense of long-term value creation and social responsibility. In the decision-making process, as more shareholders come on board, more stakeholders' views and interests need to be considered, which may lead to a complex and slow decision-making process [10].

3. Case study

3.1. NVIDIA

NVIDIA Corporation is a world-renowned manufacturer of graphics processing units (GPUs) headquartered in Santa Clara, California, with products used in a wide range of applications, including gaming, data centers, professional vision, and self-driving cars. The company was founded in 1993 by Jen-Hsun Huang, Chris Malakowski and Curtis Primm and was listed on NASDAQ in 1999. In terms of equity distribution, NVIDIA is highly concentrated in the hands of a few major financial institutions, but the company's founders and leaders still have a significant say in its decisions and direction. According to 2024, NVIDIA's top 10 shareholders include Vanguard, BlackRock, State Street, Fidelity, and others, with Vanguard holding an 8.73% stake, making it NVIDIA's largest shareholder. The company's co-founder and CEO, Jen-Hsun Huang, personally owns 3.50% of the shares, making him the fifth largest shareholder. Because NVIDIA's shareholding distribution is more inclined to the traditional public company model, i.e., the shareholding is highly concentrated, and the company's co-founder and CEO Huang personally holds a certain percentage of shares, which ensures that the CEO plays an important role in the company's decision-making and stabilizes the development of the enterprise.

In addition, NVIDIA has a complex compensation structure with performance-related restricted stock (PSU) awards. Such equity incentives help bind key employees and motivate them to contribute to the company's long-term growth. NVIDIA's executive team can receive significant financial benefits from equity awards even when they do not receive cash awards [11]. In fiscal year 2023, even though the executive team did not receive a bonus, the CEO received nearly \$500 million in equity awards, including \$61.8 million worth of NVIDIA stock and \$442.8 million in proceeds from the exercise of options. This compensation structure helps bind employees and incentivizes them to contribute to the company's long-term growth. Overall, NVIDIA has been successful in motivating both management and employees through its equity allocation and compensation structure, driving continued growth and innovation in the company [12].

3.2. Huawei

Huawei is a leading global information and communications technology (ICT) solutions provider whose products and services cover a wide range of sectors, including smartphones, tablets, laptops and smart wearables. Huawei's shareholding structure is unique in that it is not publicly listed and consists of an employee shareholding plan. According to the current shareholding structure of Huawei, Huawei Technologies Co., Ltd. is 100% owned by Huawei Investment Holdings Limited, which has two shareholders: Ren Zhengfei and the Labor Union Committee of Huawei Investment Holdings

Limited. Among them, Ren Zhengfei's personal shareholding is 1.01%, and Huawei Investment Holdings Limited Labor Union Committee's shareholding is 98.99%.

Huawei's Employee Stock Ownership Plan (ESOP) is a kind of virtual equity, under which employees may receive a certain percentage of dividends and a portion of the appreciation of the company's net assets, but have no ownership or voting rights, and cannot be transferred or sold. Huawei's Employee Stock Ownership Plan (ESOP) is designed to incentivize employees, improve productivity and the company's competitiveness, and link employees' interests to the company's long-term development, as well as to help maintain the company's independence and long-term development goals. Huawei's dividend policy enables employee shareholders to receive large dividends every year, and this equity incentive policy effectively increases employee productivity and company profitability [13]. In the year 2023, Huawei realized sales revenue of RMB 704.2 billion, net profit of RMB 87 billion, and employee dividends amounted to RMB 77.085 billion. Huawei has been able to maintain stable business growth and market competitiveness in the face of external challenges, which also leave the stability of the company and incentives for employees [14]. Huawei's equity allocation and incentive mechanism, as well as its market positioning and performance, reflect the company's strategic vision and emphasis on employees. The people-oriented corporate culture and values are key factors that enable Huawei to maintain its leading position in the global market. The Employee Stock Ownership Plan allows employees to share in the company's profits and growth, thereby enhancing their sense of belonging and loyalty.

3.3. Comparison

By comparing and analyzing the structure of equity distribution between the two companies, the Huawei reflects more of the collective ownership of employees and the cohesiveness of the company's culture, while NVIDIA demonstrates the traditional equity structure of a publicly traded company, where equity incentives are closely related to market performance. NVIDIA's shareholding has a large proportion of institutional investors, and the company's founder and CEO holds a percentage of shares, which allows him to play an important role in the company's decision-making. Meanwhile, Huawei's employee stock ownership plan focuses more on internal stability and long-term incentives, while NVIDIA's equity allocation focuses more on market incentives and maximizing shareholder value. In addition, both companies' equity allocation strategies help attract and retain talent, but Huawei's model emphasizes more on internal employee engagement and building company culture, while NVIDIA relies more on market mechanisms and shareholder returns.

4. Conclusion

Based on the equity structure of NVIDIA and Huawei, this paper explores the relationship between corporate control structure and cash dividend policy, i.e. equity allocation. The study shows that equity allocation based on the actual development of the enterprise can maximize the operation of the enterprise by linking the personal interests of the employees, the interests of the shareholders of the enterprise and the long-term success of the enterprise. In addition, a sound equity allocation is critical to attracting outside investors, providing potential financial returns while maximizing access to the capital needed to meet the company's growth requirements.

However, there are some shortcomings in the research of this paper, including the absence of relevant empirical analysis and a more restricted selection of firms. There are also many factors that affect the actual operation and structural stability of a company, and there are many factors that affect equity allocation other than the operational needs of the company, and the content of this paper blurs other influencing factors in relevant terms.

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