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Dual Equity System Brings Different Risks and Opportunities for Corporate Development-The Case of Zoom

Xiting Wang

Xi'an Gaoxin No.1 High School, Xi'an, China
a130371@correo.umm.edu.mx

Abstract. With the development of the global economy, the requirements for corporate governance model are also improving, the traditional single shareholding system structure can not meet the governance needs of some enterprises, and then in the nineteenth century derived from many different categories of shareholding structure, including double shareholding system, cross-shareholding system, mixed shareholding system and so on. Among them, the dual equity system with the founder's absolute holding characteristics of the company loved by the family business and some innovative enterprises, which not only meets the absolute control of the founder's entrepreneurial achievements, but also makes the enterprise decision-making efficiency, providing advantageous conditions and opportunities for long-term strategy and sustainable development, but at the same time, there is also the risk that the founder's decision-making is biased. In this paper, it will take ZOOM, a communication technology company listed in the United States in 2019, as an example to explore the impact of the dual-capitalization system on the efficiency of corporate decision-making and the monitoring mechanism under unforeseen market contingencies and to extend the opportunities and risks it faces.

Keywords: Zoom, dual-class share structure, stock corporation, opportunity, risk.

1. Introduction

Shareholding structure is the relationship and proportion of different types of shares or different types of shareholders in the total share capital of a shareholding company, which has a far-reaching impact on the performance of listed companies by affecting the decision-making efficiency and monitoring mechanism [1]. In order to meet the differentiation of the enterprise's founding background, founder characteristics, and development scenarios, the global capital market has gradually developed diversified shareholding structure models, such as single-shareholding system, double-shareholding system, cross-shareholding system, and so on. In the mid to late 20th century, in order to ensure the control of the family over the enterprise, the silverware manufacturing company pioneered the dual-shareholding system in 1898, which was later improved by Ford and then adopted [2]. Dual shareholding system by its different rights of the same share system design will be divided into internal and external shareholders, internal shareholders hold a share of multiple rights, and external shareholders are the same share of the same rights, to achieve the separation of the form of cash flow and voting rights to achieve effective control of the enterprise [3]. Ford

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company, through the separation of automobile products' cash flow and absolute voting decision-making power, realizes the absolute control of the family, and adheres to the long-term investment under the family decision-making, realizes the market value of the rise, eliminate malicious takeover, and face the crisis of the ability to deal alone. However, it also faced the absolute control of the family, and many times it appeared to cause the company's share price to decline due to the strategic errors. Thus, the dual shareholding structure has different impacts on the company due to the concentration of the shareholding structure and the strong control. As one of the many types of firms, technology firms, the conflict between their financing needs and retention of control can be mediated by the dual equity structure in order to avoid equity dilution caused by multiple rounds of financing, which would result in the loss of control of the firm by the founders. In the early days of the epidemic that swept the U.S., the U.S. 2020 Initial Public Offering was the largest since the dot-com bubble burst in 2000, an IPO frenzy that not only profited early-stage investors but also gave the founders of tech firms issuing the new shares more of an equity advantage. Of the tech companies that went public in the U.S. in 2020, 41.5% utilized a dual-equity system, a percentage only slightly lower than the all-time high in 2017. To study the relationship between equity structure and performance and the correlation of shareholding companies, this paper will explore the risks and opportunities that the dual-equity system brings to companies in the global market through ZOOM, a communication technology company with video conferencing and cloud processing as its main industry, which went public in the second half of 2019.

2. Case study

2.1. Background analysis of ZOOM

Founded by founder Yuan Zheng in 2011, ZOOM is headquartered in San Jose, California, and successfully went public in 2019 after multiple rounds of financing. Its main business is video conferencing and cloud platforms, and it applies to multiple systems. In the second half of 2020, ZOOM converted to a partner-only model in mainland China. ZOOM has been using a dual shareholding system AB share structure since its IPO, with founder Yuan Zheng securing control of the company by holding B shares and preventing dilution equity through mechanisms such as a poison pill plan and a golden share clause

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2.2. Opportunities for ZOOM under the dual-shareholding structure

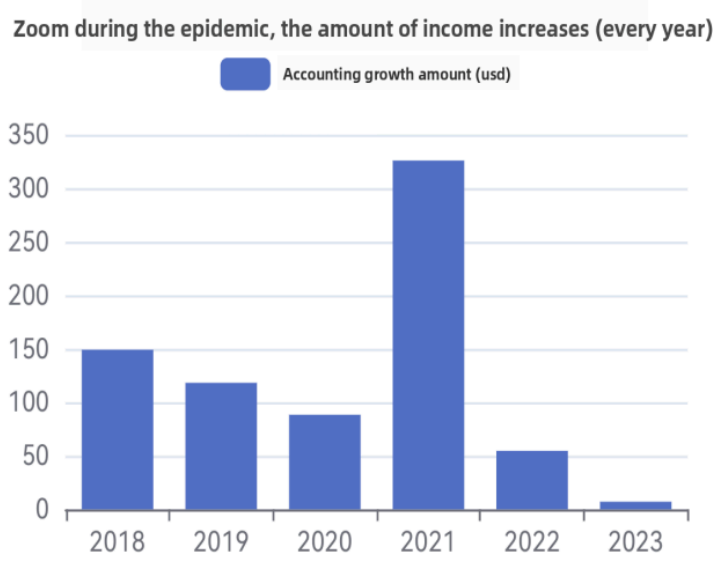


Figure 1. Zoom during the epidemic, the amount of income increases(every year)

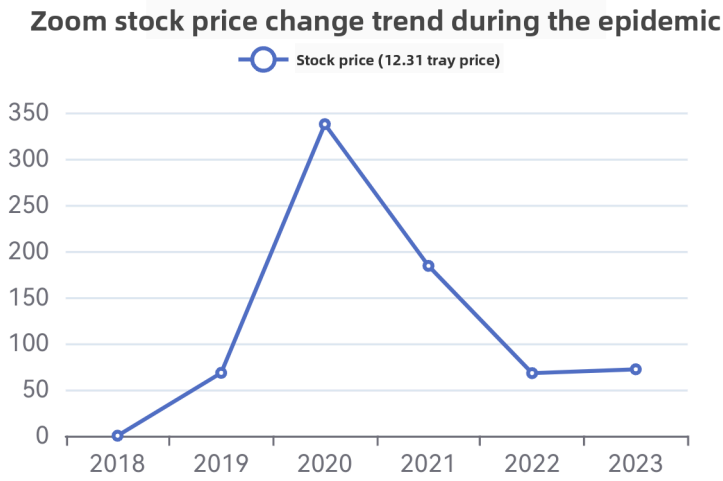


Figure 2. Zoom stock price change trend during the epidemic

ZOOM's turnover "skyrocketed" during the pandemic, and according to Figure 1, the amount of revenue growth peaked in 2021 and was two to four times higher than in similar years. Figure 2 shows the trend of ZOOM's share price during the epidemic, which peaked in 2020 at about 400% of the previous year's share price, and one of the reasons for ZOOM's remarkable turnover and performance is the timely and rapid decision-making of its founders in the face of the unpredictable and unexpected market conditions under the dual-shareholding system. The Internet industry is

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highly competitive and risky, and in order to grow, it is important for the company's founders to take control and adopt appropriate and favorable decision-making [4].

First, at the beginning of the epidemic outbreak, founder Yuan Zheng seized the opportunity of the surge in online demand during the epidemic, and through his absolute control over the ZOOM enterprise, he quickly made effective decisions to first open his company's video conferencing service for free to the Chinese region to support telecommuting and education needs, and then subsequently expand it to the U.S. market, a decision which led to zoom's user base in the eight months of 2019-2020 increased by 300 percent. The high concentration of control in the hands of the founders under the dual shareholding structure has a significant impact on the efficiency of decision-making.

Second, in the middle of the epidemic, in 2020, founder Yuan Zheng led the team to develop a 90-day security patching program, acquired the 25-employee company-keybase, and recruited Facebook's former chief security officer and Google's former head of privacy technology to patch zoom's previous security holes as well as to provide security coverage for the follow-on services to be secured. Paving the way for record-high business growth for Zoom enterprises in 2021 (data shown in Figure 1).

Third, at the end of the epidemic, Yuan Zheng proposed transforming Zoom into a "communication and collaboration" platform and strengthening the exploration of AI, which had a positive impact on the company. zoom had gone through multiple rounds of financing since its IPO, and Yuan Zheng held super-voting shares to ensure absolute control and prevent excessive dilution of equity due to multiple financings, thus losing control of the company's development. Loss of control over the company's development. In the unexpected situation of an epidemic, the founder's absolute decision-making power brings opportunities for the enterprise. The dual equity system has a positive effect in maintaining the stability of control, enriching financing channels, and enhancing the long-term value of the enterprise [5].

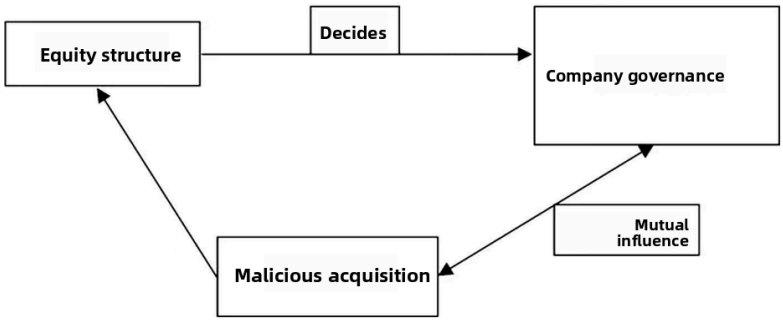


Figure 3. Schematic diagram of the relationship between shareholding structure and hostile takeovers

Fourthly, a dual equity structure helps to promote the R&D investment of high-tech enterprises, can prevent enterprises from facing the threat of takeover, and helps enterprises to obtain funds while grasping absolute control over the company [6]. And previous studies have concluded that the dual shareholding system will have a positive impact on the investor relations management mechanism [7]. Yuan Zheng, the founder of ZOOM, has realized absolute control over the company by adopting the dual shareholding system of A (one share, one vote) and B (one share, ten votes, which is not publicly tradable and is held by the founder, Yuan Zheng, and the early team) since the listing of the company in 2019. Through his absolute control of the company, Yuan Zheng has

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continued to integrate the company's industry with artificial intelligence technology, incorporating AI technology into its products (e.g., intelligent conferencing with recorded summaries, virtual backgrounds with gesture recognition, and subtitling features for the hearing impaired). In the pre-IPO period, Zoom's IPO raised $750 million, attracting the attention of global investors and enabling the company's valuation to increase significantly. Through the IPO, Zoom was able to obtain additional funding, and over the years, Zoom has pursued financing to support its long term strategy and goals, as well as to provide for the expansion and development of its innovative business. Through the dual shareholding system under the same share but different rights, while realizing the control of the founder or management of the company can also continue to introduce external investment, to achieve the dual purpose of abundant capital and control remains unchanged [8]. At the same time, as shown in Figure 3, the shareholding structure determines corporate governance, and corporate governance interacts with hostile takeovers, which shows that the shareholding structure plays an important role in whether the enterprise will be maliciously acquired. In the face of Microsoft's tentative takeover in 2021, Yuan Zheng directly rejected it with more than half of the votes, which maintains the interests of shareholders and the coherence of corporate governance. The dual shareholding structure possesses a positive effect on corporate anti-takeover, as well.

2.3. Risks for ZOOM under a dual equity structure

First, the concentration of control under the dual shareholding structure increases the risk of business decision-making [9]. The founders with absolute controlling power may harm the company if they ignore the interests of small and medium shareholders or long-term development needs when making decisions.

Second, after Zoom's revenue surged during the onset of the epidemic, founder Yuan Zheng publicly admitted that he had misjudged the post-epidemic market demand, and reflected in an open letter that he had not adequately assessed the team configuration and sustainability priorities, and thus decided to scale down costs through layoffs and leadership pay cuts. Although the remedial measures were timely, they still had a certain impact on the company's long-term strategic development. It can be seen that the dual equity structure as a special equity structure arrangement, will inevitably have a certain impact on the enterprise's investment decisions and risk-taking, and other behaviors [10].

3. Conclusion

Through the above research, the dual shareholding system in different stages of enterprise development, based on the characteristics of its governance structure, for the development of enterprises to bring different opportunities and risks. Specifically, the dual shareholding system gives founders and management absolute control by virtue of AB shares, which enables them to focus on long-term strategic layout and avoid the interference of short-term market fluctuations. In response to unforeseen events in the market, dual-shareholding enterprises can make strategic adjustments quickly by virtue of the centralized control of the core decision-makers, but the hidden danger of arbitrary decision-making and risk concentration may lie behind this highly effective response. However, it is worth noting that this characteristic is not a short-term phenomenon, but a long-term feature rooted in the DNA of corporate governance, which will continue to affect the direction of strategic reshaping, resource allocation efficiency, and revenue recovery ability of the firms in the post-crisis period. It can be summarized that, in the event of a sudden market situation, dual-equity firms may opt for a radical transformation. Therefore, when choosing a shareholding

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structure, firms need to systematically evaluate their industry characteristics, development stage and strategic objectives, and weigh the dialectical relationship between governance efficiency and risk control, so as to maximize the interests of the firm.

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