

## **Study on the Corporate Governance Structure and Protection of Minority Shareholders' Rights in China**

**Jing Wang**

Weinan Normal University, Weinan, Shaanxi, 714000

**Keywords:** Minority Shareholder Right, Governance Structure, Enterprise Development

**Abstract:** Although China's securities market has made remarkable achievements in its development scale and development speed since its establishment, the phenomenon of the loss of minority shareholders' equity has repeatedly occurred, resulting in the lack of confidence of the majority of small and medium-sized shareholders in the market and the unstable market. In view of this, this paper first uses agency theory and transaction cost theory to explain the internal and external conditions of minority shareholders' equity damage, and summarizes the research on the protection of minority shareholders' rights at home and abroad. This paper summarizes the essence of corporate governance. The function has deeply analyzed the close relationship between the shareholding structure, the internal governance mechanism of the board of directors, the securities market legal system, the information disclosure system, the securities supervision and other external corporate governance mechanisms and the protection of minority shareholders' rights and interests. By constructing a model of internal and external governance integration of small and medium-sized shareholders' rights protection, this paper separately demonstrates the internal and external governance mechanisms of the company under the combination of internal or external corporate governance mechanisms and internal and external corporate governance mechanisms. The combination helps to improve the protection of minority shareholders' rights.

### **1. Introduction**

Corporate governance can be divided into internal corporate governance and external governance. The connotation of internal corporate governance is that the company's funders use various corporate power organs or decision-making bodies to control and rule the company's profit maximization goal and ultimately achieve the funder's own utility maximization goal to achieve the public external governance. It refers to the creation of a legal, institutionalized, and efficient external market competition environment for the internal governance of the company, and institutional support or restriction on the company's production and operation, so as to promote various internal power institutions in the securities market. Operates within the framework of the law and the company's charter to achieve the process of maximizing internal benefits.

### **2. The essence and function of corporate governance**

From the point of view of contract theory, transaction cost theory or property rights theory, a company is a collection of contracts. These contracts govern the economic transactions that take place in the company, making transaction costs lower than the transaction costs incurred when the market organizes these transactions. Since the behavior of economic agents has the characteristics of opportunism and bounded rationality, it is impossible for these contracts to predict in advance various possible situations, and to make clear provisions on the behavioral interests and breach of contract of the parties in various situations, but it is only incomplete. contract. In order to save contract costs such as drafting, executing, and supervising costs, incomplete contracts often take the form of relationship contracts, that is, the parties to the contract do not insist on reaching agreement on the details of the behavior, but on the overall objectives, principles, and decision rules. Agreements were reached on the right to decision and the mechanisms for resolving possible disputes. The company charter, and even the company law, is actually the relationship contract.

They only give a framework of relationships, identify mechanisms for decision making and cost sharing, and benefit sharing, without pre-specifying specific actions. For example, they have jurisdiction over different types of shareholders, procedures for directors, scope of powers, responsibilities, and general relationships with operators, but it is impossible to anticipate what might happen or not. What action to take? Similarly, a company labor contract is also a relationship contract, which gives workers rights to workers at one time under the conditions of law and customary licenses, thereby saving the cost of continuous negotiation and contracting. It is based on the company law and the company's articles of association. The corporate governance mechanism is essentially the relationship contract. It regulates the relationship between the various stakeholders of the company in a simple way, governs the transactions between them, and protects the company. The legitimate interests of stakeholders to achieve the company's comparative advantage in saving transaction costs, and ultimately protect the interests of minority shareholders.

The function of corporate governance is to allocate responsibility, rights and benefits. According to the perspective of property rights economics, control usually refers to the major decision-making power of the contract can be expected, and the decision-making power for the unforeseen circumstances of the contract is called residual control. The key to a relationship contract is to clarify who is entitled to make a decision in the event of an unforeseen contract. Obviously, the above powers should belong to the residual control. In general, who owns the assets, or who owns the ownership of the assets, has the residual control, that is, the power to make decisions about the use of assets that are not regulated by law or contract. The primary function of corporate governance is to properly configure this residual control. There are two meanings here. One is that the corporate governance mechanism is arranged under the premise of established ownership. Different forms of ownership, such as credit and equity, concentrated equity and scattered equity, etc., the form of corporate governance will be different. It is ok and can be transferred. The various powers in ownership are effectively configured through a sound corporate governance structure. In the latter sense, the institutional arrangements for the company's residual control allocation and governance structure are mutually equivalent. The traditional internal corporate governance mechanism is a mechanism for allocating residual control rights between shareholders, directors and general managers. For example, shareholders have ultimate control, directors have the power to grant residual control, and managers have actual residual control. It is one of many configuration methods.

### **3. Internal corporate governance and protection of minority shareholders' rights and interests**

From the perspective of the protection of minority shareholders' rights and interests, perfect internal corporate governance can inhibit the infringement of large shareholders, including controlling shareholders, on minority shareholders. In the absence of a complete internal corporate governance mechanism, large shareholders can arbitrarily plunder small and medium-sized shareholders and arbitrarily carry out “resources transfer”. The company has the lowest degree of protection for minority shareholders' rights. At this time, any rational external investors are reluctant to go to the company. investment. With the improvement of the internal governance mechanism of the company and the strengthening of the protection of minority shareholders' rights and interests, the major shareholders can only transfer and obtain profits through some more subtle ways. When the internal governance mechanism of the company is relatively perfect and the protection of minority shareholders' rights is relatively sufficient, Shareholders can only pursue non-normal income beyond the proportion of their cash flow rights. The company's “internal person” pursues by setting a high salary, placing their relatives in the company's management or operating some inefficient and wasteful engineering projects. Self-interest.

The ultimate goal of corporate governance is to effectively and reasonably configure the ownership and control of the company. The ownership structure of the company directly determines the distribution of ownership and control of the company, which indirectly determines the principal-agent between the owner and the operator. The nature of the relationship, that is, the conflict that decides to compete for control occurs between the shareholders and the manager, or

between the minority shareholders and the major shareholders. On the one hand, corporate governance is carried out under the premise of the established equity arrangement, the form of ownership structure is different, and the form of corporate governance is also different. On the other hand, the form of equity in the shareholding structure is configured through corporate governance. Therefore, the shareholding structure is the basis of corporate governance. Only a company with a reasonable shareholding structure may form a sound corporate governance structure, and a sound corporate governance structure is the basis for the protection of minority shareholders' equity. Therefore, the shareholding structure determines the perfection of corporate governance structure. The basic factors for the effectiveness of minority shareholders' equity protection.

The shareholding structure mainly refers to the shareholding structure. The shareholding structure is to indicate the nature of the shareholder of the company. The shareholder can be a state, a general legal person, a holding company, an institutional investor, an individual, etc. The nature of the controlling shareholder is generally related to the purpose of their participation in corporate governance and the protection of minority shareholders' rights and interests. It has an important impact on the protection of minority shareholders' rights and interests. For enterprises, if the controlling shareholder is an industrial and commercial enterprise, the exercise of the equity is often combined with the transaction between the enterprises. The purpose of the controlling shareholder's shareholding is mainly to maintain long-term transactions between enterprises. The equity structure and shareholder status are relatively stable, which can prevent the company's stock from flowing into the hands of "malicious receivers", thus enabling operators to avoid the short-term pressure exerted by the capital market. Focus on the long-term business of the company. These major shareholders generally do not interfere with business operations, and only intervene in the business decision-making if the business performance is seriously deteriorated. If the controlling shareholder is a non-bank financial institution, the exercise of the equity and they are both the company's major shareholder and other decentralized investors. The dual identity of people is combined. When there is a contradiction between the two, or as a major shareholder, pressure is exerted on the business, so that the company can make business decisions that are beneficial to them, or use "vote by hand" and "vote by foot". The way to sell stocks and exercise equity If the controlling shareholder is a bank, then the exercise of equity is often combined with the creditor mechanism, thus forming a strong control over the firm. Whether the nature of the above three types of controlling shareholders has a positive or negative effect on the effectiveness of corporate governance and the protection of minority shareholders' rights and interests is still inconclusive, depending on the specific economic factors such as economic and legal systems. However, if the controlling shareholder is a family business, such companies tend to protect the minority shareholders' rights and interests the weakest. The major shareholders of such enterprises often control the enterprise through the holding method of the pyramid structure. The family business is at the top of the pyramid, while the listed company is at the lowermost level, and the top-level family business often adopts various methods to steal from the lowest-level listed companies. Profits and the looting of minority shareholders' rights are particularly common in East Asia.

From the practice process of the protection of minority shareholders' rights and interests in China's securities market, it can be divided into the primary stage and the development stage. At different stages of development, listed companies pay different attention to the internal and external governance mechanisms of the company, and the resulting protection effect of minority shareholders' rights is not the same. From the establishment of China's securities market to the year of the year, it is the initial stage of the protection of minority shareholders' rights and interests. This stage belongs to the initial stage of China's securities market, and the protection of minority shareholders' rights is weak. The legal provisions mainly come from a series of administrative regulations formulated by local governments or ministries. These local or ministry regulations mainly cover the basic rights of small and medium shareholders. Make temporary provisions with obvious local and stage characteristics. Since the introduction of corporate governance into China's theoretical and practical circles began in the late 20th century, the use of corporate governance mechanisms to effectively protect the interests of small and medium-sized shareholders is in the

early stages of the protection of minority shareholders' rights and interests. At this stage, China's concept of protecting minority shareholders' rights and interests has undergone major changes. It believes that it is necessary to provide a good internal corporate governance mechanism for securities issuance and trading, to ensure that all shareholders conduct securities transactions fairly, fairly and openly, and to prevent small and medium shareholders from being subject to securities fraud. To enhance the trust of small and medium-sized shareholders in the securities market, and shift the focus of corporate governance from the external governance mechanism of information disclosure to the internal governance mechanism of the shareholders' meeting, the board of directors, etc., and realize the perfect internal corporate governance to protect the interests of minority shareholders. It plays an important role in bringing the importance and independence of the board to a highly regarded position. On the contrary, in the development stage of the protection of minority shareholders' rights, the management of the company and the government departments have insufficient understanding of the importance of the company's external governance. From the perspective of information disclosure system, the securities market has problems such as untrue information disclosure, insufficient information disclosure, and untimely information disclosure. The investment decisions of small and medium shareholders are seriously misguided. From the perspective of securities supervision, there are many problems such as the administrative subject being subject to more administrative interventions and the lack of authority of supervision. After the minority shareholders' rights and interests are infringed by the major shareholders and senior executives, there is often no way to claim, thus leading to the role of external governance mechanisms in corporate governance. In practice, it is far from effective, and the rights and interests of minority shareholders cannot be effectively protected.

#### **4. Conclusion**

In order to effectively improve the protection of minority shareholders' rights and interests in China, in addition to the above-mentioned combination of equity structure, board of directors and securities supervision with the securities market legal system, the internal governance mechanisms such as shareholding structure, board of directors, board of supervisors, incentives and restraint mechanisms should be separately related to information. The close integration of external governance mechanisms such as disclosure system, securities supervision, product market, and manager market is limited to the length of this article, and will not be repeated here. By perfecting external governance, we will create a legal and institutionalized external competition environment for the company's internal governance, and provide institutional support or restriction to the company's production and management, so as to promote various internal authorities within the framework of the securities market law. Operation, while maximizing the internal and external benefits of the company, thus effectively protecting the rights and interests of China's minority shareholders.

#### **References**

- [1] Xiao Song, Zhao Feng. Law, investor protection and cost of equity capital [J]. Economics and Management Research, 2010(5): 19 - 23.
- [2] Jiang Guohua, Xu Xinzong, Zhao Longkai. Summary of corporate governance and investor protection research [J]. Management World, 2006 (6): 161 - 170.
- [3] WATTS R L. Conservatism in accounting-Part I: explanations and implications [J]. Accounting Horizons, 2003, 17(3): 207 - 221.
- [4] Yao Wei, Liu Zhiyuan, et al. Improvement of voting rights system and protection of interests of small and medium investors [J]. Managing the World, 2011(3): 144 - 153
- [5] Li Wenjing, Kong Dongmin. Information transparency, corporate governance and participation of minority shareholders [J]. Accounting Research, 2013(1): 42 - 49