

# Research on Modernization Issues and Countermeasures of Company Governance in Company B

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## ABSTRACT

Good corporate governance is a key factor for a company's growth and success, and promoting modernization of corporate governance is an important guarantee for sustainable development. However, family businesses have many complex issues in the process of modernizing corporate governance due to their own characteristics. Paying attention to the governance model of family businesses is of great significance for their future development. This article provides a multi-dimensional analysis of the basic situation of Company B's corporate governance, explores the governance issues existing in the family business, and proposes countermeasures and suggestions. The aim is to provide useful reference and inspiration for other family businesses in terms of corporate governance, thus promoting the sustainable and healthy development of family businesses.

## KEYWORDS

Family-owned enterprise; Corporate governance; Modernization of governance; Shareholder structure

## 1. COMPANY BASIC INFORMATION AND CURRENT STATE OF CORPORATE GOVERNANCE

### 1.1. Company Profile

Company B was founded in 1992 and is located in Shunde District, Foshan City, Guangdong Province. Its core business focuses on real estate development and sales, and it is a family-owned enterprise with a distinct character. The actual controllers are Yang Guoqiang and his daughter Yang Huiyan. In 2007, the company successfully listed on the Hong Kong Stock Exchange main board and started a nationwide expansion strategy the following year. After nearly ten years of vigorous development, Company B has achieved significant achievements, with sales amounting to 550.8 billion yuan in the whole year, which not only ranks among the top in the domestic industry, but also ranks among the world's top 500 enterprises. However, in the context of an economic downturn, the real estate market sales environment has entered a low point in recent years, and Company B has recorded a year-on-year decline in both equity and total sales in the latter half of the year. On August 10th, 2023, Company B disclosed that it expects to record a net loss of up to 55 billion yuan in the first half of this year, and is unable to pay the coupon on two US dollar bonds totaling 22.5 million US dollars that were due on August 6th. The news has made Company B, which has a history of 31 years, a focus of market attention.

## 1.2. Corporate Governance Status Quo

### 1.2.1. Shareholder structure

Table 1 reflects the share changes of B Company after its listing for 15 years. B Company was listed on the Main Board of the Hong Kong Stock Exchange in 2007, and at that time, its largest shareholder was Bisheng Limited, holding a 59.5% share. This company's shares were fully owned by Yang Huayuan, the second daughter of Chairman Yang Guoqing. The actual beneficiary of the second largest shareholder, Domino Group Corporation, was Yang Guoqing's entrepreneurial friend Yang Erzhu. As early as the beginning of the listing, Chairman Yang Guoqing of B Company transferred all his shares to Yang Huayuan, establishing her position as the successor, while Yang Guoqing himself stated that Yang Huayuan represents the family's holding. Since the listing in 2007, the shareholding of the Yang family has remained above 51%, and they have maintained actual control over B Company.

**Table 1. Share Change Information**

Shareholder name	Ultimate controller	2007	2011	2014	2017	2020	2023
<b>Winning Ltd.</b>	Yang Huiyan	59.50 %	59.83 %	45.1 %	44.11 %	58.72 %	51.95 %
<b>DuoMi Group Co., Ltd.</b>	Yang Ershu	10.20 %	5.82%	5.01 %	/	/	/
<b>Genesis Capital Global Limited</b>	Yang Huiyan	/	/	13.9 5%	13.35 %	/	/
<b>China Ping An Life Insurance Co., Ltd.</b>	China Ping An Insurance (Group) Company Limited	/	/	/	10.51 %	8.84%	5.31%
<b>other</b>	/	34.94 %	34.35 %	35.9 4%	32.03 %	32.44 %	42.74 %

Data source: Dongfang wealth website

### 1.2.2. Organizational Structure

In recent years, the board members of Company B have undergone significant changes, especially in the past two years. On March 1st, 2023, Company B announced that Yang Guoqiang resigned as chairman and executive director of the company due to age reasons, and continued to participate in the group's business operations in the form of a special advisor. Yang Huiyan, who is currently the board's vice chairman, took over the chairman position. Apart from the main board members of the Yang family, Company B has completely overhauled its board, with significant changes to the independent directors' list. The company's original five long-term independent directors will almost all step down in 2024, with only Du Youguo continuing to serve, while three new independent directors have been added. Currently, Company B has 11 directors, with a requirement that independent directors must account for at least one-third of the board. Therefore, Company B has four independent directors and one chairman director. The election of all board members is conducted by shareholders' meeting, and the chairman director is elected by a majority of the board members. His term is three years, and he can choose to continue serving after the term is up.

**Table 2.** Board of Directors Committee Members of Company B in 2024

Director	Committees under the Board of Directors						
	Audit Committee	Compensation Committee	Nomination Committee	Corporate Governance Committee	ESG Committee	Executive Committee	Financial Committee*
<b>Yang Huiyan</b>		M	C	C	C	C	M
<b>Mo Bin</b>		M		M	M	M	M
<b>Yang Ziyang</b>						M	M
<b>Cheng Guangyu</b>				M	M	M	M
<b>Wu Bijun</b>							C
<b>Han Qinchun</b>	M	M			M		
<b>Wang Zhijian</b>	C	M	M		M		
<b>Tuo Tuo</b>	M	C	M		M		

Note:

C Chairperson of the board's committees.

M Members of Committees under the Board.

\* The Finance Committee is composed of 7 members, including 5 executive directors of the company and 2 senior management personnel from the company's financial and funding center.

Source: Official announcement and annual report disclosure of Company B.

Company B's board of directors currently consists of seven standing committees, including an audit committee, compensation committee, nomination committee, corporate governance committee, environment, society and regulation committee, executive committee, and financial committee. Table 2 lists the specific positions of each board member on these committees. As shown in the table, Chairman Yang Huiyan holds four committee chairs, Executive Director Wu Biujun holds one committee chair, and independent directors Wang Zhi-jian and Tuudu respectively hold one committee chair. Among them, the financial committee specifically includes two senior management personnel from the company's financial center.

### 1.2.3. Decision-making mechanism and incentive mechanism.

Company B now constructs a "6+1+4" board structure, including 6 executive directors, 1 non-executive director, and 4 independent directors, forming a relatively balanced situation to some extent. However, it is worth noting that in the board of directors, Yang Huiyan's share ratio is always higher than 51%, with a veto vote. Yang Huiyan, Yang Ziyang and Chen Chong are all important members of the Yang family. At the same time, Company B has built a sound risk management structure, which is composed of the risk management internal committee, the risk management executive body and the risk management supervision body, aiming to realize the "decision-execution-supervision" balance between the group and various business process levels, so as to enhance the scientific and effective decision-making mechanism.

Since 2012, Company B has implemented the equity incentive policy, the core content of which is the "achievement sharing" program. The program focuses on senior management, business and

technology leaders to drive innovation and strengthen performance strategies. It follows the principle of "benefit sharing, risk sharing", and provides a strong incentive for the sustained and rapid development of the company by building a new "partner model". At present, the unlocking conditions of the "achievement sharing" equity incentive include two main aspects: First, the company must realize the full recovery of the group's own capital investment within one year; Secondly, the investment of own funds and the annual return of own funds need to be strictly assessed to ensure that the annual return of own funds is not less than 30%. Only when these two conditions are met at the same time can the exercise qualification of equity incentive be unlocked. In practice, regional presidents have a certain amount of discretion to flexibly respond to various situations. As at 31 December 2022, the total number of shares available under the Share Award Scheme was 283,259,032 shares (including shares granted to relevant employees, unregistered and pending transfer), representing 1.02% of the issued shares.

In addition to the share incentive policy, the senior salary of Company B is worth noting. According to the annual financial report of Company B in 2022, the remuneration committee made a huge adjustment to the remuneration of directors and senior administrators, among which President Mo Bin, as the first professional manager in the true sense of Company B, adjusted his annual salary from 15 million yuan to 3 million yuan. Executive Director and Vice President Yang Ziyang's annual salary has been adjusted from \$1 million to \$2 million. On December 12, 2023, Company B issued another announcement of directors' salary adjustment, and the annual salary of Yang Huiyan, Mo Bin, Yang Ziyang and Chen Chong was adjusted to 120,000 yuan. Other senior and management have reduced their salaries.

## **2. ANALYSIS OF THE PROBLEMS IN THE CORPORATE GOVERNANCE OF COMPANY B.**

### **2.1. High Equity Concentration**

Company B's current largest shareholder is BISSELL Limited, holding a share ratio of 51.95% after years of dilution. It is disclosed that the actual controller of BISSELL Limited is Chairman and Director Yang Huiyan of Company B, who holds a 100% stake in BISSELL Limited. The second largest shareholder is institutional investor China Pingan Insurance (Group) Corporation, which was only introduced in 2017, and after years of dilution, the institution holds only 5.31% of the shares. Typically, in publicly listed companies, equity is relatively evenly distributed, with controlling shareholders holding 30-40% of shares being a common scenario. Having a single controlling shareholder tends to harm the interests of minority shareholders, and in addition, the company's achievements in operations and development lack a sharing mechanism, which is not conducive to uniting the hearts and minds of employees and achieving long-term development.

### **2.2. Family Monopoly of Decision-Making Resources**

During its development stage, Company B mainly formed a governance structure with internal organizations such as the Shareholders' Meeting and the Board of Directors as the mainstay, which has been used until now. Typically, for companies in the development stage, many processes are not standardized and rely heavily on the personal abilities and experience of leaders. It is common for family-owned businesses to fully control decision-making power. However, as of now, Company B has long since established itself and its family members and other stakeholders still jointly hold the decision-making resources. Major decisions still need to go through the Shareholders' Meeting and the Board of Directors, while other senior management is limited to routine programmatic decisions. The current poor operating situation of Company B is due to Chairman Yang Guoqing's personal decision-making errors in shifting the strategic focus to third- and fourth-tier cities and rapid housing construction with high turnover. As a result, sales have not kept up with construction speed in these

smaller cities, leading to a breakdown in the capital chain and the company facing an unprecedented crisis. Based on the organizational structure analysis from the previous text, Yang Huian, the current largest shareholder and Chairman of the Board, has highly concentrated control and management rights, which may lead to a situation where the controlling family has too much power and monopolizes decision-making resources.

### **2.3. Single Equity Incentive Method**

Currently, Company B's method of implementing equity incentive is relatively single when it comes to the way they reward employees. From the performance indicators perspective, it mainly relies on financial metrics, lacking clear regulations for non-financial metrics. This leads employees to primarily rely on cash or performance-based stock options when seeking more incentives. Additionally, the standards for B's equity incentive are not comprehensive enough to fully stimulate employee enthusiasm. In terms of "shared Success" equity incentive reward distribution, the current design framework mainly focuses on senior managers, mid-level managers, and project participants, with relatively insufficient incentive policies for frontline and grassroots employees, and unclear distribution ratios. Furthermore, due to the regional president's discretionary power in "Shared Success" reward distribution, there is a risk of greater arbitrariness in rewards and allocations over the long term, which could not only affect employee enthusiasm but also potentially lead to Passive sabotage. Therefore, Company B needs to further improve its incentive methods and standards in its future equity incentive practices, ensuring that incentive policies fully cover all levels of employees, reducing the impact of subjective factors on reward distribution, and thus more effectively stimulating employee enthusiasm and creativity.

## **3. MEASURES TO IMPROVE THE GOVERNANCE OF COMPANY B**

### **3.1. Optimize Shareholder Structure and Introduce Institutional Investment**

Overconcentration of equity as a common problem in family businesses, also exists in Company B. The main way to improve the distorted equity structure of most family-owned businesses in China is to moderately centralize equity ownership, while retaining family shareholders holding a majority of shares, and transferring minority equity to other shareholders, forming a relative family shareholders' controlling shareholding and the existence of major shareholders without holding a majority of shares<sup>[1]</sup>. Under the moderately centralized equity structure, the controlling shareholders of the family business are still family members, but the ownership proportion of family members has been reduced, forming a relative controlling situation. In addition, under the appropriate gap between the ownership shares of major shareholders and family controlling shareholders, a delicate balance relationship is formed between the two, which effectively prevents the arbitrary actions of the family controlling shareholders and helps to safeguard the interests of other major shareholders.

Improving investors' professional literacy is a key aspect for the sustained development of capital markets. Enterprises should fully recognize the important role of institutional investors in corporate governance. The ownership of institutional investors not only helps to alleviate agency problems, but also promotes the improvement of internal controls, thereby improving the financial and environmental social responsibility performance of enterprises in the short term, and in the long run, it helps to enhance the sustainable development capabilities of enterprises. B Company can strengthen information transparency disclosure, strengthen investor relations management, actively attract high-quality institutional investors to increase their ownership, and optimize institutional investor structure.

### **3.2. Enhancing the Restraint Mechanism for Independent Directors and Improving the Performance of the Board of Directors**

Company B has a highly centralized ownership and management structure, with the largest shareholder and chairman, Yang Huyan, serving as the chairman of 4 out of the 7 committees under the board of directors. There are concerns about high levels of nepotism and favoritism in personnel appointments at the board level, and the board's performance efficiency needs to be improved. Company B can improve the board's performance efficiency by strengthening the restraint mechanism of independent directors and enhancing their initiative in participating in corporate governance. During decision-making processes, independent directors can help the company avoid blind following and short-sighted behavior by relying on their unique perspectives and judgments, ensuring that decisions are in line with the company's long-term interests. The strengthening of independent director functions can better safeguard the interests of the company and shareholders. As representatives of shareholders, independent directors can effectively supervise the company's management team and play a balancing role. At the same time, independent directors are also a key part of improving the corporate governance mechanism of a company, helping to achieve the separation of ownership and management rights, promote the reasonable distribution and balance of company power<sup>[2]</sup>. By playing the role of independent directors, Company B can establish a more scientific, standardized and effective governance system, improve the company's governance level and market competitiveness. When improving board performance efficiency, Company B may consider weakening the board's decision-making power and strengthening its supervision power. By devoting more effort to monitoring the management team and ensuring company interests, the board can delegate decision-making authority to the shareholders' meeting, which can better avoid major shareholders' mistakes in operational decisions while protecting the rights and interests of the majority of shareholders, providing small shareholders with opportunities to ride on "the convenience bus".

### **3.3. Fulfilling the Evaluation Criteria for Equity Incentive and Establishing a Scientific Incentive System**

The value of equity incentive lies in helping companies achieve long-term, sustainable, and rapid development goals. By reducing labor compensation and incentivizing costs, we can more reasonably allocate the value added of the company's profits, thereby maximizing the retention of talent, constraining management personnel, and attracting external excellent talent. To achieve the maximum value of equity incentive, B Company needs to pay special attention to the setting of incentive standards in the process of optimizing equity incentive programs, and enhance the effectiveness of equity incentive<sup>[3]</sup>. The establishment of a scientific incentive system with multiple levels of evaluation indicators should be implemented from top to bottom to promote the enthusiasm of all employees of the company.

In addition to equity incentive, B Company also needs to establish a reasonable salary incentive system and improve the incentive and restraint mechanism for senior executives. B Company may consider increasing the transparency of senior salary systems, strengthening public information disclosure, placing salary systems under the supervision of regulatory organizations and the public, which will help enhance public favorability, increase company trust, and promote the enthusiasm and initiative of senior executives and ordinary employees, as well as maintain the stability of grassroots employees, attract outstanding talent to join the management of enterprises, and promote healthy and sustainable development of enterprises.

## 4. SUMMARY

This paper reveals the key problems and challenges in the process of corporate governance of B Company, a family enterprise, through the in-depth study of its corporate governance modernization. As a real estate enterprise with significant family characteristics, Company B is also facing challenges such as complex corporate governance structure, concentrated equity structure and frequent changes of board members while developing rapidly. Especially in the context of the economic downturn and the sluggish sales environment of the real estate market, the operating conditions of Company B have experienced great fluctuations and even faced financial difficulties.

In view of the problems existing in B company, this paper puts forward the corresponding countermeasures and suggestions. First of all, we should further improve the corporate governance structure, ensure the effective operation of the board of directors, the board of supervisors and other institutions, and form a mechanism of checks and balances and mutual supervision. Second, we should optimize the shareholding structure, reduce the proportion of family members, introduce strategic investors and institutional investors, and improve the transparency and marketization level of corporate governance. In addition, the stability and professionalism of the board members should be strengthened to ensure the scientific and rational decision-making of the board.

In the process of corporate governance modernization, family enterprises should fully recognize their own characteristics, actively learn from the successful experience of other enterprises, and formulate corporate governance strategies in line with their own development. At the same time, the government and all sectors of society should also provide more support and help for family enterprises to provide a strong guarantee for the modernization of corporate governance.

In short, the modernization of corporate governance of family enterprises is a complicated and long process, which needs the joint efforts of enterprises, government and all sectors of society. Only by continuously improving the corporate governance structure, optimizing the equity structure, strengthening the construction of the board of directors and other measures can we promote the sustainable and healthy development of family businesses and make greater contributions to the prosperity and stability of the economy and society.

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