Analysis of Success to Alibaba IPO: Effectiveness of Dual-class Share Structure

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Abstract. Since the majority of Chinese Internet technology businesses use dual ownership structures, an increasing number of them are opting to list abroad in the rapidly expanding global Internet business environment of today. Many have begun to consider the dual ownership structure as a result of Alibaba Group's successful New York Exchange (NYSE) offering, which featured an unusual ‘one share, one vote’ and ‘partnership system’. Alibaba initially disclosed the list of 27 partners and their terms of office on June 16. It also revealed the identities of the nine board members of the future public business and the most current financial data. Using a investigation of the literature and a comparative analysis, this research will examine Alibaba Group's dual ownership structure, as well as the benefits and drawbacks of such a structure for corporate governance. Additionally, it will examine how the system affects Alibaba's financial and risk-control performance. At the end of the paper, the author offers suggestions for the "implementation" of the dual ownership structure in China through the research.

Keywords: Dual-class share structure, Partnership, Initial Public Offering.

1. Introduction

With capital exceeding $20 billion, Alibaba made history on 19 September 2014, when it successfully debuted on the NYSE in the United States, making it the biggest IPO in Internet history. Its market value increased to US$231.4 billion at the end of the trading day, exceeding the combined worth of the two biggest American e-commerce companies, Amazon and Yibe, as a result of its opening share price skyrocketing. People's lives have been somewhat altered in the last few years or so by the Internet's explosive growth. The Internet sector has grown steadily and brought ease to people thanks to social media, e-commerce, and online advertising. Alibaba encompasses a wider range of businesses, including Taobao, Tmall and Jushu, which are the main online shopping platforms in mainland China, and the company also created Alipay, China's largest third-party trading platform. Regarding to Dunkley, Alibaba's U.S. listing success prompted the Hong Kong Stock Exchange to reconsider its dual-shareholding policy in 2018, which ultimately resulted in the approval of Alibaba's Hong Kong listing application [1]. Other new economy businesses, such as financial institutions and economy stocks like Chinese smartphone manufacturer Xiaomi, which has currently reached a market capitalization of US$40 billion, have been drawn to Alibaba's successful Hong Kong IPO.

Alibaba's creative business approach sets it apart from conventional corporations. The organization currently owes dual-class share structures instead of "single share, single right" model from other traditional organizations. By eliminating short-term market pressures, the dual ownership structure allows management to concentrate on long-term investment objectives. With this structure, Alibaba, a well-known Internet corporation, has more room to develop in terms of sales and R&D intensity [2]. The primary distinction between Internet retailers and traditional brick-and-mortar businesses is that the Internet covers a wide range of services, including buyers from all over the world, and merchants merely require to deliver goods to consumers through international logistics. A significant quantity of finance and the entry of pertinent personnel are also crucial for the rapid advancement of Alibaba businesses for the purpose of matching the company's scale expansion.

This essay will offer a comprehensive analysis of the dual-class ownership structure of the Alibaba Group and examine the factors why the enterprise has adopted this shareholding structure, before

stepping to a thorough conclusion with an in-depth investigation of the potential implications of the modification in shareholding system on Alibaba's IPO and its continued development. In addition, the MRD (Method, Result, and Discussion) thesis structure will be applied in this research, together with the objective facts stated and clarified through the literature review approach and the statistics and graphs integrated to demonstrate the equity capital dynamics, profitability, and risk control of Alibaba Group. For the purpose of thoroughly evaluating the beneficial effects of the dual-class equity structure on the business's financial performance and how the system may successfully drive IPOs among other Internet enterprises.

2. Literature Review of Alibaba’s Dual-Class Share Structure

2.1. Why the Dual-class Share Structure?

A dual-class shareholding structure is one in which the company's executives and founders typically own the shares with the greater voting rights between two classes of common shares that have uneven voting rights, the rest of the firm's capital is held by ordinary shareholders, such as outside investors [3].

According to Olivia Wang, Alibaba's listing in the United States, where stock exchanges allow listed companies to adopt a different ownership structure than "one share, one vote," was one of the main attractions to the Internet giant's successful offering in New York [4]. This structure stimulates creativity and offers an immediate impact on the performance of business decisions. Alibaba first attempted to list on the Hong Kong Stock Exchange. However, due to the fundamental restriction on the dual ownership structure in Hong Kong's listing, the Hong Kong Security and Futures Commission (SFC) rejected Alibaba's application along with that of its partners.

Companies adopting dual shareholding structures typically distinguish between two classes of shares, A and B. Class B shares, for instance, include multiple votes (e.g., 10) per share and are frequently held by the company's the initial shareholders and core management team. Class A shares, on the other hand, having merely one vote per share. In this case, a larger percentage of voting rights allows those who initially invested to maintain power over the company's actions even if they possess a smaller proportion of the shares. Nevertheless, Alibaba determined to weaken the voting rights of outside shareholders by enabling partners to propose or appoint a simple majority of the board of directors through the articles of incorporation, as opposed to immediately adopting a tiered design with varied voting rights for the same shares. At the same time, the enterprise has established a series of intricate and sophisticated governance arrangements to ensure that the partners' control is difficult to challenge.

2.2. Advantages of this Effective Ownership Structure

The positive aspects of this structure are widely regarded to be as follows: it may successfully maintain management control for an extended length of time, minimize the expense of attaining this control, allow personnel to take on a role, and allow the firm to expand over the long term. Prior to this, Alibaba Group Holding Ltd.'s announcement that it will divide its $220 billion conglomerate into six business entities caused the U.S. stock market to close up 14.3%, including Commerce, Cloud, Cainiao, Consumer Services, Digital Media as well as Innovation, other [5]. Refering to Table 1.

Another benefit of the dual ownership arrangement is that Alibaba has also established a partnership system named Lakeside Partners. The partnership system boosts internal decision-making efficiency and guarantees that the core founding team is able to concentrate on researching the global transaction convenience network. However, because the partnership relationship is governed by the partnership agreement, the development of the enterprise must coincide with the expansion of the business and the growth of the operating principle with the goal to achieve the effect of mutual checks and balances. According to ALIBABA.com, the nomination process for Alibaba's partners is likewise somewhat complicated, requiring existing partners to recommend new candidates to the partnership

board, with the final candidate needing to gain support from at least 75% of all shareholders in order to become one of the partners.

Table 1. Alibaba's Sales In 2022.

ALIBABA'S SALES (FY 2022)	BILLION/ $
Commerce	$101.9B
Cloud	$11.6B
Cainiao	$7.2B
Consumer Services	$6.8B
Digital Media	$5.0B
Innovation, other	$0.4B

Source: Bloomberg

2.3. Weaknesses in Dual-class Structure

Several considerations seem to point toward a different result notwithstanding this upbeat assessment of the use of dual-class shares. With regard to Rowe, Agency expenses between insiders (e.g. executives and controlling shareholders) and outsiders (regular shareholders) are somewhat soared by the dual ownership structure [6]. Managerial performance may suffer as a result of the structure's capacity to keep them cut off from the actual authority inside the Alibaba Group and to slow down the transmission of valuable information. Even worse, the establishment of such a shareholder structure could possibly detract from the company's appeal to outsiders with potential for business.

In addition, when the controlling shareholders have limited financial interests in the business, dual-class ownership systems could lead to agency problems and disputes of interest as they may pursue personal benefit from the corporate leadership at the price of Alibaba's overall value. It will be more challenging for the enterprise to raise adequate capital if the desires of investors are not sufficiently safeguarded in this scenario, leading them to potentially exit the market. Immediately following that, the market will begin to target both Alibaba Group and the NYSE, the venue of the company's IPO, which will be detrimental for the business long-term expansion as a whole.

Howard claimed it is undoubtedly that a dual-class share structure may significantly consolidate the position and authority of management or the board of directors [7]. Conflicts and dissension could arise when the board of directors and ordinary shareholders hold opposing views on matters pertaining to corporate decision-making. However, since the managers possess greater power, the investors are frequently constrained by their thoughts and judgments of the managers, and therefore they have to embrace the management's ultimate choice and all of its ramifications.

3. A Comprehensive Evaluation of The Dual-Class Structure

3.1. Impacts Caused by Dual-class Ownership Structure

Alibaba Group Limited's dual shareholding structure achieved certain control over the company's founding and management teams, laying the foundation for the company's positive economic performance, which continued to flourish and drive the success of the IPO. It is challenging to figure out with precision whether anti-takeover protection influences the key relationship between insider control and innovation demands in dual-equity businesses compared to single-equity enterprises. The inventive output of dual-equity businesses has been contrasted through early analyses, not with single-equity firms generically but with particular single-equity firms that use different but equally effective anti-takeover regulations [8]. This approach, in the viewpoint of the researcher, significantly contributes to the literature on dual-equity firms, consolidation, and innovation by eliminating the theoretical ambiguity that, on the one hand, any observed effects of a two-tier shareholding structure are attributable to the combined effects of managerial consolidation and anti-takeover protection, and,

on the other hand, there is a positive correlation between some insider control and firms' innovation outputs, especially in terms of quantity and quality of exploratory research.

The following phase is to examine at time trends to see if the beneficial correlation between output of innovation and disproportionate internal controls perpetually exists there or evolves with time. The authors discover that whereas acquisition defenses might raise a company's value following an IPO, they eventually become expensive. During an IPO, dual-class share businesses are valued at a premium above single-equity firms; but, around six years later, the premium transforms into a discount. Over time, the greater capacity to innovate exhibited by dual-class equity corporation's wanes: the positive relationship between excessive internal controls and innovation only lasts for around ten years following the first public offering, after which there are no significant advantages.

3.2. Alibaba's Economic Performance

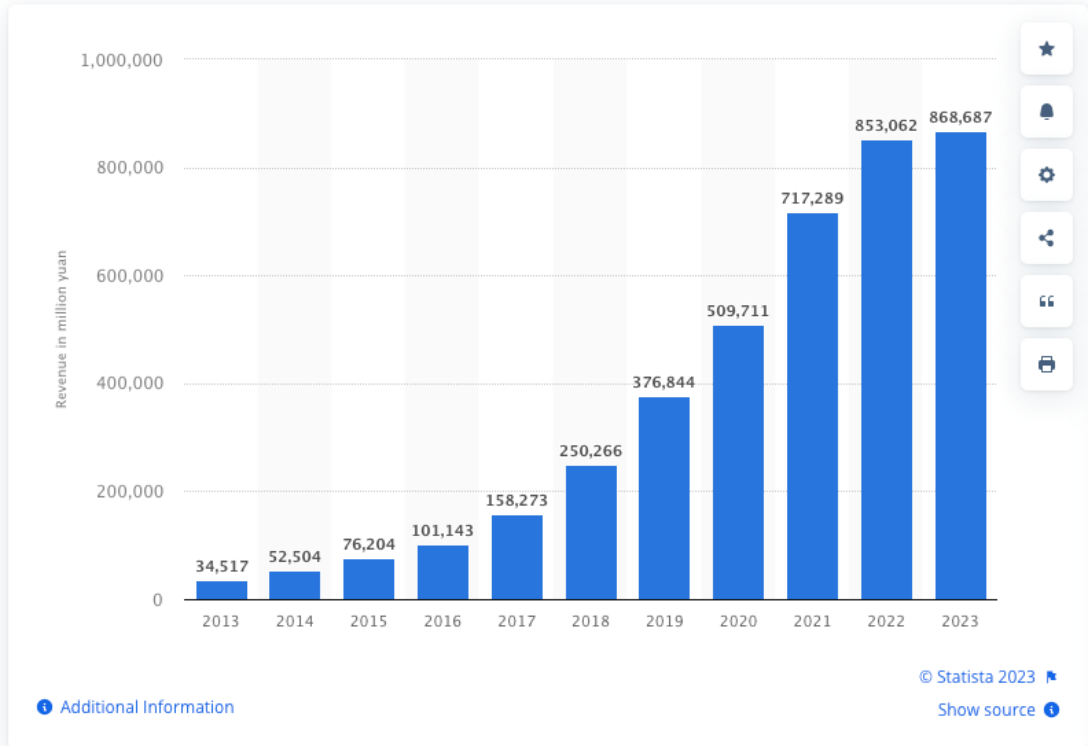
Given the changed circumstances surrounding corporate governance, the author has to evaluate the dual ownership structure's economic performance as a means to determine how successful it is. Alibaba Enterprises strives to maximize profits prior to anything else. The corporation may guarantee a particular amount of turnover through effective management and innovation. Shuai states that, in terms of financial performance metrics, a company's profitability is the most significant and representative metric [9]. Second, the degree to which the business has been able to sustain steady growth in earnings and assets, allowing it to enhance development and make larger investments in the innovation market, is a crucial indicator of the efficacy of the dual equity structure has been. This study combines a number of profitability metrics to illustrate Alibaba's profitability with the goal to more precisely assess the effect of the dual-class ownership structure of the business.

According to Figure 1, Alibaba's annual turnover has grown steadily year-on-year since its IPO in 2014, from RMB 52,540 billion in 2014 to RMB 868,687 billion in 2023, representing a more than 15-fold increase in total revenue. Alibaba Group Holding Ltd. reported revenue of 234.16 billion yuan ($32.29 billion) in the first quarter of 2023, up 14% from the same period the previous year. It had been almost two years since the company's strongest quarterly revenue rise. The boost in sales was mostly driven by the unit's domestic e-commerce sector, which specializes in low-cost items that appeal to customers in a challenging economic context [10].

Dividends of the overall amount of shares in circulation of a company's ordinary share by profit are utilized to calculate earnings per share, or EPS. The resulting value gives an estimate of the profitability of a corporation. A company frequently announces EPS modified for anomalous costs and potential share dilution [11]. It can be seen from Figure 2, over the span of the last five years, Alibaba Group's EPS statistics have varied overall. The company's estimated EPS would be highest in 2021 and lowest in 2022, in accordance with the data that were computed. The dual ownership structure alleviates a major constraint on the entrepreneurial management team from the venture capitalists, hence increasing the company's profitability.

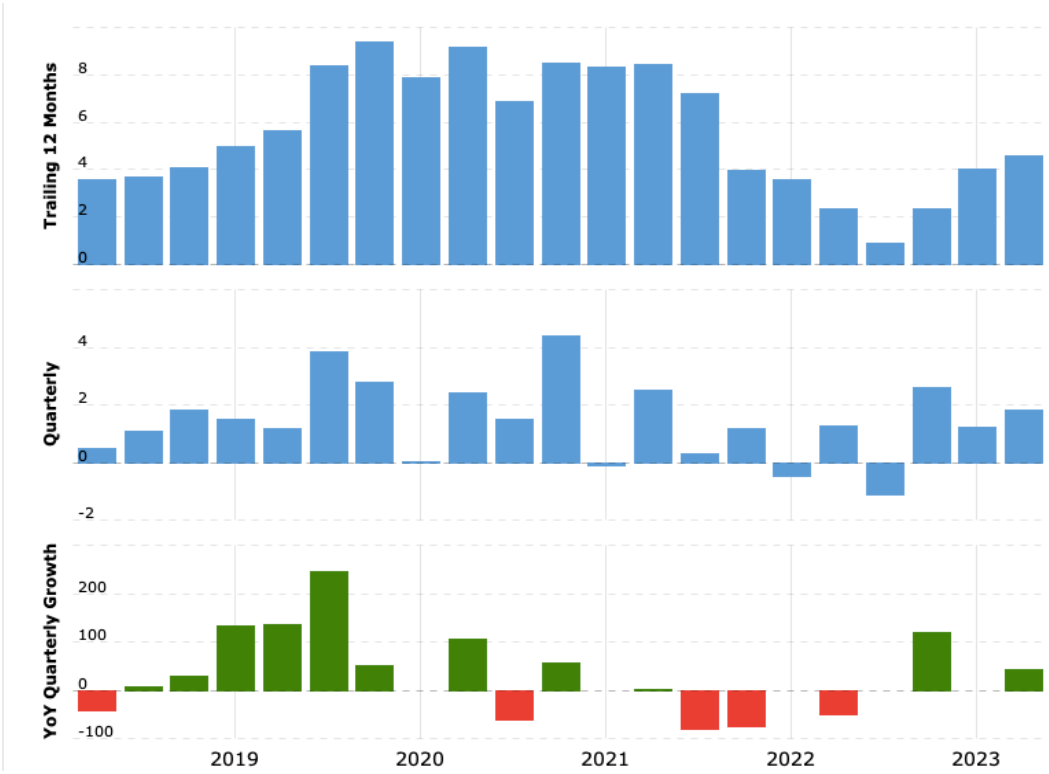
Unquestionably, Alibaba will encounter both financial and operational challenges as it develops. The capacity to handle risk is a clear indicator of the enterprise's senior management's strength. According to Girardin, The working capital ratio is another name for the current ratio [12]. By comparing current assets to current liabilities, this ratio determines whether a company can maintain a sustainable balance between its financing, assets, and liabilities. The current ratio is often seen as a broad measure of financial health since it shows a company's ability to pay down short-term loans. Current ratio and quick ratio generally serve similar purposes, however, there are still some differences. The main distinction is that, due to their low liquidity, inventories and prepayments are not included in current assets when calculating the quick ratio. Regarding to Figure 3, Alibaba's quick ratio averaged 1.4x for the fiscal years ending in March 2019 through 2023. From the fiscal years that ended in March 2019 to March 2023, Alibaba operated at a median quick ratio of 1.4x. Looking back over the previous five years, March 2020 marked the 1.6x top for Alibaba's fast ratio. With respect to other Internet companies, Alibaba Group's quick ratio is high relative to its counterparts (see Table 2). The writers took into account Alibaba's size, growth, and a wide range of financial indicators. The

company's greater quick ratio suggests that it has a stronger ability to repay short-term debt, and the indicator stays at the industry average. This is due to the possibility that a high quick ratio will potentially decrease the company's profitability.



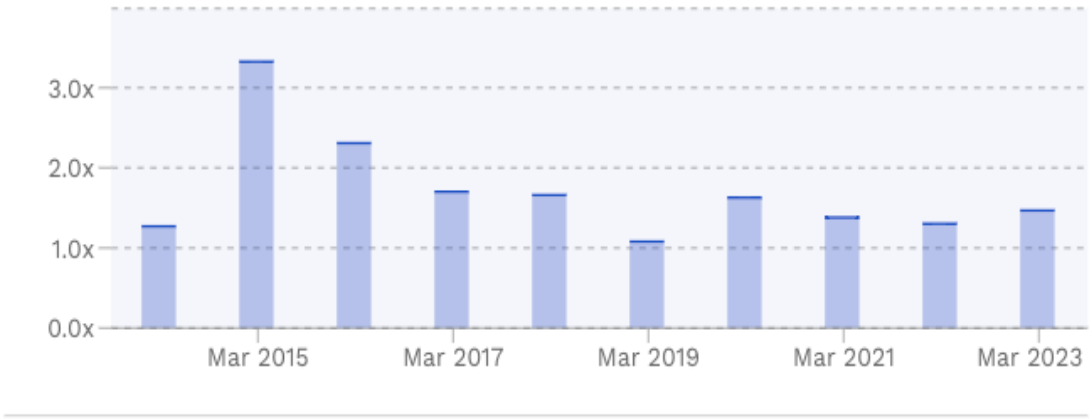
Source: Statista

Figure 1. Alibaba Group's annual revenue
(measured in million yuan) from the 2013 fiscal year to 2023.



Source: Macrotrends

Figure 2. Alibaba's Annual Earning per Share (EPS).



Source: Finbox

Figure 3. Alibaba Group Holding Limited's Quick Ratio.

Table 2. Quick Ratio Benchmark

Name	Ticker	Quick Ratio
Amazon.com Inc	NASDAQGS: AMZN	0.7x
MercadoLibre Inc	NASDAQGS: MELI	0.7x
Coca-Cola Femsa SAB de CV ADR	NYSE: KOF	0.9x
JD.com Inc Adr	NASDAQGS: JD	1.0x
Consumer Discretionary	SECTOR: DSCY.CN	1.1x
Allegro.eu SA	OTCPK: ALEG.F	1.2x
Baozun Inc	NASDAQGS: BZUN	1.4x
Alibaba Group Holdings Ltd ADR	NYSE: BABA	1.4x
PDD Holdings Inc DRC	NASDAQGS: PDD	1.5x
Etsy Inc	NASDAQGS: ETSY	1.8x
eBay Inc	NASDAQGS: EBAY	2.0x
Sohu.Com Inc	NASDAQGS: SOHU	2.7x

Source: Finbox

4. Conclusion

All things considered, Alibaba's future growth will reap advantages from the dual ownership structure. Alibaba continues to be able to generate its goods and expand its company since the system's deployment. It has also strengthened its corporate governance and improved its partnership structure. Alibaba has steadily stabilized its operations. Furthermore, by attracting highly educated international investors, the dual ownership structure protects the lawful rights and interests of Jack Ma, the business's founder, and other top administrators. It additionally facilitates the company strategically diversify. All of them support the company's ultimate mission of maximizing profits and reinforce its fundamental competitiveness. As an economic organization pursuing long-term interests, the dual-class share structure is more in line with the essence of the enterprise. However, the two-tier shareholding system is a double-edge sword, the drawback is that it could escalate agent disagreements and result in more severe insider control.

As things stand, there are significant hazards connected to China's full adoption of a dual ownership structure. China's legal system and market circumstances are still developing, which is the reason rapid liberalization will cause the market to overreact. In the author’s viewpoint, China ought to take a measured approach to system liberalization with the aim to provide more businesses with the opportunity to employ alternative management techniques and encourage economic system diversity.

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