

A Literature Review on the Ways of Minor Shareholders' Participation in Corporate Governance

Yadu Zhang^{1, #}, Weiran Zhang^{2, #, *}, Zimu Zhang^{2, #}

¹ SDU-ANU Joint Science College, Shandong University, Weihai, Shandong, China, 264209

² School of Economics and Management, Yanbian University, Hunchun, Jilin, China, 133002

* Corresponding author: nikiiiQ@163.com

#These authors contributed equally.

Abstract. This paper summarizes the research on the ways of minor shareholders' participation in corporate governance. The ways of minor shareholders' participation in corporate governance include voting with hands, voting with feet and voting with mouths. In this paper, the case analysis of Gree Electric Appliances' general meeting of directors election shows that the activism of minor shareholders can play a better role in governance. However, controlling shareholders may take passive means such as related transactions to seize the interests of minor shareholders. Finally, this paper puts forward some suggestions to strengthen the protection of minor shareholders' rights and comments on the policy enlightenment.

Keywords: Minor Shareholders, Corporate Governance, Agency Problem, Passivism.

1. Introduction

Minor shareholders refer to shareholders with a small proportion of other capital contributions except for directors, supervisors, senior managers and shareholders holding more than 5% of the company's shares alone or in total when the company is registered. They cannot participate in the company's relevant affairs decision-making or participate or effectively exercise their rights, and it is difficult to control the direction of the company's business management activities. In the existing listed companies, the number of funds invested by shareholders determines their right to speak in collective voting activities. Minor shareholders have the right to vote according to law, and the corresponding voting rights are also weak. It is difficult to make a substantial impact on the management and operation of the company, so it is difficult to protect their legitimate rights and interests. Out of cost and benefit considerations, minor shareholders mostly choose "free rider" investment rather than active participation. Minor shareholders are often reluctant to pay more monitoring costs. From the modernization process of the western corporate governance structure, we can explore the development process of minor shareholders. At the level of corporate governance structure, the control right is mainly manifested as vote right. Having voting rights means decision-making power for things not stated in the contract. With the emergence of the managerial revolution in the 1930s, the highly dispersed equity of listed companies weakened the equity, forming a de facto separation of two rights, that is, the separation of the right to invest assets owned by investors and the right of managers to operate the assets invested by investors. In the mid-1960s, agency capitalism was completed, and minor shareholders negatively participated in corporate governance and tended to profit from the secondary market. By the mid-to-late 1980s, the corporate system had shifted to an investor-led governance model, and the era of agent capitalism had shifted to an era of investor capitalism. In the 21st century, the reform of modern companies continues to deepen. In order to protect the interests of investors, the company's operating methods and systems change rapidly, and the interests of minor shareholders are further protected. Su and Yang [1] pointed out that the emergence of change can be seen in minor shareholders actively engaged in the governance of listed companies. China's minor shareholders are gradually getting rid of short-term interests. From the price difference creation to the value discovery and value creation stage, the degree of participation of minor shareholders in governance continues to increase.

2. Attendance of minor shareholders

In recent years, China's corporate governance model has been continuously modernized. The reform of non-tradable shares, the development of institutional investors, the continuous improvement of company law, and the gradual development of the domestic capital market have all effectively promoted the enthusiasm of minor shareholders to participate in corporate governance. The awareness of safeguarding legitimate rights and interests has been continuously improved, and shareholder activism has continued to develop. The development process of shareholder activism has also responded to the development of minor shareholders. It is worth mentioning that in recent years, minor shareholders have frequently vetoed the motion of major shareholders in many company shareholders' meetings. Baoli International Company (Jiangsu Baoli International Investment Co., Ltd.) held the company's annual shareholders' meeting in 2021. One of the "Bills on External Guarantees" was the only rejected bill. The voting results showed that the agreed votes for the above bills were 298,800 shares, accounting for 8.9797% of the shares held by all shareholders attending the meeting; opposition was 30.287 million shares or 91.0203 per cent. In addition, in these years, lots of companies also have a wave of minor shareholders vetoing the resolution. This shows that the power of minor shareholders must be addressed. The shareholders' meeting will also pay more attention to the voice of minor shareholders.

From the actual case, in May 2012, Gree Electric Appliance's 2011 annual shareholders' meeting voted on the motion of the company's ninth board of directors election. In the election of directors, the small shareholders represented by institutional investors used the cumulative voting system to elect directors nominated by institutional investors with a support rate of more than 100% and successfully rejected the directors nominated by the largest shareholder, who has always had a dominant position in the shareholders' meeting, especially the board of directors.

Based on the shareholders' meeting documents and the annual situation of shareholders of listed companies, this paper selects the number of minor shareholders attending the shareholders' meeting and the total number of shares of Gree Electric Appliances [000651] from 2008 to 2020. Fig.1 shows the ratio of the number of minor shareholders attending the general meeting of shareholders to the total number of shareholders at the end of the year from 2008 to 2020.

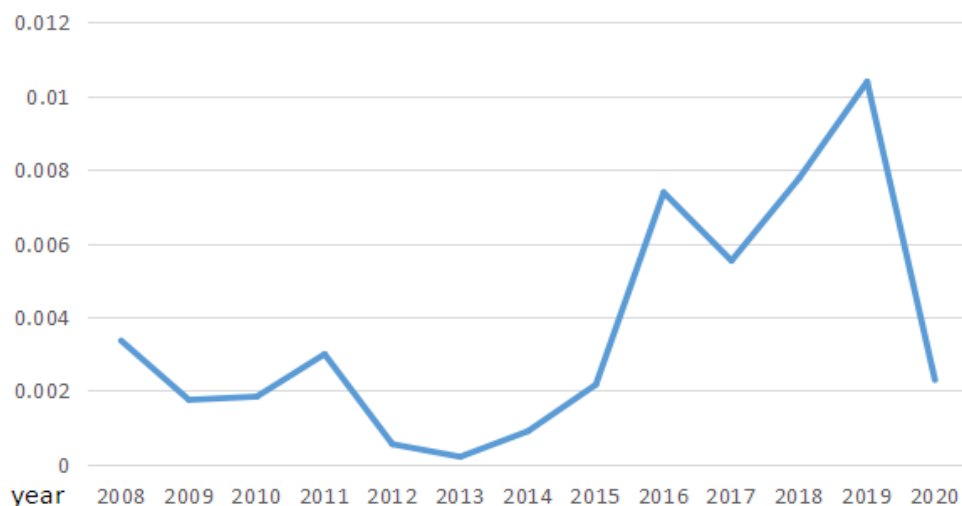


Figure 1. The ratio from 2008 to 2020

It calculates the ratio of the average number of shareholders attending the shareholders' meeting each year to the total number of shareholders at the end of the year. We can find that these 13 years are generally on the rise. The data proves that the minor shareholders of Gree Electric Appliances have increased their enthusiasm to participate in the shareholders' meeting and the governance effect is remarkable. Yuan et al. [2] research surfaces that the root cause of this successful case lies in the ownership structure. With the comprehensive advancement of the non-tradable shares reform in the

A-share market in 2006, the equity held by Gree Electric Appliance, as the largest shareholder, fell from nearly 60% in 1999 to about 20% in 2012. Other shareholders of Gree Electric Appliances have an increasing proportion, a greater voice, and can actively participate in corporate governance. Through the Gree Electric Appliances' general meeting director election, we can see that the research on the participation of minor shareholders in corporate governance has far-reaching significance and significant potential value.

3. Institutional background

China's listed companies have a relatively concentrated shareholding structure, making the agency problem between controlling shareholders and minor shareholders a significant problem facing China's capital market. At the same time, due to the lack of protection mechanisms for minor shareholders in my country's stock market, major shareholders or controlling shareholders of listed companies have a solid motivation to seize the wealth and resources of listed companies through personnel management.

In our country, due to poor protection of investors' legitimate rights and interests, minor shareholders are facing the danger of being used by large shareholders. my country's minor investor protection legislation is also a process from the law of the jungle to the sound.

On November 29, 2004, the China Securities Regulatory Commission promulgated the "Guidelines for Online Voting of Shareholders' Meetings of Listed Companies (Trial Implementation)", which specifically formulated the relevant online voting system. In 2006, the Shanghai Stock Exchange and the Shanghai Stock Exchange successively promulgated the new "Articles of Association of Listed Companies" on April 20 and September 8 to effectively solve the problems existing in the online voting system. In 2005, the China Securities Regulatory Commission launched a high-profile stock reform and the equity split reform that has attracted much attention. The new securities law introduced in 2020 started with controlling the illegal behavior of large shareholders, strengthened the investment protection of minor shareholders, protected the legitimate interests of investors, and decentralize the front and rear aspects of government supervision.

4. Ways of minor shareholders' participation in corporate governance

With the development of modern corporate governance structure, the complementary improvement of relevant laws, and the development of China's securities market and capital market, the benefits brought by the participation of minor shareholders in corporate governance are increasingly valued by all parties. The three ways in which minor shareholders participate in corporate governance: voting with hands, voting with feet and voting with mouths, are also gradually becoming a hot topic of research, and clarifying these three ways of participation in corporate governance has far-reaching implications for more in-depth research.

4.1. Voting with hands

Minor shareholders limit the speculative behavior of managers by proposing proposals, negotiating, and replacing managers, and use them as "voting with hands". In recent years, many factors in China's capital market have prompted the active participation of minor shareholders in my country. First, due to the supervisory level's attention to the rights and interests of minor shareholders, and the improvement of relevant laws and regulations, it provides a strong institutional guarantee for minor shareholders to participate in corporate governance. Second, due to the rapid development of network technology, the cost of minor shareholders participating in corporate governance has dropped significantly.

Studies have shown that "voting with hands" can improve the company's operating performance, thereby increasing the company's value. The effective supervision hypothesis points out that as active shareholders, institutional investors can not only supervise the company's internal governance, but

also create checks and balances on the company's control rights; therefore, they can prevent large shareholders from taking advantage of minor shareholders. However, some scholars pointed out that the role of minor shareholders in corporate governance, the weakening of interest alliances, and investors' short-term preferences for companies have limited their role in corporate governance. This is the problem that Zheng et al. [3] adopted the DID-PSM method to establish a double-difference preference score matching method based on the perspective of concerted action of minor shareholders. Minor shareholders implement supervision and restriction on major shareholders by voting online, proposing or vetoing proposals and voting rights stipulated in the "Company Law of the People's Republic of China". The DID model was performed by Kong et al. [4] confirmed that the higher the participation of minor shareholders, the higher the management's requirements for earnings management. This paper studies the role of "voting with feet" and "voting with hands" in corporate governance. The study finds that the two types of governance only have a significant inhibitory effect on management-agency costs. On the contrary, the effect of corporate governance on the infringement of the interests of large shareholders is not obvious. The relevant literature titles and results are shown in table 1.

Table 1. Voting with hands

Category	Literature title	The research found
Voting with hands	The Impact of minor Shareholder Watchdog Group Activism On the Performance of Targeted Firms In Malaysia	Although the minor Shareholder Watchdog Group's approach to activism might not be comparable to the initiatives of independent activists in developed financial markets, this type of activism does make a difference by providing minor shareholders and institutional investors with resourceful solutions.
	Director Primacy and Shareholder Disempowerment.	The effective monitoring hypothesis suggests that institutional investors, as active shareholders, can monitor and strengthen the internal governance mechanism of the firm, and can also act as a counterweight to controlling shareholders, thus preventing the exploitation of minor shareholders by controlling shareholders.
	Has the concerted action of minor shareholders improved corporate governance?	By acting in concert, minor shareholders create a centralized allocation of voting power, which in turn checks and balances large shareholders and thus improves corporate performance.

4.2. Voting with feet

"Voting with feet" originated in the stock market. Investors have the right to transfer the shares they hold, which can be used to withdraw capital, give up equity, choose to sell shares in the secondary market, achieve profits or control risks in the buying and to sell when the company is mismanaged and the market is uncertain. "Voting with feet" can effectively protect investors' assets and, to some extent, limit the company's bad behaviour. However, this negative choice of speculation on corporate governance and investment profits is flawed.

The disadvantage of minor shareholders being exploited by major shareholders and having "voting with feet" is rooted in the split share structure. China's split share structure, almost from the beginning with the Chinese stock market coexist. The Share Splitting Reform has protected the rights and interests of minor shareholders, released the liquidity of stocks, and made it possible for shareholders to use "verbal threats" and "voting with feet" for governance.

The empirical results of Zhang and Liao [5] show that reform of non-tradable shares can enhance voluntary information disclosure by coordinating the interests of tradable and non-tradable shareholders among shareholders. However, from another point of view, Pan [6] research shows that under the background that China's equity division and external restraint mechanism are challenging to play a role, the controlling shareholders are basically not subject to any constraints. Therefore, the conflict between controlling shareholders and minor shareholders is severe. The split share structure

has a direct consequence, isolating non-tradable shareholders (i.e., Controlling shareholders) from the requirements of external shareholders. In this case, exploiting a few investors by issuing shares has become a rational choice for non-tradable shareholders. Li [7] found that major shareholders have "implicit deprivation" of minor shareholders. The choice of major shareholders to maximize their interests without the right to vote with their feet is manifested in the infringement of the property rights of minor shareholders without the right to vote by hand. The non-tradable nature of most equity of listed companies is one of the direct causes of incompleteness.

In terms of corporate governance, the exit mechanism of "voting with feet" needs to be fixed in terms of use effectiveness, corporate development and internal governance structure. Non-controlling significant shareholders can obtain inside information to predict the company's future to determine their investment behaviour. The controlling shareholder has the control right, and because of holding more positions, it will tend to adopt direct intervention to carry out corporate governance. Due to the low cost and limited energy, minor shareholders will choose the way of "free rider" more often. When adverse situations occur, they will choose "voting with feet" to stop losses in time. The difference between the above two groups determines the unique governance method that non-controlling major shareholders can adopt - exit threat, which affirms the significance of studying the exit threat of non-controlling significant shareholders. "Voting with feet" indirect monitoring of corporate behaviour has a lag and negativity and is more like a speculative behaviour and does not meet the company's long-term development requirements. The investors who "voting with feet" lack the interest and enthusiasm to participate in the shareholders' meeting, which leads to the dual lack of internal and external structure mechanisms of the company's checks and balances. The phenomenon of insider control infringes on the interests of minor investors, and the dominant governance structure also makes the company's power distribution unbalanced. The relevant literature titles and results are shown in table 2.

Table 2. Voting with feet

Category	Literature title	The research found
voting with feet	Share Splitting Reform, Voluntary Information Disclosure and Corporate Governance	The reform of non-tradable shares can improve corporate governance and enhance voluntary information disclosure by coordinating the interests of tradable and non-tradable shareholders among shareholders.
	The incompleteness of shareholders' voting rights and shareholders' behavior choice of listed companies	The choice of major shareholders to maximize their interests without the right to vote with their feet is manifested in the infringement of the property rights of minor shareholders without the right to vote by hand.
	Evolution analysis of corporate governance model	Investors who "voting with feet" lack the interest and enthusiasm to participate in the shareholders' meeting, which leads to the dual lack of internal and external structure mechanisms of the company's checks and balances.

4.3. Voting with mouths

Information is one of the important elements of the capital market. How to guarantee the right of individual investors to obtain information so as to participate in corporate governance and supervise the company to fulfill the obligation of information disclosure better has become an important issue at present. In the case of decentralization of rights, individual strength is weak and agency cost is high. This makes it difficult for minor shareholders as important participants in China's capital market to play an actual supervisory and governance role in the company through "voting with hands" or "voting with feet". With the gradual development of Internet technology, the rise of social media and other new information media provides conditions for individual investors to "voice", and a new governance model "vote with mouth" comes into being. minor shareholders can obtain information in a relatively convenient way through social media, so as to form an interest alliance to counter and check the harm of major shareholders and senior executives to their rights and interests. It enables

minor shareholders to have more right to speak and more adequate right to know in corporate governance [8].

The transparency of corporate information and the quality of disclosed information not only affect some existing governance mechanisms, but also influence the participation of minor shareholders in corporate governance. When the transparency of corporate information is worse, minor investors are more active in participating in corporate governance [9]. Wang [10] et al. found that the higher the participation of investors in "voting with mouths", the greater the probability of voluntary disclosure of forecast by management, thus improving the transparency of corporate information. In terms of enterprise investment efficiency, the voice of minor shareholders mainly restrains the excessive investment behavior of enterprises. The network voice with high frequency of comments has a more obvious effect on the improvement of enterprise investment efficiency. The government's Internet regulation measures can effectively improve the influence of minor shareholders' voice on investment efficiency [11]. In terms of corporate compensation equity, the platform interaction between minor shareholders and the company significantly enhances the performance compensation sensitivity of senior executives. Yang et al. [12] found that negative online public opinion can promote the improvement of efficiency and fairness of executive compensation in state-owned enterprises, and restrain the increase of salary gap between executives and employees in state-owned listed companies. The above studies all show the positive impact of minor shareholders' active participation in online voice voting. The relevant literature titles and research found are shown in table 3.

Table 3. Voting with mouths

Category	Literature title	The research found
Voting with mouths	The influence of negative Internet public opinion on fairness and efficiency of executive compensation	Negative online public opinion can promote the improvement of efficiency and fairness of executive compensation in state-owned enterprises and restrain the increase of salary gap between executives and employees in state-owned listed companies.
	The impact of "voting with mouths" on management's voluntary earnings previews on social media	The higher the participation of investors in "voting with mouths", the greater the probability of voluntary disclosure of management, thus improving the transparency of corporate information.
	Information transparency, corporate governance and participation of minor shareholders	The participation of minor shareholders in corporate governance can effectively alleviate agency problems. When the transparency of corporate information is worse, minor investors are more active in participating in corporate governance.

5. Passivism of minor shareholders

In recent years, two kinds of agency problems in corporate governance have become a hot topic of research. The reason of the first type of agency problem is the conflict of interest between the controlling shareholder and the management. The second type of agency problem is that the equity is concentrated in the hands of major shareholders, who have enough power to control the listed company and seek private rights by influencing various decisions of the listed company. Therefore, the main agency problem of modern enterprises is not the conflict of interest between managers and external shareholders, but between controlling shareholders and minor shareholders [13]. Due to the differences in interests between the controlling shareholders and minor shareholders of listed companies, the principal-agent relationship formed by such differences has been far more important in practice than the principal-agent relationship between the shareholders and the management [14]. Dou and Lu [15] studied the influence of major shareholder agency problem on the earnings sustainability of listed companies and found that the more serious the agency problem of major shareholders, the worse the earnings sustainability of listed companies. Luo and Wu [16] found that

different shareholding ratios of controlling shareholders lead to differences in corporate agency problems, thus affecting corporate dividend policies.

Controlling shareholders may take various means to plunder minor shareholders, and related transaction is one of the means for major shareholders to usurp the interests of minor shareholders. In our country, most of the listed companies belong to state-owned enterprises restructuring. There exist a large number of enterprise group control phenomena. It is impossible for listed companies to independently complete business activities such as supply, production and marketing, which makes a large number of related transactions in listed companies inevitable, and enterprise group structure further provides conditions for listed companies' predatory behavior [17]. Wang [18] found that the ultimate controller of the private listed company occupied the interests of minor shareholders mainly through the guarantee of the related party, the capital occupation of the related party and the commodity purchase and sale activities between the listed company and the related party. Wei et al. [19] found that related major shareholders would have a negative impact on enterprise value by taking related transaction as a way. The larger the shareholding and the proportion of seats in the board of directors or the board of directors, the more serious the related transaction behavior of the family enterprise, and the more severe the value loss of the company.

6. Conclusion

From the above review, the participation of minor shareholders in corporate governance has a significant role in promoting the development of corporate performance. The active participation of minor shareholders in corporate governance is conducive to breaking the long-term dominance of significant shareholders. The situation is of great significance for supervising the manipulation of the shareholders' meeting by large shareholders or the board of directors, safeguarding the rights and interests of minor shareholders, and promoting the healthy and standardized operation of listed companies. In the long run, it is conducive to promoting the healthy development of the stock market to avoid the invisible interests of significant shareholder encroachment.

First of all, when there are a large number of large shareholder agency problems in our country, the regulatory agency can improve the company's governance structure through the voting rights of minor shareholders, so as to effectively protect the rights and interests of large shareholders. Second, in actual operation, it is necessary to actively guide minor shareholders to participate in corporate governance, so that the investment service center can play an exemplary role in the process of exercising voting rights. The third is to strengthen various systems that are conducive to the exercise of rights and interests of minor shareholders, such as online voting, cumulative voting, and classified voting, so as to provide better institutional guarantees for minor shareholders. Actively participate in the management of the company.

References

- [1] Su Yinxin, Yang Lin. Evolution analysis of corporate governance model [J]. Management Observe, 2016 (25): 32 - 34.
- [2] Yuan Rongli, He Xin, Li Baixing, Yang Zhihui. Cumulative Voting and Shareholder Activism - A Case Study of Gree Electric's Director Election [J]. Accounting and Finance Journal, 2016 (19): 31 - 33.
- [3] Zheng Zhigang, Li Miao, Yong Hongyan, Huang Jicheng. Does concerted action by minor shareholders improve corporate governance? [J]. Journal of Financial Research, 2022 (05): 152 - 169.
- [4] Kong Dongmin, Liu Shasha. Minor shareholders' voting power, corporate decision making and corporate governance-evidence from a natural experiment [J]. Management World, 2017 (09): 101 - 115+188.
- [5] Zhang Xueyong, Liao Li. Split Share Structure Reform, Voluntary Information Disclosure and Corporate Governance [J]. Economic Research Journal, 2010, 45 (04): 28 - 39+53.
- [6] Pan Yuying. Research on the impact of minor shareholders' online voting on corporate investment efficiency [D]. Shandong University of Finance and Economics, 2022.

- [7] Li Xuefeng. The incompleteness of shareholders "voting rights and shareholders" behavior choice of listed companies [J]. Securities Market Herald, 2003 (03): 71 - 76.
- [8] Dou Chao, Luo Jinbo. Whether minor shareholders' voice using Social media can improve executive compensation contract [J]. Finance and economy, 2020, 41 (12): 85 - 100.
- [9] Li Wenjing, Kong Dongmin. Information transparency, Corporate governance and minor shareholder Participation [J]. Accounting Research, 2013 (01): 42 - 49+95.
- [10] Wang Dan, Sun Kunpeng, Gao Hao. The Effect of "voting with mouths" on Management voluntary performance Forecast in Social Media [J]. Finance Research, 2020 (11): 188 - 206.
- [11] Wang Yutao, Dong Tianyi, Lu Chongluan. The Governance Effect of "voting with mouths" of minor Shareholders and Enterprise investment Efficiency [J]. Economic Management, 2022, 44 (06): 115 - 132.
- [12] Yang Jing, Shen Yifeng, Li Peigong. The Influence of Negative online public Opinion on Fairness and Efficiency of executive compensation [J]. Economic Management, 2017, 39 (02): 117 - 134.
- [13] Yu Minggui, Xia Xinping, Wu Shaofan. A New Trend of Corporate Governance Research: The Agency Problem between Controlling Shareholders and minor Shareholders [J]. Foreign economy and management, 2004 (02): 28 - 32.
- [14] Xiao Tengwen. Agency Problems of Controlling Shareholders and minor Shareholders in the Governance of Listed Companies [J]. Science of Finance and Economics, 2001 (05): 57 - 60.
- [15] Dou Huan, Lu Zhengfei. Agency problem of major shareholders and earnings persistence of listed companies [J]. Accounting Research, 2017 (05): 32 - 39+96.
- [16] Luo Qi, Wu Zhedong. Controlling Shareholder Agency Problem and Corporate Cash Dividend [J]. Management Science, 2016, 29 (03): 112 - 122.
- [17] Yuan Chun, Liu Simiao, Gao Yu. Major Shareholder Control and Profit Delivery Mode Choice: Related Transaction or Cash Dividend [J]. Economic management, 2010, 32 (05): 113 - 120.
- [18] Wang Lijun. Pyramid control, Affiliated transactions and corporate value: An Empirical study based on Chinese Private Listed Companies [J]. Securities Market Review, 2006 (02): 18 - 24.
- [19] Wei Minghai, Huang Qiongyu, Cheng Minying. The Governance Role of Affiliated Major Shareholders in Family Enterprises: Based on the perspective of Affiliated Transaction [J]. Management World, 2013 (03): 133 - 147+171+188.