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Research on the Implementation Effect of Alibaba's Dual-Class Share Structure

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Abstract: This paper takes Alibaba Group as a case study to analyze the implementation effects of its dual-class share structure, specifi cally its unique partnership system. Based on theoretical analysis and fi nancial data from 2014 to 2018, the study fi nds that the dual-class structure promotes long-term corporate development, strengthens the founding team's control, and optimizes internal governance. However, it also increases agency costs and potentially harms minority shareholder interests [9][10]. The paper concludes with suggestions such as improving information disclosure, strengthening internal supervision mechanisms, and introducing class-action lawsuits to protect minority shareholders and support sustainable corporate growth.

Keywords: Alibaba; Dual-Class Share Structure; Partnership System; Implementation Effect
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1. Introduction

1.1 Research Background, Purpose, and Signifi cance

1.1.1 Research Background

Ownership structure is a determinant of a company's survival, influencing decision-making, supervision, incentives, and operations. Since Alibaba withdrew from the Chinese mainland market and was rejected by the Hong Kong Stock Exchange in 2013, China has seen the emergence of dual-class share structures and partnership systems. A dual-class structure classifi es shares into Class A (low voting rights, one vote per share) and Class B (high voting rights, 2–10 votes per share), typically held by management. Through this "unequal voting rights" approach, companies can maintain operational control while continuously raising external capital.

Although China has rece ntly begun to pay attention to the dual-class system, its global history spans nearly a century. The U.S. International Silver Company issued unequal voting rights shares as early as 1989. Public acceptance was initially low, and the system was even banned for a time. It was not until 1985 that the New York Stock Exchange relaxed restrictions, allowing dual-class companies to list. Since 1994, the AMEX, NYSE, and NASDAQ have all adopted dual-class structures. Despite ongoing controversy, most tech companies choose this system. Alibaba is a pioneering dual-class company in China, but its institutional design diff ers from the traditional model.

1.1.2 Research Purpose

This paper analyzes the connotation, reasons, implementation effects, and positive/negative impacts of Alibaba's dual-class structure, focusing on its risks. It also aims to supplement China's relatively scarce theoretical research on dual-class structures, providing theoretical support for Chinese companies adopting such systems.

1.1.3 Research Significance

Theoretically, as more Chinese companies list overseas using dual-class structures, China's capital market needs reform. This study enriches the property rights theory of China's capital market. Practically, using Alibaba as a case study, this paper explores the impact of dual-class structures on Chinese listed companies, offering managerial insights.

1.2 Literature Review

1.2.1 International Literature

Howell (2014) argues that dual-class structures protect founders' control and reduce short-term profit pressure, improving management efficiency [1]. Howell (2017) notes they prevent malicious takeovers [2]. Jordan, Kim, and Liu (2016) find they help founders resist short-term profit-seeking by external investors, promoting long-term development [3].

1.2.2 Domestic Literature

Wei Yongqiang (2012) discusses economic and non-economic benefits [4]. Jin Xiaowen (2015) states the main benefit is ensuring control while securing financing [5]. Liu Daoyuan (2013) views dual-class structures as a product of market game that improves operational efficiency [6]. Liang Guoping (2021) believes such systems help founders manage better and enhance efficiency [7]. Zhang Baohong (2017) adds non-economic benefits like founder motivation, benefiting corporate culture and value [8].

On disadvantages, Chen Ruoying (2014) warns that dual-class structures may increase public institutional burdens if minority shareholders seek recourse [9]. Zheng Zhigang (2016) also identifies risks in Alibaba's system [10].

1.2.3 Literature Summary

International scholars have deeply explored risks and economic effects, while domestic research has shifted from theoretical to case studies but lacks empirical depth. This paper synthesizes perspectives on institutional value, implementation reasons, and corporate impact, providing a comprehensive analysis.

1.3 Research Content and Methods

1.3.1 Research Content

This paper analyzes Alibaba's dual-class implementation effects, identifies risks, and proposes countermeasures. Chapter 1 introduces background, purpose, and literature. Chapter 2 defines dual-class structure and its relationship with the partnership system. Chapter 3 introduces Alibaba and analyzes its motivation for adopting the system. Chapter 4 analyzes governance and performance effects using financial data, identifying potential risks. Chapter 5 concludes and offers recommendations.

1.3.2 Research Methods

Case Study Method: In-depth analysis of Alibaba.

Comparative Analysis: Vertical and horizontal comparison of financial data.

Literature Review: Theoretical foundation for the analysis.

2. Theories Related to Dual-Class Share Structure

2.1 Definition of Dual-Class Share Structure

A dual-class structure typically refers to a company issuing two classes of shares with different voting rights. Ordinary shareholders have proportional voting rights, while high-voting-rights shares (often held by founders) have disproportional voting power. This structure emerged in the U.S. in the late 19th century and gained popularity in the 1980s as a defense against hostile takeovers.It includes both traditional dual-class systems and partnership systems.

2.2 Relationship Between Dual-Class Structure and Partnership System

Alibaba's partnership system shares the same goal as traditional dual-class structures: protecting founders' control while diluting equity through external investment . The partnership system controls the company through board manipulation. However, differences exist:

Control Level: Under Alibaba's system, partners nominate directors but must still gain shareholder approval. Traditional B-share holders have direct decision-making power.

Exit Mechanism: Alibaba has a more comprehensive exit mechanism; partners may voluntarily leave or be removed by majority vote. Traditional structures give majority shareholders absolute control with fewer constraints.

Selection Criteria: Alibaba partners must align with corporate culture, demonstrate core values, and contribute significantly for over five years. Traditional dual-class shares are limited to original shareholders.

2.3 Corporate Governance Under Dual-Class Structure

Corporate governance can be narrowly defined (internal: maximizing profit through supervision and rights allocation) or broadly defined (including owners, managers, suppliers, government, creditors, etc.) . It coordinates relationships and protects shareholder rights through internal mechanisms (shareholder meetings, boards, supervisory committees) and external mechanisms (investor competition). Both levels must support each other for effective governance.

3. Background of Alibaba's Dual-Class Implementation

3.1 Company Introduction

Founded in 1999 by Jack Ma and the "Eighteen LuoHan," Alibaba has grown into a leading e-commerce and digital media company. It listed on the NYSE on September 19, 2014, setting an IPO record, and on the HKEX on November 26, 2019, becoming the "new king" of Hong Kong stocks.

3.2 Financing Process

Alibaba experienced multiple funding rounds from its founding to its secondary listing. In October 1999, the company raised $5 million in its Series A round from Goldman Sachs and others. This was followed by a $2.5 million Series B round from SoftBank and other investors in 2000. In February 2004, Alibaba secured $82 million in a Series C round led by SoftBank and Fidelity. The most significant early round came in August 2005, when Yahoo invested $1 billion in Series D; under a control agreement, Yahoo received only 35% voting rights despite holding 39% of the equity. In November 2007, Alibaba raised $1.5 billion through an initial public offering on the Hong Kong Stock Exchange (later withdrawn). Subsequent private rounds included a $2 billion Series F from Silver Lake, DST, and others in September 2011, and a $4.3 billion share repurchase round in August 2012. Finally, Alibaba held its landmark IPO on the New York Stock Exchange in September 2014, raising $22 billion, followed by a secondary listing on the Hong Kong Stock Exchange in November 2019, which raised an additional $13 billion.

3.3 Motivation for Choosing Dual-Class Structure

After multiple funding rounds, Yahoo became Alibaba's largest shareholder. Under a traditional single-class structure, founders risked losing control. The "Yahoo-Alibaba dispute" over Alipay's ownership highlighted the weaknesses of traditional equity structures . Alibaba adopted a partnership system to avoid control struggles. It initially sought listing in Hong Kong but was rejected due to the exchange's ban on dual-class structures. The U.S. market, with its traditional dual-class acceptance, allowed Alibaba to innovate with a partnership system that ensures core cultural values and anti-takeover resistance .

4. Analysis of Implementation Effects

4.1 Governance Effects

4.1.1 Promoting Long-Term Development

The partnership system protects partners and managers from short-term shareholder pressure . Even if conflicts arise, shareholders cannot easily remove partners or managers, reducing short-term vs. long-term interest conflicts and fostering a stable development environment.

4.1.2 Optimizing Internal Governance

Founders have deep emotional ties and strategic commitment to the company. The partnership system provides a platform for them to lead long-term development . Partners gain both participation and control, motivating talent retention and attraction.

4.1.3 External Market Perspective

Hostile takeovers are unpredictable. The partnership system separates control from equity, placing control in partners and managers, thus forming an effective defense mechanism .

4.1.4 Impact on Founder and Management Control

Alibaba's partnership system significantly strengthens founder/management control. As of the IPO, SoftBank held 34.4% equity, Yahoo 22.6%, and the founding team only 8.9%. Through the partnership system, the team achieves control exceeding their equity proportion.

4.2 Performance Evaluation

4.2.1 Vertical Analysis (2014–2018)

ROE is a key performance indicator. Table 1 shows Alibaba's ROE remained positive post-2014. After a dip in 2016, it steadily increased.

Table 1: Alibaba ROE (2014–2018)

Year	ROE (%)
2018	20.25
2017	19.7
2016	17.5
2015	39.32
2014	26.11

Data source: East Money Net

DuPont analysis (Table 2) shows asset turnover declined then increased, while net profit margin declined, indicating rising costs. The asset-liability ratio stayed between 30–40%, showing good financial leverage control.

Table 2: DuPont Analysis (2014–2018)

Year	Asset Turnover (times)	Net Profit Margin (%)	Debt Ratio (%)
2018	0.45	21.29	36.23
2017	0.41	24.54	38.72
2016	0.36	26.05	36.05
2015	0.33	26.05	31.40
2014	0.42	31.91	38.12

Profitability metrics (Table 3) show revenue and gross profit growth until 2018, when gross profit declined due to a 93.36% rise in operating expenses, driven by new businesses (e.g., merging with Ele.me, new retail, overseas expansion). Net profit continuously decreased due to rising expenses, including ¥16.4B in share-based incentives in 2018. Overall, Alibaba maintained stable profitability, with rapid EPS growth boosting investor confidence.

Table 3: Profitability Metrics (2014–2018)

Year	Revenue (B¥)	Revenue Growth (%)	Gross Profit (B¥)	Gross Profit Growth (%)	Basic EPS (¥)	Diluted EPS (¥)	Gross Margin (%)	Net Margin (%)
2018	376.8	50.58	169.9	18.64	33.95	33.38	45.09	21.29
2017	250.3	58.12	143.2	44.98	25.06	24.51	57.23	24.54
2016	158.3	56.48	98.79	47.92	17.52	16.97	62.42	26.05
2015	101.1	32.73	66.79	27.53	29.07	27.89	66.03	70.48
2014	76.2	45.14	52.37	33.82	10.33	9.7	68.72	31.91

4.2.2 Horizontal Comparison with JD.com

JD.com uses a traditional dual-class structure. Alibaba's ROE significantly outperforms JD's, indicating that the partnership system has a positive impact on long-term performance. Although Alibaba's revenue was initially lower than JD's, it has steadily approached and narrowed the gap. Alibaba's platform-based business model yields higher profitability than JD's product-and-logistics model. Overall, Alibaba demonstrates better development and profitability than JD.

4.2.3 Positive Effects

The dual-class structure ensures founder control. Despite not issuing unequal voting shares, the partnership system allows founder control over the board. It also enhances profitability. Although some fluctuations exist, Alibaba's growth trend is undeniable. Under founder leadership, Alibaba has become one of China's largest internet companies. However, intensifying competition requires continuous innovation and efficiency improvement.

4.3 Potential Risks

4.3.1 Increased Agency Costs

Agency costs arise from separation of ownership and control. Comparing Alibaba with NetEase (a single-class internet company) shows Alibaba's management expense ratio (MER) remained higher despite declining from 11.04% (2012) to 6.49% (2018), while NetEase's MER stayed around 3–5% (Table 4). This suggests higher agency costs for Alibaba.

Table 4: Management Expense Ratio Comparison (%)

Company	2012	2013	2014	2015	2016	2017	2018
Alibaba	11.04	8.37	8.03	10.24	9.1	7.73	6.49
NetEase	3.84	3.48	3.8	3.99	4.45	3.94	5.37

4.3.2 Harm to Minority Shareholder Interests

The high separation of ownership and control can harm minority shareholders. When Alibaba transferred Alipay to a Jack Ma-controlled company without informing SoftBank and Yahoo, it caused significant losses for U.S. shareholders, sparking controversy. Minority shareholders lack control and oversight, making them vulnerable when conflicts arise.

5. Conclusion and Recommendations

5.1 Research Conclusion

Alibaba's partnership system represents a major innovation and breakthrough in Chinese corporate governance. It has significantly promoted Alibaba's long-term development, enhanced the company's ability to sustain growth, and provided a valuable reference for other listed companies. For Alibaba, the implementation of the dual-class share structure—specifically through the partnership system—was the optimal choice for corporate governance. It has generated positive effects by balancing the interests of owners and operators, facilitating their coordination and checks and balances. Moreover, it has stimulated employee enthusiasm and helped attract external investment.

However, the dual-class structure also poses certain risks that require further improvement. For example, it is necessary to strengthen corporate supervision, ensure the integrity of information disclosure, improve internal monitoring mechanisms, and implement special oversight of corporate operations. These measures can further protect the rights and interests of minority shareholders and external investors, enabling the company to make decisions conducive to its long-term development.

Finally, the "unequal voting rights" approach is not a panacea. Companies must choose an appropriate equity structure based on their specific circumstances. Alibaba chose to innovate with a partnership system in the United States rather than adopting a traditional dual-class structure, largely due to considerations of adaptability. The design and implementation of the partnership system have laid a solid foundation for Alibaba's development. For high-tech companies with strong talent resources and promising growth prospects, a dual-class structure is beneficial. For the majority of enterprises, only with a suitable equity structure can they achieve greater development space.

5.2 Recommendations

5.2.1 Improve Information Disclosure Systems

In the public mind, the law symbolizes authority and justice. For approved listed companies, relevant laws and regulations should mandate comprehensive and truthful disclosure from the aspects of scope and authenticity, using a combination of rewards and penalties to enforce disclosure. This includes financial data, key management information, and actual operating conditions. When a company provides information inconsistent with policy requirements, government authorities should act as a deterrent, impose public penalties, and provide education to prevent recurrence.

B-share shareholders, who enjoy significant power, should be held accountable. To prevent abuse of power, strict constraints on such shareholders are necessary. Audit committees (or supervisory boards) and the general public must effectively safeguard the legitimate rights and interests of investors. To protect the information rights of external investors, companies must establish a complete information disclosure system. In the early stages of adopting a dual-class structure, the greatest controversy lies in the inequality of information and rights between shareholders with special voting rights and ordinary shareholders.

Given that China's capital market is still developing, financial investment institutions are not yet fully mature, and investors' risk management capabilities need further improvement. Therefore, the information disclosure system for listed companies with a dual-class structure in China must be more rigorous and transparent. Companies should disclose information promptly, proactively, and truthfully, avoiding material misstatements or false disclosures. They bear responsibility to investors and minority shareholders, preventing shareholders from hesitating or doubting the company's development, which could otherwise harm the company's future prospects.

5.2.2 Strengthen Internal Supervision Mechanisms

To protect the interests of minority shareholders, it is essential to establish and improve internal supervision mechanisms. Compared with single-class corporate governance models, investors in dual-class companies commit greater capital and bear higher financial risks, yet they lack voting rights in the management process, creating a significant gap in power and status compared to founders. If a company lacks reasonable internal supervision mechanisms, shareholders with majority voting rights may abuse their managerial authority, infringing upon the rights of minority shareholders and further increasing the risk of managerial power abuse.

Independent directors serve as an independent body responsible for monitoring whether internal operations and management are problematic. Without the internal supervision function of independent directors, the company's internal oversight system would become ineffective. To ensure the independence of independent directors, they should not hold B-shares, nor be appointed by shareholders with significant voting rights, and should have no direct ties to management. At the same time, a supervisory board should be established and function alongside independent directors. Although their supervisory functions may overlap, increasing supervision costs, their roles are clearer and more distinct. The coexistence of both mechanisms helps reduce corporate governance costs, lower agency costs, and protect investor rights.

5.2.3 Introduce Class-Action Lawsuits

Under a traditional single-class structure, if decisions made by operators or major shareholders harm the company's interests, shareholder meetings can mitigate the losses. However, under a dual-class structure, external shareholders cannot easily control or remedy harm to company interests. Once their interests are damaged, it is difficult for them to obtain effective protection. Therefore, introducing a class-action lawsuit system is necessary. If shareholders' own interests are harmed, they can protect their rights through effective legal channels, avoiding situations where other shareholders cannot effectively defend their rights due to information asymmetry or high litigation costs.

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The authors declare that there is no conflict of interest regarding the publication of this paper.

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