

Patterns of Shareholder Interest Imbalance and Their Remedies in the Context of Shareholder Heterogeneity based on U.S. Corporate History

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Abstract: Although the basic principles of corporate law emphasize the principle of equity equality and the principle of equal shares and equal rights, the ideal corporate shareholder group presents equality and consistency, but the reality of the business practice level lacks to present a heterogeneous quality of shareholders, in terms of for the interests of the different arrangements, from the United States, the development of the company's history of observation that the short-term shareholders and long-term shareholders as well as ordinary shareholders and institutional investors present shareholders heterogeneous background in the The pattern of imbalance of interests, which is reflected in the short-term shareholders will be the company's short-term behavior, the institutional investors' pursuit of merit will also be detrimental to the company's long-term development and real interests. In the final analysis, it is necessary to make corresponding institutional arrangements for the reality of shareholder heterogeneity in order to protect the long-term development of the company and the balance of interests of the company's shareholders.

Keywords: Shareholder Heterogeneity, Efficient Market Hypothesis, Short-term Shareholders, Institutional Shareholders, Imbalance of Interest.

1. Shareholder Heterogeneity One: Short-term Versus Long-term Shareholders

1.1. Critique of the Theory of the Efficient Market Hypothesis

For companies that have "maximizing shareholder value" as their goal, this can be a very important issue in all of their operations. When directors or executives of a company focus too much on the stock price and then run the company in a way that raises the price in the short term, it may harm the company in the long term. This kind of problem can cause panic among many people.

As mentioned earlier, a company may seek to increase the profitability of the company's financial report under accounting standards by chipping away at research and development expenses or somehow cutting back on the cost of maintaining relationships with customers, which in turn ends up damaging consumer trust and brand loyalty. This ending is a short-sighted behavior on the part of the company that reduces the long-term return on equity. The pattern of categorization of shareholders due to differences in corporate interests is known as shareholder heterogeneity, and shareholder heterogeneity first challenges the theoretical myth of equal shares and equal rights.[1]

From a historical perspective, up until 1987, many financial economists in the United States suggested that short-termism made no sense because it was impossible to get corporate managers to adopt strategies that would jeopardize the future of the firm without causing an immediate drop in the stock price. The argument is based on a blanket promotion of one theory, the efficient market hypothesis theory. [2]The Efficient Market Hypothesis states that a stock market is fundamentally value efficient in the sense that the market price of a company's stock contains all the information relevant to its value, and that the price of the stock is set to

reflect the most probable and reasonable prediction of the stock's likely future risks and returns. In a fundamentally value-efficient market, there is no need for investors to stay up all night wondering what their shares are really worth. The investor can sleep soundly knowing that the market has already done the valuation for him. Nor does he need to worry that today's valuation may not reflect the long-term value of the company. The long term and the short term merge into one, because there is only one accurate measure of a stock's future risk and return: by virtue of its current market price. Corporate short-termism will not be a problem because the capital markets will penalize short-sightedness.

It is worth questioning whether company valuations in the U.S. capital markets really support the actual value of companies. Even during the heyday of the efficient market hypothesis theory in the 1980s, many CEOs, directors, and professional investors in public companies had doubts about whether stock prices were truly fundamentally valuable. Even financial theorists have argued that the efficiency theory actually has its limitations. To take a very simple example, insider trading, hidden information disclosed only to company insiders, may not be fully reflected in the stock price until the bad news is publicized.

But the public's strong faith in the accuracy of stock market prices was hammered to pieces on October 19, 1987, when the Dow Jones Industrial Average lost 23% of its value in a single day. On that day, the Dow Jones Industrial Average inexplicably lost 23% in a single day (just as miraculously, a few months later, the Dow returned to what it was in the first place), and the tech stock bubble of the 1990s further undermined trust in market prices. As was the case with companies like Enron and Globe Telecom, whose stock prices soared beyond any rational valuation before their hilly collapse.

Indeed, many respected theorists are now busy exploring alternative theories to the efficient market theory that could explain what is wrong with markets. These include the

"heterogeneous expectations" model, which incorporates the possibility of investor disagreement, and a new theory of the "arbitrage limit", which explains why some information is only slowly and incompletely absorbed by prices. At the intersection of sociology and economics, the emerging discipline of "behavioral finance" explains how human emotions and irrational thoughts can distort prices and drive trading.[3]

If the idea that stock prices always reflect true value has not been completely extinguished, at least it has been dealt a significant blow. [4]But there are still arguments against the idea that "barring unusual circumstances and the occasional collective irrationality of investors, stock prices tend to be reasonably correlated with true value over the long run". As the economist Fisher Black said, many experts may believe that the market is efficient in the sense that "price is intrinsic to value". Prices are more than half the value but less than twice the value.[5]

For many admirers of shareholder centrism, this is pretty good. They believe that shareholders still benefit when managers look to the stock price as their guide, in the sense that even if the market temporarily misjudges the company, the misjudgment will self-correct over time. Thus, shareholders have good reason to behave myopically: they understand that pressuring managers to raise the price of their shares through strategies that undermine the company's future will likely end up hurting the value of their own shares. But this argument ignores the untouchable fact that long-term shareholders fear corporate shortsightedness while short-term shareholders welcome it, and the harsh reality is that many of today's powerful shareholders are short-term.

1.2. Observations on U.S. Corporate History: Short-term Shareholders Become Dominant

To understand the level of activity in today's stock market, one can go back to the 1960s, when the New York Stock Exchange showed that annual company stock turnover was only 12 percent, meaning that the average holding time for shares of publicly traded companies was eight years. By 1987, that number had risen to 73 percent. [6]And by 2010, the average annual turnover of stocks listed on U.S. exchanges reached an astounding 300 percent annually, implying an average holding time of just four months.[7]

Most stocks are held either by individuals with long-term investment goals (those saving for retirement or for their children's college tuition) or by institutions, like pension funds and mutual funds, that invest in portfolios on behalf of these individuals. [8]Even hedge fund clients are often pension funds, universities and foundations that seek solid, long-term returns on their endowments.

If most investors want long-term returns for themselves or their clients, why is there more short-term trading? Part of the answer to this question lies in the fact that deregulation and advances in information technology have made stock trading cheaper than it used to be. Once upon a time, someone who thought a stock was underpriced or overpriced had to find a broker to pay a fixed commission and possibly transfer taxes to trade it. The high transaction costs discouraged an extremely active trading scene. Now that trading costs are no longer prohibitive, some fund managers who specialize in high-frequency computer-based trading strategies can buy a stock and hold it for only a few seconds before selling it again.

Another very important aspect of the growing

mainstreaming of short-term investments is the growing role that institutional investors, such as mutual funds, pension funds and hedge funds, are playing in the markets. As mentioned earlier, most of these funds invest on behalf of individuals with long-term goals. Unfortunately, these individual clients tend to view fund managers as the same type of person, the person to whom they subcontract their investment decisions based on the fund's recent investment track record. This explains why many actively managed mutual funds will have 100% or more of their equity assets turned over, and why active hedge funds that claim to be investing for the long term in improving company performance typically hold stocks for no more than 2 years. For a mutual fund manager whose continued employment depends on his or her underlying performance over the next four quarters, it's hard to resist the temptation to support a management strategy that boosts the stock price, even if it's just until she can sell the stock, and then move on to the next short-term shocker. As Jack Bogle, the famous founder of , put it, the mutual fund industry has become a "stock rental" industry.[9]

From this we can see that the development of the U.S. stock market has led to an increasing number of short-term investors, who are mainly institutional investors, and to complicate matters further, the interests of short-term and long-term investors can sometimes be bundled together.

2. Shareholder Heterogeneity II: Ordinary and Institutional Shareholders

For most people, companies/businesses are abstract concepts. In contrast, shareholders are much more concrete. In fact, corporate law theory contained a long period of intangibility of the concept of shareholders, which is characteristic of the development of commercial capital in a certain period of time, but the logic of this assumption of economic man and the atomization of the individual thinking, along with the major changes in the corporate governance structure and the emergence of large corporations after the globalization of capital, can appear to be in great conflict with the real world.

2.1. Shareholders as a Fictional Concept

People's perceptual observations suggest that businesses may be intangible, but they are also very tangible. Corporations own real estate, can enter into real contracts, and can pay real damages for their abuses. They can exist indefinitely, control more resources than many governments, and then grow like weeds in the harshest of environments. By contrast, the concept of "shareholders" is a fiction. Shareholders seem more tangible and concrete than corporations, because when we think of shareholders, we don't usually think of them as a whole. We often think of human beings: fragile biological organisms that may just happen to start owning shares.

The standard shareholder-centrism model is derived from a non-existent environment from which to judge corporate performance: it is an entity whose goal is simply to maximize the market price of a company's shares. In reality, even financial institution investors such as pension funds or mutual funds behave quite differently. Their securities portfolios include shares of other companies, corporate bonds, preferred shares, real estate and other types of investments. In addition,

these institutions exist to serve their beneficiaries, who have their own investments in homes, real estate and bank deposits. Indeed, for most beneficiaries, their largest investment is in their human capital: their health, education level, and wage income. Yet for people, whether they hold shares directly or through mutual funds or pension funds, they are more than just investors. They are also consumers who buy products, citizens who pay taxes, and organisms who need to breathe air and drink water.

2.2. Observations on U.S. Corporate History: the Development of Institutional Shareholders

Traditional theories of the firm look at the problem from the investor's point of view, assuming that the investor's only asset is an ordinary share in a business and that the investor's only goal in life is to increase the price of the share by every possible means. But this idealized investor does not actually exist. In reality, people hold shares through direct means or through indirect means such as mutual funds or pension funds. These real-life people don't just care if the price of their shares goes up, they also want to protect the value of their other investments, keep their jobs, pay less in taxes, and maintain their health. They are, in every sense of the word, "general holders" of those shares in the economy, in their communities, and even in the real world.

British Petroleum shareholders, for example, not only own shares but also bonds; they don't just own shares in other oil companies but also own a beach house in the Florida corridor; they work in the Gulf Coast tourism industry and value their human capital, including their health and their relationships in a thriving beach community. The BP Group is a leading investor in the Gulf of Mexico. For this type of investor, BP can give above average stock performance for many years. But in the event of a major oil spill in the Gulf, BP's exposure would have had a much greater "external cost" on the rest of investors' interests. As a result of the Deepwater Horizon disaster, the U.S. government had to suspend exploratory drilling in the Gulf, which halted BP's operations, as well as those of a number of other oil companies. The oil spill severely damaged the value of BP's bonds and its rating was downgraded to catastrophic. And waterfront property values in the Gulf have fallen, and its tourism and fishing industries have been hit hard. The Gulf's ecosystem has also been damaged, and its ability to provide healthy seafood and a comfortable environment for recreation has been compromised.

The BP example is an example of a strategy that creates shareholder value by imposing very high external costs on shareholders, and there are many other examples of this kind. For example, software companies such as Microsoft or Oracle may gain a monopoly position by buying out or destroying their rivals in order to increase their profits. In this monopoly position, they are able to raise the price of their products. Unfortunately, if their shareholders are also software consumers, then these monopoly benefits are coming directly from their shareholders' pockets. Hewlett-Packard, on the other hand, may be able to increase the price of its shares by cutting employee wages and health benefits or even simply laying off employees. But when U.S. companies come together and start using this method, U.S. investors, who are actually employees, suffer. General Electric (GE), on the other hand, will choose to lobby in order to use legal loopholes to avoid taxes. But when corporations all fail to pay

their taxes, people are forced to pay more in taxes or are denied access to government services.

Considering the ease of making business decisions in the capital markets, a number of structural factors limit the information available to most investors and create a number of counterproductive incentives for many investors in financial institutions who are supposed to represent the interests of the beneficiaries. First, in the case of individual investors, for example, most of them hold small, disparate portfolios, which means that they are likely to own a very small stake in any given business. Most individual investors can be characterized as retail investors, a situation that makes most of them rationally apathetic. It makes no sense for them to put too much time and effort into finding out what's going on in the companies in which they hold shares. Instead, they focus on simple, understandable, and accessible information, such as stock prices. The result is that they are usually unaware that a company is imposing external costs on their other interests, and without knowing that other parts of their investment are being jeopardized, they assume that a rising share price must translate directly into personal benefits.

As for institutional investors, especially mutual funds and pension funds, these institutions are trusted by most ordinary investors, and even if individual shareholders do not have a very good understanding of the general rules of these institutions, the pension fund or mutual fund should be able to serve them. After all, these funds take money from many individual beneficiaries, and thus these funds control a large number of portfolios. This means that a pension or mutual fund can acquire a large enough stake in a particular business to overcome rational indifference and put the public on notice that it is necessary to spend time and money on obtaining information that is critical to understanding how the business strategy of the business affects stocks, securities, real estate, bank loans, and other information that is critical to that fund's portfolio. Ultimately, mutual funds and hedge funds are supposed to act as fiduciary stewards to their beneficiaries. This notion is likely to be interpreted broadly to mean that these funds need to protect the interests of their beneficiaries, not only because of the investments that investors make in these funds, but also because of the benefits that accrue to them as customers, employees, homeowners, and the ecosystems in which they live as a result of such investment interactions.

However, even if pension funds and mutual funds were able to protect the interests of ordinary investors better than those of individual investors, they would still be unlikely to come to serve ordinary investors effectively. For one thing, pension funds and mutual funds need to protect more than their beneficiaries' portfolios in the fund; they also need to protect their external interests in employment, health care, low taxes, and clean multifaceted living environments. There is virtually no legal basis for this view. As a result, one can see that most pension fund and mutual fund managers are overly cautious and manage their portfolios in accordance with the accepted existing fiduciary objective of maximizing the value of the portfolio.

Second, the same lack of relevant information and the same rational indifference that renders individual investors powerless to protect their general portfolios makes it impossible for pension fund and mutual fund beneficiaries to accurately judge whether their portfolio managers are defending their general interests. Just as individual investors use the simple but low-cost strategy of judging the

performance of a business by whether yesterday's stock price went up or down, pension fund and mutual fund beneficiaries judge the performance of their fund managers by whether the value of the fund's portfolio went up or down.

Fund managers thus have good reason to avoid obvious "split-the-difference" investment strategies that are likely to undermine the overall value of the portfolios they manage. For example, when a fund manager holds a portfolio that includes shares of companies that are being acquired and subject to a bidding war, they are likely to be biased against the potential benefits of the acquisition compared to a single shareholder who only holds shares in those companies. However, fund managers have nothing to lose and can still profit greatly by supporting strategies that increase the share prices of the companies they hold in their portfolios, even if those strategies sometimes hurt their beneficiaries' outside interests. When a pension fund manager invests in companies that are outsourcing jobs to low-cost labor regions such as China in order to reduce costs, people are not surprised, even if they know that the outsourced jobs actually belong to the employees of the fund.

3. Conflict of Interest Imbalance: The Inevitable Result of Shareholder Heterogeneity

3.1. Conflict of Interest between Short-term and Long-term Shareholders

Once it is recognized that stock markets are not always perfectly value efficient and that corporate managers can raise stock prices without improving real economic performance, we also have to recognize that shareholders with different investment time horizons have conflicts of interest. Shareholders who intend to hold the company's stock for many years want the company to invest in the skills of its employees, develop new products, establish good working relationships with its suppliers, and take care of its customers in order to build their trust and brand loyalty, even if the value of those investments will not be immediately reflected in the stock price in the future. Short-term investors who intend to hold on to their shares for a few months or days want to boost the current share price, and favor strategies such as reducing expenses, using cash reserves to buy back shares, and selling assets or even the entire company. An empirical study of active hedge funds confirms that these are exactly the strategies that active hedge funds are looking for. For example, "active hedge funds seek four things in their objectives, namely, overall partial potential sales, partial potential sales, active cash, and cost reductions".

This puts the criteria for judging the shareholder-centrism model in a dilemma. Which shareholder should be oriented? If the share price does not always reflect the underlying value, there is a clear conflict of interest between long-term investors who want to invest in the future of the company and short-term investors who want to boost the current share price, especially among active hedge funds. In the words of leading lawyer Martin Lipton, directors must decide "whether the long-term interests of the national corporate system and the economy are being jeopardized for the benefit of speculators who have no interest in the viability and longevity of commercial enterprises. These speculators have purchased shares in these business enterprises solely for the purpose of obtaining a quick profit from the sale of those shares.[10]

But the real issue is that the question of when and how directors should favor the interests of one class of shareholders over all others is a very difficult one indeed. We must recognize that long-term investors and short-term active hedge funds are simply not on the same level playing field. Active hedge funds have a clear advantage because they concentrate their portfolios in a few securities companies, which means that it is worth their while to spend the energy and time necessary to get involved in the business practices of a particular company. Contrast this with retail investors, who seldom have a large enough stake in a single company, and if they do, it may not be large enough to follow the company's every move. They are plagued by their own rational indifference. Mutual funds are no better, and most fund managers rationally conclude that an active governance role in the dozens or even hundreds of companies in which they hold shares is contrary to the interests of their clients. If there's a problem, the fund manager sells the shares very quickly and efficiently before everyone knows the truth. In this way, most mutual fund managers have come to revere stocks recommended by Institutional Shareholder Services (ISS), a company that features risk quantification. This firm, although a proxy advisory service, believes that a company with excellent corporate governance should focus on the company's short-term stock price. The end result is that the only people who are likely to be seriously involved in the day-to-day management of today's boards are hedge funds and mutual funds under the watchful eye of ISS, both of which have a preference for short-term investments.

3.2. Substantial Damage to the Company from the Behavior of Short-term Shareholders

It has been suggested that another reason why valuation companies that succeed on the basis of share price relationships end up harming long-term shareholders is because they drive directors and executives to focus not on the real performance of the company (sales, revenues, growth, and new products) but on what is termed the "expected market".

The expectations market is a world where shares of a company are traded among different investors. In other words, in this market, investors assess a company's true market behavior today and, based on that assessment, form expectations about how the company is likely to perform in the future. The agreement of all investors and potential investors on future performance expectations shapes the company's share price.[11]

According to this doctrine, using the expectations market to measure performance, especially when this is accomplished primarily by compensating the company's CEO and other executives through options, stock grants, or bonuses tied to the stock price, has the potential to put these company executives in a very scary position. Suppose a company is doing well; the company's operations are performing at their peak and it looks as if they can revel in the feeling of being at the top forever. The stock market will incorporate this expectation of optimal future performance into the current share price. So the question is, how can the company's management staff lift the price even higher?

In the words of Professor Roger Martin, "Modern capitalism requires that those in leadership positions maximize shareholder value, which is measured by the market value of the company's stock. To accomplish that, the CEO should always be working to increase the stock price,

and never stop raising expectations about the company's stock price. No matter how good you are, you can never get rid of expectations. [12]The focus on shareholder value gives managers an ultimately unachievable task, one that requires them to consistently and forever raise the expectations of others.[13]

What role does the CEO and management of a company play in the corporate governance structure? If he is a mere mortal, he may decide not to attempt something that is beyond his ability, or what is called reasonable expectation management. For example, by using accounting manipulation (i.e., "earnings management") to produce a bad quarterly report that lowers market expectations and then raises them again when appropriate. Or she could choose to avoid the slow and arduous task of developing new products, hiring new employees, and increasing sales and profits, and instead focus on cost-cutting (laying off employees, cutting back on R&D) or capital campaigns (selling off assets, doing large-scale share buybacks) that can temporarily raise the stock price without actually increasing long-term value.

Stock compensation programs create an unhealthy alliance between active hedge funds, ISS-directed mutual funds and corporate management personnel. These short-term institutional investors buy and sell stocks, and the compensation programs for company executives drive them to focus too much on stock market expectations. The case of Kraft Foods (Kraft) illustrates the problem quite aptly.[14] In 2010, Kraft completed a controversial takeover of iconic British confectionery manufacturer Cadbury, leading to the demise of the company as one of the few internationally recognized non-financial companies in the UK. Just 18 months later, under pressure from hedge fund shareholders, Kraft was planning to split itself again into two companies. One to sell snacks like Oreos and Cadbury's, and the other to sell groceries. Despite the potential for duplication of costs, it seems unlikely that such a split would lead to any drastic changes in the way the company produces and operates. So what is the significance of Kraft Foods making such a split decision? Kraft's hedge fund shareholders and the company's executives who profit from the stock still have reason to expect the company to split in two, because it would allow the stock price in one sector to be set by a group of investors who are optimistic about the future of high-sugar snacks, while the stock price in the other sector would be set by investors who are bullish on basic necessities.

If corporate executives and short-term speculators were allowed to profit without harming anyone else, then this corporate run on seat-grabbing game would not be a problem. Unfortunately, long-term investors have to eat the profits of short-term investors. This is very bad for long-term investors. The SEC does not require hedge funds that are not regulated by the SEC to disclose their financial statements, so it is difficult to find tangible data on the specifics of hedge funds, but there is some evidence that active hedge funds have outperformed the broader market. Few dispute that stock compensation programs have made executives richer over the past 20 years. At the same time, however, returns to ordinary investors have declined. While the extraordinary focus on "realizing shareholder value" has made executives, and some hedge fund managers, wealthy, as a class they have done little to help shareholders.

3.3. Institutional Shareholders' Damage to Common Shareholders: Hedge Funds as an Example

The ability of pension fund and mutual fund managers to serve the average investor is sometimes challenged by other, more potent power funds, such as hedge funds. Hedge funds are larger, weakly constrained investment pooling organizations. These organizations are managed by professional traders representing wealthy individuals, foundations, university endowments, and a number of other pension funds and mutual funds. They probably control close to \$2 trillion in investments right now. Unlike individual investors or pension and mutual funds, hedge funds tend to avoid too much change in their investment strategies. Indeed, active hedge funds may only hold 2-3 different securities in their portfolios.

This means that the manager of a single hedge fund, whose human capital is similarly linked to the performance of its portfolio, is able to move closer to the ideals of a single shareholder who cares only about the price of the company's stock. The result is that the interests of the hedge fund manager and the interests of ordinary investors often conflict with each other. A hedge fund manager will work long and hard in favor of strategies that will increase the price of his holdings, even if the price of other companies' shares will suffer as a result. The manager will pressure companies to accept a very high risk of price increases, even if it hurts the long-term value of the company.

Take the standard investment strategy of Carl Icahn, a well-known Wall Street hedge fund manager. Icahn is famous for acquiring a position in a company where he held a large percentage of stock and using his new shareholder status to demand that the company's board of directors place the business on an auction platform to sell it to the highest bidder (he then becomes a so-called former shareholder). Icahn has profited in this way many times, such as in 2012 when he successfully pressured Motorola's management into completing the entire process of its own acquisition by Google. However, there are times when he finds himself holding shares in a company that he intends to sell, but which is being bid on by several other companies, and then, as a shareholder of that company, he will strongly protest and try to block the sale of the company, as it will clearly jeopardize his expected interests. Icahn does not believe that corporate mergers and acquisitions benefit investors. But it also has no interest in investors' wealth; he is only interested in his own.

A single hedge fund can pose a threat to the returns of ordinary investors. Of course, the hedge fund manager may argue that in terms of compartmentalization of interests and priorities, his own interests and those of his client representatives are as important as those of other ordinary investors, and that there is no question of who has a higher priority. Thus, there is no question of protecting the weak in business ethics, even if the number of ordinary investors is gradually increasing.

That may be fair. However, even if we treat the interests of hedge funds and ordinary investors equally, the idea of the ordinary investor allows one to gradually destroy the principle of shareholder centrism. This is because the interests of hedge funds do not only conflict with those of ordinary investors; the idea of shareholder-centrism gives hedge funds far more power and influence than the average business.

Aggressive large shareholders/active investment elements

like Icahn are not hurt by the rational indifference of some average investors and pension funds and mutual funds. The lack of diversity can put hedge fund managers' interests in conflict with those of most other investors, giving them a huge advantage in influencing company management. Through their extensive involvement in a very small number of companies, hedge fund activists are able to threaten to force boards of directors to make concessions when management refuses to engage in large-scale stock buybacks, asset transfers, layoffs, or other strategies that would "unlock shareholder value," using tactics that range from public opinion to contests for control of the company.

As mentioned earlier, hedge funds will create gimmicks that are useful for temporarily boosting the price of certain stocks, even though they are not good for the long-term growth of the company in this case. However, these strategies can be detrimental to the average investor, destroying the value of other assets in their portfolio. Thus, when one adds hedge funds to the current capital markets, however, most ordinary investors do not realize this potential danger.

4. Conclusion

Shareholder heterogeneity shatters the traditional corporate law myths of shareholder equality and equal rights. The history of corporate development in the United States shows that the development and rise of short-term and institutional shareholders have substantially harmed other common shareholders and the long-term development of corporations.

After the promulgation of our Company Law of 2023, the class share system was introduced for the first time, i.e., Article 144 of the Company Law stipulates that a company may, in accordance with the provisions of the articles of association, issue the following classes of shares which have different rights from those of common shares:

(1) shares with preferential or inferior distribution of profits or surplus property;

(2) shares with more or less voting rights per share than common shares;

(3) shares whose transfer is subject to the company's consent, etc. Shares subject to restrictions on transfer;

(4) Other classes of shares as prescribed by the State Council, which is tantamount to confirming the fact of heterogeneity of shareholders from a practical point of view.

While the introduction of the class share system will certainly provide its institutional value in terms of corporate financing flexibility and scale, the history of corporate development in the United States tells us that there is a need to strengthen the design at the institutional level to limit the moral hazard and adverse selection of short-term and institutional shareholders, thereby balancing the pattern of imbalance of corporate interests in real practice.

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