The Electronic Changes to the System of Shareholders' Meeting—Under the Background of "Internet Plus"

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Abstract

In the last two decades, the expansion of the Internet has made information distribution over the entire globe extremely cheap and has facilitated interaction among large groups of people. This expansion has gone noticed in somewhere. The shareholders are residual owners of the corporation, typically were relatives or members of the local community, they attend shareholder’s meeting in order to manage corporate. Shareholder’s meeting is important as a result of they provided a forum for discussion about the conduct of business and a sharing of the collective wisdom. Individual shareholders with a small stake in corporations rarely attend annual shareholder meetings. This would damage the interests of small shareholders greatly. The article looks at the possibility of shareholder voting over the Internet and its effects on shareholder participation in corporate governance.

Keywords: electronic changes; system of shareholders'; meeting; Internet plus

I. INTRODUCTION

In the last two decades, the expansion of the Internet has made information distribution over the entire globe extremely cheap and has facilitated interaction among large groups of people. This expansion has gone noticed in somewhere. The shareholders are residual owners of the corporation, typically were relatives or members of the local community, they attend shareholder’s meeting in order to manage corporate. Shareholder’s meeting is important as a result of they provided a forum for discussion about the conduct of business and a sharing of the collective wisdom. Individual shareholders with a small stake in corporations rarely attend annual shareholder meetings. This would damage the interests of small shareholders greatly.

The article looks at the possibility of shareholder voting over the Internet and its effects on shareholder participation in corporate governance¹. Firstly, it discussed if there is a need for Individual shareholders with a small stake input into corporate control. Next, it analyzes the development process of the Internet has been employed in the online shareholder meetings. Finally, it put forward two proposal of the online shareholder meetings.

II. The Necessity of the Electronic Changes to the System of Shareholders' Meeting

(1) the importance of Internet plus on Corporate Governance

According to the "guiding opinions of the State Council on promoting" "Internet plus" combined the integration of Internet innovation and economic and social fields, promote technological progress, improve the efficiency and organization change, enhance the real economy, innovation and productivity, and form a broader economic and social development of the Internet innovation elements. The traditional mode make the development of economic has reached a bottleneck period, and the "Internet plus" for the current era of social and economic development has injected new ideas and new vitality. The appearance of "Internet plus" for the current era of social and economic development has

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injected new ideas and new vitality. Modern companies aim to improve operational efficiency, in order to meet the requirements of international capital market liberalization and information, the company needs to respond quickly and make decisions to deal with the changes of the external economic environment. In pursuit of the company’s operational efficiency, however, in order to protect the interests of small shareholders, and encourage them to participate in the general meeting of shareholders, improving the internal governance structure of the company, the reform of the general meeting of shareholders, which pursue the concept of corporate equity and democracy is imperative. Combine the “Internet plus” to the shareholders of the general assembly of electronic system reform, it is not only conducive to give full play to the functions of the general meeting of shareholders, but also to overcome the drawbacks that the traditional conference can’t mobilize the enthusiasm of shareholders, meanwhile benefit the full development of shareholder democracy, improve corporate governance.

(2) The drawback of traditional corporate governance model to solve the conflict of stakeholders

One of the functions of company law is to restrain the conflicts of interest among the stakeholders, the rule of corporate governance establishes the “rules of the game” between stakeholders. Generally speaking, the conflict of interest in corporate governance [2], mainly includes: a. The conflict between the controlling shareholder of the ownership of the investor and the management personnel of the company who has the right to operate the management. b. The conflict between the majority of the controlling interest of the company and the minority or non-controlling shareholders. c. The conflict between the company itself (mainly the shareholders of the company) and its contracting partners (such as creditors, employees, customers). The system of shareholders’ meeting is mainly related to the internal governance system in corporate governance. In other words, the main conflict of interest, which closely related to the system of shareholders' meeting, is the first two kinds conflicts.

The cause of the conflict between the managers and shareholders: The ultimate control of the company is often held in whole or in part by the hands of the company's day-to-day operations. Shareholders through the appointment and removal of directors to indirectly play a role, and the operation and management of the company is in the hands of management personnel. The separation of the two rights makes it possible for the managers to implement opportunistic behavior under asymmetric information. In order to solve the conflict between shareholders and managers, the law initially established and strengthened the right of shareholders to elect the board of directors. According to the Company law, the directors and supervisors who are not represented by staff representatives, the general meeting of shareholders shall have the right to elect and replace it in accordance with the articles of association or the resolutions of the shareholders' general meeting by the cumulative voting system or the direct voting method, have the right to decide the remuneration of directors, supervisors, and approve the report of the board of directors, in order to regulate the behavior of the board of directors. However, practical experience tells us: in the various activities of the company, the board of directors who have the right to operate and manage the company is often able to obtain more complete and more abundant information and is in a dominant position, the shareholders of the company are in a disadvantageous position because of the lack of information, and the intuitive way for the shareholders to obtain information is through the reports of the directors. Therefore, shareholders cost a lot to get the information they want to know, one of the most important ways to solve the problem is to disclose information. “Internet plus”, this new economic form can make up for the limitations of the traditional disclosure system, such as inefficient, cumbersome, closed.

Using an open, equal, interactive way to enhance the effectiveness of information disclosure, effectively compensate for the lack of information asymmetry. Through the network platform, the company's shareholders can get a lot of information with less cost. On the contrary, the board of directors and other business people can easily access to the information they want to know (such as the company's remuneration mechanism, incentive strategy, etc.), therefore, the method of using "Internet plus" information disclosure should be two-way. It is the solution to the conflict between the
company's management and its shareholders: make up for the lack of information asymmetry, reduce the risk of opportunistic behavior.

The fundamental reason for the conflict between the controlling shareholders and the no-controlling shareholders of the company is: controlling shareholder holds a larger proportion of voting rights, the dominate shareholder often sacrifice the interests of the minority shareholders, so as to obtains a disproportionate return on the amounts of shares held by the shareholders. There are western countries’ (such as the US, the UK) Company Law to protect the interests of minority shareholders by retaining the board of directors of minority shareholders or strengthening the direct decision-making power of minority shareholders. The most obvious measures to protect the interests of minority shareholders in the company law of our country are the cumulative voting system and the right of shareholders' representative action. Cumulative voting system can expand the size of the shareholders' right to speak, enhance the voting rights of minority shareholders, so as to balance the interests of small shareholders and large shareholders. Meanwhile, shareholder representative litigation system can effectively prevent the controlling shareholder of the company or the management of the legitimate rights and interests of the company, thus indirectly protect the interests of minority shareholders.

Although these regulations have made some achievements in protecting the interests of minority shareholders, however, due to the large number of small shareholders in the Limited by Share Ltd, especially the listed companies, the small shareholders have to participate in the general meeting of shareholders, so that the right to vote is required to pay a high cost of time and money. In particular, the listed companies’ minority shareholders often in hope of profit. These reasons make it difficult for many small shareholders to exercise the right to consolidated equity. And if the minority shareholders who do not hold the controlling position and they are busy, they are unable to attend the meeting of the shareholders general meeting, therefore the choice is abstain from voting. (Although the company law of our country stipulates the proxy system of shareholder's voting right, a shareholder may entrust an agent to attend the general meeting of shareholders through the form of the power of attorney. However, this requirement will worsen the agency problem)

III. The Analysis of the Supply and Demand on the Online Shareholder Meeting

(1) The analysis of the supply and demand on the law

Analyze and supply and demand analysis is the important tool of each part of the microeconomics, as Samuelson and Nordhaus says: "the supply and demand analysis is one of the most useful tools provided by the economics. It is like a Swiss army knife can almost complete any simple task." [1] The supply and demand analysis of the system is the basic framework of the theory of institutional change, the general logic is that when the income is greater than the cost of institutional change, will generate to the system demand, the demand will induce the actual system supply. When the new system provides a marginal benefit is equal to the marginal cost of old system needed, institutional change will be temporarily suspended, institutional structure to reach some kind of "balance". When the environment changes, It will happened that the supply and demand of the updated system. as a result, the system vicissitude embodied in system equilibrium, institutional disequilibrium, system to equilibrium system.

The Economics of the law said, the market of the law also exists in the whole of modern society, there are requirements of the law. And legal requirements is refers to the subjective desire and objective ability of people to buy the law, is the legal resources of existing and has not yet been set for people's positive requirement and actual behavior. The legal requirements [2] is the legal demand ‘s unity of the subjective need and objective realization of demanders. Law belongs to the category of the system demand, and demand is a kind of non-market, intangible commodities demand. Legal requirements is rooted in the main body expect to obtain the maximum "potential profit". "Potential profits" is the profits that the main body can’t get in the existing institutional arrangement. this kind of "potential profits" exists in the system. The payments of the market main body to the state organs legal activities and the payments of the law enforcement, the judiciary legislative to the legislation constitutes the payment of the legal requirements. Once the judicial and law enforcement agencies
cannot implement law according to the requirements of the legislation law, we are called law enforcement and judicial organs lack of ability to pay, the result is impossible to ensure that the laws are strictly observed abide by the laws and the laws strictly enforced.

(2) The analysis of the demand on the online shareholder meeting—in great demand

Institutional economics theory, points out that "potential profits" is the root cause of institutional change. The "potential Profits mainly includes:

1. Reduce the cost of shareholders participate the meeting of shareholders

General meeting of shareholders is shareholders to participate in corporate governance, a basic form of ownership of the master, so the general meeting of shareholders is especially important in terms of shareholders to maintain their interest. Shareholders to participate in the general meeting of shareholders need to pay a lot of costs, such as time, money, etc. Electronic system of general meeting of shareholders to change, can greatly save high cost to participate on-site voting of the shareholders' general meeting, especially the shareholders can participate in the network voting change is highly beneficial for saving time cost, shareholders can do never leave home to participate in the vote.

2. Reduce the Risk of "Prisoner's Dilemma", Maintain the collective interests of the company.

In the process of reality of corporate governance, the shareholders which pursuit the maximization of utility give up to exercise voting rights in the general meeting of shareholders but pay more focused on the stock market price changes, this kind of phenomenon is referred to as the "rational apathy" by economists. Behind the "rational apathy" there will be more painful, on the one hand it increased the company management personnel to implement the risk of opportunistic behavior, on the other hand, the controlling shareholders are more likely to make company decisions which is infringe upon the interests of small shareholders. When every rational shareholder to make a choice, the result wasn't produced the collective rationality, this is the "prisoner's dilemma"[3]in game theory. System of general meeting of shareholders to electronic transformation, can reduce the cost of shareholders to participate in the general meeting of shareholders to vote, boost the enthusiasm of the shareholders to participate in corporate governance, reduce the risk of opportunistic behavior, better maintenance company interests, It's meaningful to solve the "prisoner's dilemma" risk, maintain the normal operation of company.

3. Protect shareholders, especially minority shareholder interests

As I mentioned, in the corporate governance the conflict of interest between shareholders and managers, controlling shareholders and minority shareholder, which may produce management and controlling shareholder opportunism behavior and moral hazard problems. Using the "online plus" Internet technology, through the network platform, can boost the enthusiasm of the shareholders participate in company management, so as to reduce the risk of opportunistic behavior, to protect the interests of shareholders, especially minority shareholders.

(3) The analysis of the supply on the online shareholder meeting—in short supply

System of the company law in our country has not stipulated in the change of the online shareholder meeting but on November 29, 2004, the SFC issued 《the guidance on the listed company general meeting of shareholders network vote (try out)》 " the network voting system shall be prescribed in
detail the content of the electronic voting. On December 28, 2004, the Shanghai and Shenzhen two stock exchanges separately promulgated the "implementing rules for the listed company general meeting of shareholder network vote. Despite the CSRC and the stock exchange issued multiple rules, but still exist many problems.

1. The lack of "company law" as a direct basis

Electronic information technology is the product of The Times development, will become the powerful weapon of corporate governance, into the "company law" is the call of The Times, and the current regulations related to develop the main body of securities or securities exchange, has certain limitation. The introduction of electronic technology in China's commercial law terms more exists in the form of laws, regulations or rules, lead to electronic technology application range is very narrow.

2. The current system of general online shareholders meeting related regulations is not complete

Our country more than the existing provisions relating to the system of general meeting of shareholder electronic vote for the network, while network voting to arouse the enthusiasm of shareholders to participate in corporate governance has a great influence, but these two documents involving more vote, etc., other related regulations are not complete. Such as internal company information disclosure regulations, the current contradiction of corporate governance is a major source of information asymmetry problem, The situation is that the corporate knowledge is not understand sufficiently by the shareholders of the company ,only by saving the cost of shareholders to vote to arouse the enthusiasm of shareholders to participate in corporate governance does not protect the interests of minority shareholders in the roots, on the contrary, It may occur many opportunism behavior.

IV. Foreign System of General Meeting of Shareholders to Electronic Change Process

The United States is the world's earliest countries general meeting of shareholder electronic mode\(^4\), general meeting of shareholder electronic reform is also the most productive countries. By telephone from Delaware 1998 allows shareholders in the form of exercise their voting rights of the shareholders' general meeting in October 2000 to the U.S. President Bill Clinton signed the global and national commercial electronic signature law took effect, strongly promote the electronic process of the American general meeting of shareholders.

Japan, is the first in Asia to run shareholder voting electronically. Released in March 2000, the Japanese commercial law such as part of the correction of the current session will outline the test case\(^5\), made the electronic voting rights, exercise the shareholder meeting and so on six electronic technology have specific provision. Established in 2001, the Japanese "commercial law" in the new content: electronic voting system. Unable to attend the shareholders can vote by means of network communication vote. The content of the establishment of a formal permit shareholders exercise their voting rights via the Internet, promote the electronic process of shareholders exercise their voting rights in Japan, Japan also continues to shareholder vote electronically to do the further research. In 2005, the Japanese company law legislation alone into the Japanese company code, the code further clear about the right of shareholders in electronic related situation, prompted the Japanese electronic perfect a shareholders' meeting.

Britain in May, 2000, opened the door of electronic voting rights of the shareholders' general meeting, announced the electronic intelligence communication law, the laws and regulations to admit that the shareholders exercise their voting rights through the electronic system, electronic means of shareholders to exercise their voting rights, greatly promoted the process of the British shareholders
electronically. At the same time, some investors are increasingly keen to take a shareholders' meeting, shareholders' meeting also increasingly widespread in the form of electronic voting. In July 2004, the British shareholders exercise their voting rights by way of electronic shares accounted for one-third of the total number of votes.

Foreign shareholder electronic system, however, still encounter many problems in practice, how to ensure electronic information released information generated by the electronic system comprehensive, real problems and the shareholders meeting problems such as linking to the implementation of how many years of company law is still a theory of hot topics in the academic circle.

V. The Way of the Online Shareholder Meeting’s Change

(1) The shareholders' meeting will be electronic

1. The electronic process convened by the shareholders' meeting the current company law provides the things about the notices of the shareholders meeting and the resolution matters, the provisions of the general meeting of shareholders meeting (including temporary general meeting of shareholders, of course) shall be the agenda for a meeting time, place, and inform the shareholders prior to the meeting. Traditional way of notification including announcements and separate notice, the general meeting of shareholders convened way electronic reform, will notice or notification to all shareholders in the form of electronic technology, the network can be more efficient and convenient. If we could take the advantages of the network. We would effectively save time cost. However, such electronic change doesn't represent the abolition of the traditional paper called way, such as the general meeting of shareholders convened electronically is only useful supplement to traditional called mode. In practice, we should choose one of the appropriate ways of convening in terms of cost saving. There are many problems worth to be exploring about the meeting system of shareholders promotes electronic reform, some Japanese scholars proposed, It must sent email individually except each other in the commitment to accept electronic notice.[5] The reason is that, if only published on the web, there is no guarantee that everyone will be notified.

2. The convening of the electronic shareholders' meeting

Along with the rapid development of the economy, the quantity of the shareholders of a company increases day by day, also showed the shareholders are the characteristics of geographical diversification. The distance is too long and the traffic is too inconvenience lead the shareholder must pay to higher costs to attend general meeting of shareholders, for the small and medium-sized shareholders, It increased the difficulty of them to participate in corporate affairs. The meeting of electronic shareholders, which will allow the shareholder to participate in the shareholders' meeting by the video. This way will help to save the time, money and other costs of attending meetings. At the same time. The way should not be one-way video meeting, It should make full use of network electronic technology, realize the two-way video conference or implementation to make small shareholders instant feedback information of electronic technology (such as instant barrage or asking questions, etc.), to help small and medium-sized shareholders to fully express their opinion.

(2) The shareholders' meeting voted electronically

There are two motivation to push the electronically reform of the general meeting of shareholders vote: 1. The use of the characteristics of the network are convenient and efficient, save the cost of the shareholder to attend shareholders meeting to vote , such as time and money; The agent of the shareholder's right to vote is cumbersome and the shareholders must submit to the company the power of attorney to exercise the right of voting within the scope of the authorization. This will lead to shareholders may find agents, or do not rule the agent may impose opportunism behavior after seek gain for themselves. A general meeting of shareholder vote electronically reform is conducive to the
shareholders directly involved in the company decision, prevent companies from having the power to be self-serving tool of a few people, thus ensuring the normal operation of the company.

Shareholders to participate in the verification of network voting must to successful login security system, but may be limited by a lot of obstacles in the implementation process, and damage to the exercise of shareholders' rights. There are two types of obstacles: one is that the shareholder is unable to authenticate properly, resulting in a successful inability to log in. Second, shareholder votes have been tampered with. The first can be attributed to technical problems, which require experts to debug the voting system several times and make corresponding prevention mechanisms. The second reason involves the infringement problems, but it can be divided into two categories, one is the motivation of others for some malicious, deliberately tamper with the vote, to influence the final results. The second is that the other person mainly refers to the worker's fault to modify the vote to affect the result of the vote. The advent of the era of "Internet +", representing the electronic from all walks of life to change, one of the most successful and most worthy of reference is a alibaba e-commerce platform. Intuitively, the platform is made up of alibaba's website, online sellers, and online shoppers. Taobao, Tmall network a direct cause of success is to get the trust of the network sellers, buyers, for clients to set up a security platform, online sellers, buyers don't have to worry about the safety of the funds already, also do not have to worry about personal identity information being stolen, which is worthy of reference. Electronic in the process of change in the shareholders meeting, no interest by a third party to build a secure and convenient platform for the vote, shareholder after the platform authentication, can be directly to vote, and vote by a third party platform will result feedback to the company or shareholders. The third-party platform, of course, also can appear the second staff negligence changed the problem of the outcome of the vote, then need to introduce supervision mechanism, by the national related department to take on supervision, the supervision should be active and passive supervision two kinds, the so-called passive supervision is endowed with the right to claim and report to the participants, once someone doubt the impartiality of the results provide evidence, investigate the watchdog.

(3) Company information is publicly electronic

The electronic reform of the Company information to be make known to the public is the very important part of the general meeting of shareholders to make the electronic change. It need the company to make the information disclosure as a guarantee whether it is a network voting or the convening of the general meeting of shareholders. The current company law provided the public issues such as financial and accounting reports, the demand to the public in the company law matters in the process of the company management and shareholders think should be open items can use electronic technology to make public. The disclosure of requirements for public justice may be made public by Internet technology on corporate websites or professional third-party sites. One thing to note is that you should categorize things that need to be exposed in the open process. One category is information that does not need to be kept secret from the public, and the other is information that only needs to be known by shareholders without having to disclose to the public. After for a class of published information need by shareholder authentication qualification check it again after a company's internal website, this technology to distinguish between different levels of public information.

Under the background of "Internet +", the use of Internet technology for medium and small shareholders in general meeting of shareholders of the convenient conditions to make it have more opportunity to exercise their rights, but the problem is that the medium and small shareholders, especially short-term holdings of medium and small shareholders of company, and so on and so forth understanding degree is low, even if it had the opportunity to participate in the general meeting of shareholders and other company major matters, also not necessarily can protect their rights. Therefore, information disclosure is a necessary condition for the electronic transformation of the shareholders' meeting system. Before the shareholders' meeting, the company should be made public. Public affairs should involve the shareholders vote on company decisions to make substantive information, which should be included in the electronic voting shareholder information you need. Vote of the shareholders may also be submitted to the company's request for a public related detailed information,
as long as this information is not stipulated in the company law should not be classified information publicly, the company should change the information electronically.

VI. The Notice of the Electronic Changes in the Shareholders' Meeting

(1) It is closely connected with the corporate law

Shareholders' meeting system can adapt to the current electronic change "Internet +" trend, give full play to the energy of the system of general meeting of shareholders, prompted the company decision can fully balance the interests of all parties, however, electronic of shareholders' general committee system in China lacks the company law directly as the basis, the company can improve the company's articles of association determine the compliance of the electronic form to attend the general meeting of shareholders, but in practice there aren't many companies adopt this approach, the lack of legislation hinders the shareholders' general meeting electronic change process. It is important to ensure the legality of the electronic changes of the shareholders' meeting at the public level, and to advance the process of electronic transformation of the shareholder's meeting system.

(2) The obligations of the relevant principal

Short-term holdings of medium and small shareholders "rational apathy," leads to lower its operating attention to the company, carries on the system of general meeting of shareholders of the electronic revolution will undoubtedly improve the small and medium-sized shareholders related information to the company know degrees. Corporations and medium-term of the large number of medium and small shareholders holding, easily lead to information leakage, this needs to be the shareholders of a company shoulder the responsibilities related to the company information, to prevent the company information is illegal personnel use. The confidentiality obligation of the shareholders' burden shall be agreed upon in the agreement, and the liability for compensation shall be specified in the light of the obligation of confidentiality. In the meantime, the shareholders should also be responsible for the integrity of the company. In particular, it should be noted that the electronic changes of the system of shareholders' meeting should be carried out in order to prevent the inversion of the company.

VII. Conclusion

In this paper, we present the possibility of shareholder voting over the Internet and its effects on shareholder participation in corporate governance. Firstly, it discussed if there is a need for Individual shareholders with a small stake input into corporate control. Next, it analyzes the development process of the Internet has been employed in the online shareholder meetings. Finally, it put forward two proposal of the online shareholder meetings.

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