

# An Analysis of Letv Crisis from the Perspective of Corporate Governance

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## Abstract

**The quality of corporate governance is critical to the company's health and sustainable development. Good corporate governance can provide power and guarantee for the company in the fierce market competition. This paper makes a thorough analysis of the current situation of Le TV's corporate governance, and finds out that there are some problems in Letv, such as "one share dominating", low proportion of independent directors, insufficient supervision, unreasonable salary, etc.**

## Keywords

**Le TV , corporate governance, analysis.**

## 1. About Letv

Letv is a famous online video website in China. It was founded in November 2004 and listed on GEM in August 2010. As the first video website listed in China's A-share market, it is not only the first to achieve profits in the industry, but also the first to promote the legitimate broadcast of film and television and the implementation of network paid viewing mode. Letv is committed to building a complete ecosystem of "platform + content + terminal + application" based on video industry, content industry and intelligent terminal, which is called "Letv mode" by the industry. However, such a unique ecological Dynasty, after a short period of glory, is facing a serious crisis. Since 2016, Letv has been cut off and defaulted on payment to suppliers. Its share price has fallen all the way and its market value has been seriously reduced. On April 17, 2107, Letv suspended trading. Up to now, Letv has not made any progress in dealing with the debts of major shareholders and their related parties, and the company's ability to continue as a going concern has deteriorated. The company has barely maintained its operating cash flow before, and has made every effort to protect the necessary staff related expenses to ensure the company's continuing operation.

## 2. Current Situation of Letv's Corporate Governance

### 2.1. Analysis of Equity Structure

Letv's share capital consists of tradable shares and restricted tradable shares, without state-owned shares. In 2016, the total share capital of the company was 19,816,801 shares, with 1,262,222,085 shares in circulation, accounting for 63.69%, and 719,458,042 shares in circulation, accounting for 36.31%. The top ten shareholders hold 49.89% of the shares.

#### 2.1.1. Analysis of Equity Concentration

Equity concentration refers to the quantitative index of equity concentration or equity dispersion of all shareholders due to different shareholding ratios. Equity concentration is the main index to measure the distribution of the company's equity, and also an important index to measure the stability of the company. According to the degree of ownership concentration, the ownership structure can be divided into three typical types: centralized ownership structure, which is characterized by high concentration of equity; evenly distributed type, which is

characterized by high dispersion of equity, no major shareholders in the company, complete separation of ownership and management rights, and the proportion of shares held by a single shareholder is less than 10%; hierarchical distribution type, which is characterized by the relative advantage of the largest shareholder as a core shareholder, the status of other shareholders declined in turn. The shareholding ratio of Letv's top ten shareholders is shown in Table 1.

**Table 1:** Shareholding ratio of top ten shareholders of Letv

Numbler	Shareholder name	Number of shares		Shareholding ratio	
		2016	2017	2016	2017
1	Jia Yue Ting	682,844,429	1,024,266,644	34.46%	25.67%
2	Shenzhen Xingen next generation disruptive technology M & A fund No.1 investment partnership (limited partnership)	70,006,400		3.53%	
3	Liu Hong	61,230,376	122,460,752	3.09%	3.07%
4	Jia Yue min	43,947,249	87,894,498	2.22%	2.20%
5	Cao Yong	32,264,119	64,528,238	1.63%	1.62%
6	Central Huijin Asset Management Co., Ltd	27,993,300	55,986,600	1.41%	1.40%
7	Zhang Jian Ping	24,883,361	49,766,722	1.26%	1.25%
8	Industrial Bank Co., Ltd. - China Post strategic emerging industry hybrid securities investment fund	17,551,018	30,702,036	0.89%	0.77%
9	Agricultural Bank of China Limited - China Post information industry flexible allocation of hybrid securities investment fund	14,775,062	29,808,524	0.75%	0.75%
10	Wu Ming Xiao	12,796,560		0.65%	
11	Tianjin Jiarui Huixin Enterprise Management Co., Ltd		341,422,214		8.56%
12	Letv holding (Beijing) Co., Ltd		23,882,312		0.60%

It can be seen from Table 1 that in 2016, Jia Yueting, the largest shareholder of Letv, held 34.46% of the shares, decreased in 2017 with 25.67% of the shares, and Jia Yueting was the actual controller of the company. In 2016, the second largest shareholder was Shenzhen Xingen's next generation disruptive technology M & A fund No.1 investment partnership, with a shareholding ratio of 3.53%. In 2017, the second largest shareholder was replaced by Tianjin Jiarui Huixin Enterprise Management Co., Ltd., with a shareholding ratio of 8.56%. Jia Yueting has absolutely dominant shares and becomes the core shareholder, other shareholders hold a relatively low proportion of shares, so the company's equity belongs to a relatively centralized and distributed equity structure.

### 2.1.2. Analysis of Corporate Governance Structure

Equity balance means that the control right is shared by several major shareholders through internal control, and no major shareholder can independently control the decision-making of the enterprise, so as to realize mutual supervision among major shareholders. The equity balance can be expressed by CR index, hefndal index and Z index. CR index is the largest shareholder's shareholding ratio; hefndal index is the sum of the three largest shareholders'

shareholding ratio; Z index is the largest shareholder's shareholding ratio and the second largest shareholder's shareholding ratio. The larger the Z index, the greater the power gap between the first shareholder and the second shareholder, and the more obvious the advantage of the first shareholder. Letv.com's equity balance analysis is shown in Table.2.

**Table 2: 2016 Letv equity balance analysis**

Index	Letv
CR index	34.46%
Herfindahl index	12.10%
Z index	9.76

From table 2, it can be seen that the largest shareholder of Letv holds 34.46% of the shares, and the sum of the first three shareholders is only 12.10%. The shareholding ratio of the first shareholder and the second largest shareholder is 9.76, which is close to 10 times. It can be analyzed that the equity of Letv company is highly concentrated, the first largest shareholder has obvious advantages, and there is no strong internal checks and balances between other shareholders and major shareholders under the supervision drop. In this highly centralized ownership structure, the interests of the first shareholder tend to be synchronized with the interests of the company. From the perspective of self-interest, the first major shareholder often controls the company to seek illegal or improper control gains through related party transactions, insider trading or stock price manipulation, which will damage the interests of listed companies and the majority of small and medium-sized investors, and is not conducive to the long-term development of the company.

## 2.2. Analysis of Governance Structure

The established governance structure of Letv is shown in Figure 1. It includes: general meeting of shareholders, board of directors and board of supervisors. In the general meeting of shareholders, the rights of the first largest shareholder are highly centralized; the board of directors is the company's permanent decision-making body, including five directors and two independent directors. At the same time, the board of directors has also set up four special committees, namely, the strategy committee, the audit committee, the remuneration and assessment committee, the nomination committee, etc. The company has formulated corresponding working rules for each special committee. The audit committee has an audit department to supervise the normal operation of the company, which can ensure the scientific and impartiality of the decision-making of the board of directors; the board of supervisors is the supervision organization of the company, which has three supervisors, including one employee supervisor, which can effectively supervise the company's finance and the behaviors of directors and senior managers.

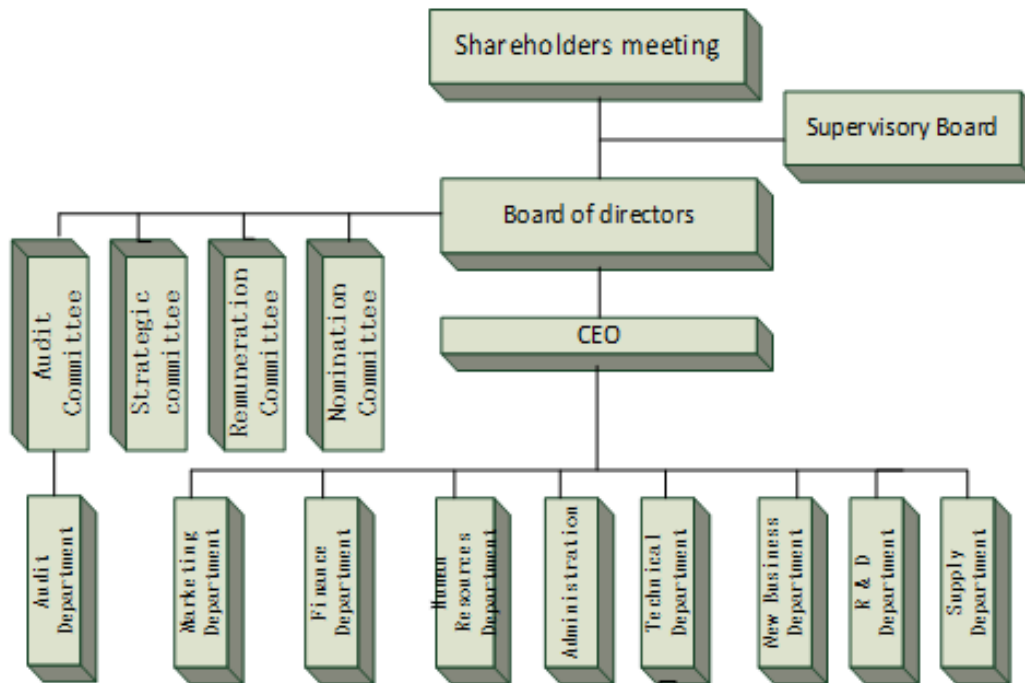


Figure 1: Organization chart of Letv in 2016

2.2.1. Analysis of Board Governance

The board of directors has the legal power to appoint, dismiss and pay the remuneration of senior managers. It can protect the capital invested by the company and is an important factor of corporate governance. The corporate governance research center of Nankai University has constructed a board governance evaluation system, which is evaluated from five dimensions: Directors' rights and obligations, board operation efficiency, board composition, directors' remuneration and independent directors. Governance of Letv's board of directors is shown in Table 3.

Table 3: Governance of Letv board of directors

Major factor	Sub factor	Current situation of corporate board governance
Directors' rights and obligations	Election of directors	Elected by the general meeting
Operational efficiency of the board of directors	Board size, composition and number of meetings	5 people, 32 meetings
Organizational structure of the board of directors	Leadership structure of the board of directors and establishment of professional committees	Chairman, director, four committees
Director remuneration	Remuneration level and form of directors	Equity and cash distribution, 37.56% of directors' equity
Independent director system	Proportion of independent directors	2 independent directors account for 40%

Letv held 32 board meetings from 2010 to 2016. The number of board meetings is a behavioral feature of the board. Although directors often communicate and communicate before meetings, all problems that need to be solved must be decided by holding meetings. Therefore, the number of board meetings reflects the efficiency of the role of the board in corporate governance. In 2016, Letv's board of directors had five members. The chairman is Jia Yueting. The five directors are all male, including 2 doctors and 3 masters. They are engaged in

journalism, management and finance. The two independent directors are experts, university professors and authoritative technicians to assist management in planning and implementation with professional knowledge.

### 2.2.2. Analysis of the Board of Supervisors

This paper designs the governance evaluation system of the board of supervisors from four aspects: the operation of the board of supervisors, the structure and scale of the board of supervisors, the ability of the supervisors, and the incentive mechanism of the board of supervisors. According to the evaluation system and the overview of Letv's board of supervisors, the governance of Letv's board of supervisors is shown in Table 4.

**Table 4:** Governance of Letv board of supervisors in 2016

Major factor	Sub factor	Current situation of Letv board of supervisors
Operation of the board of supervisors	Number of annual meetings of the board of supervisors	21
	Total number of supervisors	3
Structure and scale of board of supervisors	Setting of employee supervisors	1
Competence of supervisors	Supervisor's degree	1 doctor, 1 undergraduate
	Age of supervisors	62、37、45
	Professional background of Supervisor	Finance, law, management
	Shares held by supervisors	No shares
	Change of chairman of the board of supervisors	Current Chairman Wu Meng
Board of supervisor's incentives	Remuneration of supervisors from the company	The chairman of the board of supervisors was paid 390000 yuan in 2106, and the other two were 0 yuan

As can be seen from Table 4, during the reporting period of 2010-2016, Letv held 21 meetings of the board of supervisors. The convening of the board of supervisors is an indispensable step for supervisors to perform their duties, exchange supervision information and exercise their rights.

In terms of the structure and scale of the board of supervisors, Letv has three members, including one employee supervisor and two independent supervisors. Independent supervisor is a person who is independent of the company and can find the problems of the company more objectively and fairly. The staff supervisors mainly come from the inside of the enterprise. They can fully understand the basic situation of the enterprise, make the decision-making of the company more democratic, and enhance the sense of responsibility of the staff master. From the perspective of supervisors' competence, the three supervisors have expertise in law, management, finance and other aspects, with rich working experience, which is conducive to communicating with shareholders, employees and other stakeholders and better playing the role of supervision

### 2.2.3. Analysis of Senior Management Governance

The senior management team is the unity of high knowledge, high intelligence and high assistance plan, which is mainly manifested in high productivity and high cooperation among

individual members. They depend on each other and promote each other to maximize the value utilization of the senior management team. The human capital characteristics of Letv's executive team are shown in table 5.

**Table 5:** Human capital characteristics of Letv executive team in 2016

Name	Gender	Age	Position	Education	Shareholding Ratio
Jia Yue Ting	Male	44	General manager	Master	34.46%
Liu Hong	Male	44	Vice General Manager	Master	3.09%
Liang Jun	Male	47	Vice General Manager	EMBA	0.01%
Gao Fei	Male	41	Vice General Manager	Master	0.13%
Zhang Wei Hui	Male	39	Vice General Manager	EMBA	0
Yuan Bin	Male	41	Vice General Manager	Master	0
Yang Yong Qiang	Male	42	Vice General Manager	Undergraduate	0.56%
Wu Ya Zhou	Male	41	Vice General Manager	Undergraduate	0.09%
Jiang Xiao Lin	Female	42	Vice General Manager	Undergraduate	0.02%
Tan Shu	Female	42	Vice General Manager	Undergraduate	0.01%
Jin Jie	Male	45	Vice General Manager	Undergraduate	0.10%
Yang Li Jie	Female	42	CFO	EMBA	0.47%
Zhao Kai	Male	31	Board Secretary;	Undergraduate	0.01%

As can be seen from table 5, the average age of Letv's senior management team is 43 years old. According to statistics, executives in their 40s have advantages in comprehensive management and innovation. They have rich experience. They are mature and stable when they are in trouble, and have a broad pattern. They are calm in the face of crisis, which is conducive to the sustainable development of the company. In terms of education level, among the 13 senior executives, 7 are masters and 6 are undergraduates. Higher education level will enable the team to have a broader vision, obtain rich social network information and show greater creativity.

### 3. Conclusion

Through the above analysis, we find that Letv has the following problems in corporate governance:

① The equity is highly concentrated. in 2016, Jia Yueting held 34.46%, the largest shareholder of Letv. Such a centralized control structure makes the shareholding ratio of small and medium-sized shareholders very limited. In addition to the largest shareholder, the top ten shareholders hold 0.6% - 3.6% of the shares. This ownership structure will make it difficult for companies to

make democratic and scientific decisions. In the absence of equity checks and balances, the company's major decision-making is entirely based on the will of the first largest shareholder, the internal supervision cannot be effectively implemented, and the internal control system is virtualized, so as to achieve the purpose of profit manipulation and interest privatization. Moreover, the high concentration of stock rights is easy to lead the majority shareholders to hold absolute stock rights, thus manipulating the candidates of directors, making the board of directors a puppet organization at their disposal.

②The board of directors is small and the proportion of independent directors is low. China's "company law" has made clear provisions on the upper and lower limits of the number of board of directors: the board of directors of a joint stock limited company is composed of 5-19 people. Letv's board of directors is composed of 5 directors and 2 independent directors. The size of the board of directors can only reach the minimum limit stipulated in the company law. Letv, as a company that constantly expands its business field and carries out diversified operation, the smaller the size of the board of directors, the more scientific the decision cannot be guaranteed, and the intensity of supervision will be lost. The proportion of independent directors is relatively low. When they express their opinions, to a large extent, they will be influenced by the consciousness of major shareholders, and they have not realized the real independent supervision.

③Lack of incentives for supervisors. Letv has a total of 3 supervisors. The pre-tax remuneration received by the chairman of the board of supervisors from the company in 2016 totaled 390,000 yuan. The remaining 2 supervisors have no remuneration, and the remuneration of the supervisors is far lower than the management. The company law does not make clear the standards for the payment of supervisors' remuneration. Therefore, in most companies, the remuneration of supervisors is far lower than that of managers. Dissatisfaction with the remuneration will cause supervisors to lack enthusiasm in their work and affect the company's operations Ineffective monitoring functions.

④Unreasonable executive pay. Through analysis of Letv's executive compensation, it is found that the executives generally hold less shares and the phenomenon of zero equity also exists. The company's executive compensation is still paid in cash. Equity compensation accounts for a relatively small amount and has a single form. By analyzing the human capital characteristics of executives, most of Letv's executives have higher education and professional knowledge. In the process of managing the company, they will pay more attention to the incentives of compensation. The higher the compensation package provided by the company, the more effective the executives will be in their ability to improve the company's performance.

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