

Corporate Governance, Product Competition and Stock Idiosyncratic Risk Correlation

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Abstract: Since China's stock market began trials in 1989, and in 1995 the country began to comprehensively rectify and support the stock market, there have been a large number of companies in China who have chosen to raise funds by listing and expanding their operations. Many companies have also entered the fast track due to listing and financing. Of course, some companies have ended their delisting due to insufficient product, market, and risk control. The biggest benefit that an enterprise can bring is the integration of private capital. The development of an enterprise cannot be separated from capital injection, and the way to get capital injection is generally personal capital injection and investment institution capital injection. Personal capital injection is relatively formed capital The flow is small and there are few opportunities, and most of the capital injection by investment institutions will cause a lot of dilution of the management's equity, which will affect the management's decision-making ability of the company. The best way to finance. [1]

Introduction

According to the 2019 report of the China Securities Regulatory Commission, as of January 21, 2020, the Shanghai (Shanghai) and Shenzhen (Shenzhen) Securities Exchange Centers (hereinafter referred to as Shanghai and Shenzhen) have a total of 3761 A-share listed companies. (Data source China Securities Index) Since the establishment of the China Securities Regulatory Commission in October 1992 (hereinafter referred to as the China Securities Regulatory Commission), China's financial secondary market has been well regulated and audited, and it has largely ensured that the listed companies are reasonably IPO and transactions security within the scope.

At present, in Shanghai and Shenzhen cities have implemented the T + 1 delivery and T + 1 transaction trading methods for stock market transactions and have also implemented a 10% price limit (ST shares and S shares that have not completed the share reform that have 5% increase or decrease). To a large extent, its also reduces the speculative operations in the secondary market and ensure the reasonable trading and healthy development of listed company stocks.

This article will take China's listed companies 'own management as the starting point, analyze and study the listed companies' corporate governance and the correlation between product and stock risk control.

I. Research on the Impact of Listed Companies' Product Competitiveness on Stock Prices;

A large part of the factors that determine a company's operating ability lies in its products or industries. Companies with excellent products or industries are often able to operate better in many ways. Listed companies are no exception. Taking products as an example, the products of listed companies are more competitive. Being able to gain market competitiveness in the industry competition is the core factor that determines their stock prices. Take Dong'e Ejiao (000423.SZ) as an example;

1. Company profile; the full name of Dong-E-E-Jiao, Dong-E-E-Jiao Co., Ltd., was established on June 4, 1994, and was listed on the Shenzhen Stock Exchange with the approval of the CSRC on

July 29, 1996. The stock is referred to as Dong-E-Jiao (stock code): 000423) The number of shares issued is 17.5 million shares, and the issue price is 5.28 yuan (the currency in this article is RMB) per share. Mainly engaged in the production and sales of Ejiao medicines and health products, currently in the Ejiao medicines and health products industry belongs to the national well-known brands. It has won several awards including the National Quality Award for three times, and is one of the "China's 500 Most Valuable Brands". In 2017 and 2018, it was continuously selected into the "CCTV National Brand Plan" and took the lead in passing the three major GMP, ISO9001, and ISO14001 systems in the industry. Certified. As of 2020, the market closed on January 21, its single stock price was 37.15 yuan, and its market value was about 24.3 billion yuan.

2. Relationship between core product market competitiveness and stock prices

Products are the core factors that determine the development of an enterprise, and product quality is the key to its market competitiveness. Throughout most companies have their core products, core products are the most direct reflection of a company's technology and strength. It is necessary for a company to maintain better competitiveness in the market by continuously improving its core product quality and other aspects. Stick to it and work hard. Taking Dong-E-E-Jiao (000423) as an example, in 2017 Dong-E-E-Jiao series of products had a revenue of 6.3 billion yuan, a year-on-year growth rate of 17%, and overall annual revenue of 7.37 billion yuan, a year-on-year growth rate of 16.7% [2] Since then, the company has increased the sales of Ejiao series products, and has promoted Dongjiao Ejiao tonic health effects through various methods such as mainstream media and self-media. With the increase of the speed and the per capita income level, the TCM health care market has also started to expand significantly, and the market for the core products of Dong'e Ejiao has also steadily improved. The following is the growth of consumption of health products in China and the market share of various brands in China's gelatin industry. Since then, the company has increased the sales of Ejiao series products, and has promoted Dongjiao Ejiao tonic health effects through various methods such as mainstream media and self-media. With the increase of the speed and the per capita income level, the TCM health care market has also started to expand significantly, and the market for the core products of Dong'e Ejiao has also steadily improved. The following is the growth of consumption of health products in China and the market share of various brands in China's gelatin industry. (Data source; Figure 1 Northeast Securities, Figure 2 Foresight Industry Research Institute)

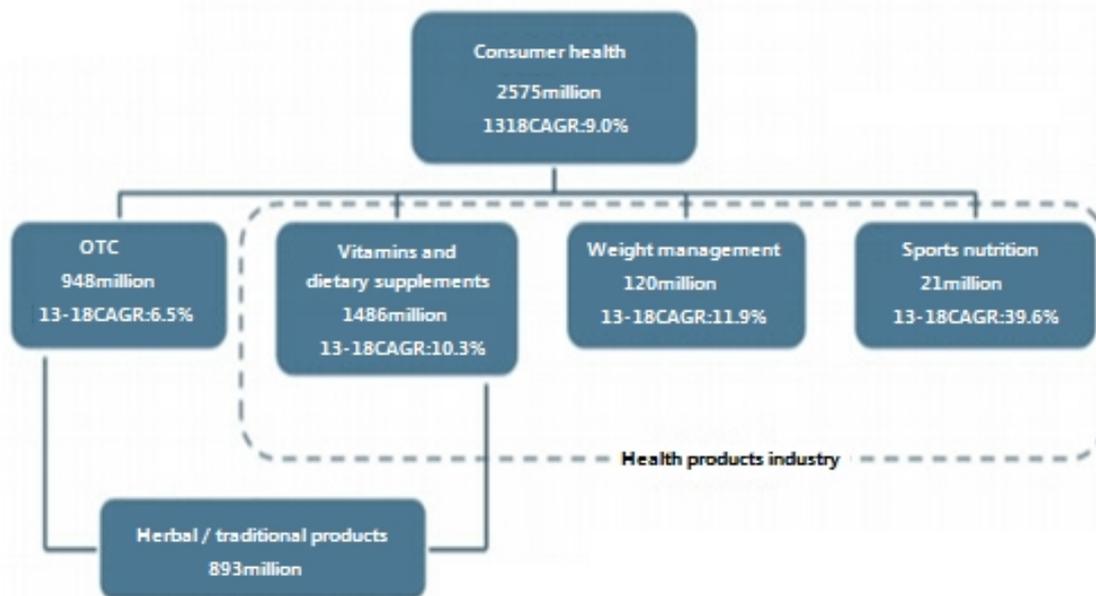


Figure1. The growth of consumption of health products in China

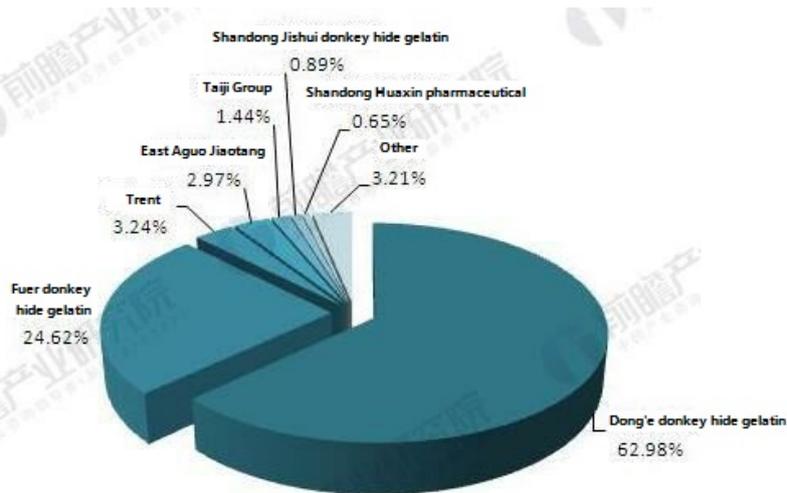


Figure2. The market share of various brands in China's gelatin industry

As of the close of December 29, 2017, its share price was 57.28 yuan per share, and on June 23 of that year, the stock price reached 67.99 yuan per share. From this data, we can see that the core product market share and market competitiveness have a very significant positive effect compared to the stock price.

3. The impact of product price factors on stock prices

There are many factors that determine stock price fluctuations. Among them, product competitiveness has been briefly introduced in the previous article, and product prices are also one of the important reasons for stock fluctuations. Naturally, there will be industry competition when the product is listed, and this competition will be reflected in many aspects such as quality, price, publicity and promotion. Product price reductions and price increases are related to revenue and the market, so many listed companies pay particular attention to product prices. Product price reductions can be divided into active and passive types. Active types are generally companies that fully occupy market share or have industry pricing power, and passive types are mostly mid-to-downstream companies in the industry. Prices of leading brand products in the industry are adjusted, but companies with a large market share in the industry will also experience price changes due to current politics, raw materials, market opinion, and force majeure.

Proactively adjust product price analysis; listed companies generally make price adjustments mainly because product revenue needs to be increased after market share has reached expectations to reduce product research and development, as well as research and development costs, promotion costs, and income from meeting the board. However, at this time, the stock price of listed companies tends to fluctuate within a certain range due to price adjustments, and it is not possible to fully expand the income gains in the form of price increases. Price adjustments must be made on a reasonable basis, otherwise the future of overdraft stocks. Taking the same analysis as 000423 as an example, according to the survey, Dong'e Ejiao raised the price 11 times from 2010 to 2017, and the retail price rose from 130 yuan per kilogram to 5400 yuan per kilogram, an increase of more than 40 times. Among them, there were three effective price increases in 2010, with increases of 20%, 5%, and 10%. After the first round of price increases in 2010, the product market responded well and did not cause inventory backlogs. Consumers are still keen to buy "tonic" Ejiao Products. Its stock price also rose from 22.43 yuan per share on December 31, 2009 to 44.24 yuan per share on December 31, 2010, of which the main purchases were institutions and securities firms.

A total of one price adjustment was conducted in 2011, and the price was directly increased by 60% in one time. The price increase was announced in November 2011. Before the price increase was announced, the stock price fluctuated smoothly without any significant decline. The price dropped significantly until December 30, 2011, when its share price fell to 37.42 yuan per share. Its product market performance is: consumers are dissatisfied with rising prices, sales are trending downward, and backlogs at various retail terminals appear. At this time, Dong'e Ejiao was heavily held by securities firms and institutions and released a buy signal. Therefore, the decision of Dong'e

Ejiao to continue to increase the price of its products has not changed. By increasing product profits to reduce the impact of its stock price decline, this resolution Ejiao has been maintained until around the Spring Festival of 2018 before starting to stop rising product prices and discount sales at a later stage to reduce inventory pressure. The specific performance of Dong'e Ejiao's stock price is: after the substantial price increase, retail investors began to sell off when they were not optimistic, and after a short period of sustained small declines, the institution began to buy in large quantities so that the stock price began to rise. The impact of price increases during storms is relatively small. In view of the price adjustment of most leading industries, the positive impact of small price increases and the stock price are more positive than negative.

(Note: Dong'e Ejiao and the product price increase have a better explanation and market factors.)

Summary:

Product price adjustments need to be closely linked to the market, and active price increases generally occur in industry leaders. A reasonable small price increase is beneficial to the interests of shareholders and shareholders, but a large price increase is likely to cause market impact and negative impact on the stock market. Controlling the multiple relationships between the market and price increases and institutional holdings is very important for stock price performance effect.

II. Research on the impact of corporate management and stock prices

There are many ways for listed companies to enhance the confidence of their stockholders in the secondary market. Share repurchases are a very expressive measure. The method is to use shareholders' own or financing funds to conduct buybacks of shareholders' shares through bidding transactions or other methods, which usually have the following meanings: good corporate development, sufficient cash flow, and management's focus on synergy. Strengthening the confidence of its stocks in the secondary market through share repurchases makes the increase in shareholder confidence to a large extent possible to stabilize its stock price or show fluctuations.[4] Dong'e Ejiao began to plan share repurchases in 2019, and repurchased A shares issued by its own funds with a minimum of 750 million yuan and a maximum of 1.5 billion yuan (both inclusive). The repurchase price Not more than 4.5 billion yuan per share, and the repurchase time does not exceed 13 months. [3] Previously, due to the influence of other factors such as the market and negative public opinion in the health care industry, the stock price of Dong'e Ejiao has been on a downward trend. Some of the media have reported that Dong'e Ejiao has suffered serious losses and the company's business has experienced a crisis. The 48 yuan per share fell to 38 per share, and the market reaction was even more bearish, with a significant downward trend. After this announcement was issued, the continuous and significant decline in the stock price was effectively prevented in a timely manner, and the increase in shareholder confidence began to show a steady trend. In the later period, Dong'e Ejiao began to actively adjust its personnel. Through the addition of directors, additional supervisors, and the chairman to take the initiative to take responsibility for loss and resign, and to speed up the share repurchase process, a number of remedial measures have caused its stock price to gradually rise and gradually stabilize, maintaining it at 35 yuan per share.

Summary: A listed company is a business enterprise with a transparent nature. Any behavior of a company will directly reflect its share price. First of all, the management of a listed company should give full consideration to any resolution of the company before implementing it. The appointment of management personnel should focus on creating benefits and value. Secondly, "improving the internal control environment and strengthening the supervisory functions of the board of directors and the board of supervisors. [5]" Doing a good job of internal control and improving the role of supervision and audit also play a vital role in the healthy development of listed companies.

III. Research on risk control and stock price fluctuation

To a large extent, the risks of listed companies will be the risks of public opinion, especially in the era when the Internet is developed from the media and the Internet is popular. People's Daily Weibo once said in 2016 that "Ejiao, red dates and brown sugar" blood-supplying products were

basically useless, and the article explicitly wrote that Ejiao ingredients caused a response. Dong-E-E-Jiao series products have also been questioned in the market, which has largely caused the sales of Dong-E-E-Jiao products to drop to a large extent. In addition, many self-disclosed reports from the media that Dong-E-Jiao mainly rely on price increases to maintain profits. Goods and other news, as well as the official Weibo post of the "National 12320 Health Public Welfare Hotline" in the Spring Festival of 2018 said that "Ejiao is only boiled donkey skin, not a good source of protein" (Weibo has been deleted) Major media have begun to question Ejiao The news about the actual efficacy of health-care products spread widely, and Dong'e Ejiao's performance began to face a major blow. As of the close of August 6, 2019, the share price of Dong'e Ejiao fell to 31.3 yuan per share, of which two days from July 15 to July 16, the direct market value evaporated nearly 4 billion yuan. (Data source: Wind data) Often after the public opinion appears, the greater the amount of public opinion information during the event window, the greater the impact on corporate stocks. [6] From the above, we can see that the impact of public opinion on the stock price of listed companies is very important. Now is the era of the mobile Internet. The speed of public opinion can greatly affect the trend of stock prices of listed companies. Therefore, controlling the trend of public opinion and grasping public relations are Listed companies are an essential ingredient for risk control.

Summary and suggestions on the impact of stock prices on listed companies

Listed companies should continue to increase product development and upgrade efforts and service levels, focusing on product quality and the market. In terms of product prices and market competition, it has continuously accumulated market share with high quality and high cost performance, and achieved a healthy and reasonable rise in stock prices. Enterprises should pay full attention to brands, public opinion, public relations, laws, and fulfill real-time positive energy social responsibilities of social hot spots, establish a positive image, raise the requirements and thresholds for company management and supervisory departments, and realize internal health management.

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