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The Influence of Equity Structure and Financing Method on Corporate Governance-Taking Apple. Inc as Example

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Abstract: In recent years, influenced by COVID-19, most companies have sought to survive by optimizing corporate governance through adjustments to internal or external structures. Shareholding structure In corporate governance, shareholding structure is regarded as the basis of property rights, due to the fact that it determines the shareholders' structure and the general meeting of shareholders, which in turn determines the composition and operation of the entire internal control mechanism. A positive effect on the efficiency of corporate governance as a whole can occur through internal control mechanisms. Therefore, this paper chooses Apple Inc. as an example and analyzes the impact of equity structure and financing methods on corporate governance by means of a case study. Through analysis, we can know that when a company faces difficulties, it can choose its financing method to help the company get through the difficulties. For corporate governance, a company should clarify its development goals and plan them reasonably. In this way, it is possible to have a good and profitable development prospect.

Keywords: equity structure, financing, Apple, corporate governance

1. Introduction

There are various problems in corporate governance, such as improper allocation of financial assets and equity investments. These issues can affect the company's operations. In recent years, due to the impact of COVID-19, many companies had broken capital chains and poor business efficiency. They had to struggle to survive by adjusting internal or external structures. Businesses of all sizes are experiencing corporate governance issues. At the same time, there are also technology-based companies such as Apple Inc., Microsoft, Intel, and other large electronic technology companies that have been negatively affected by COVID-19. They will also make some adjustments to this, such as equity structure adjustments and financing to obtain funds to recover.

By analyzing a company's equity structure and financing methods, it is possible to better understand its operating model and corporate governance issues. At the same time, it can help investors analyze whether the company's prospects are worth investing in. It can also better help companies avoid operational management risks.

In short, there are already many types of research on dual equity structures and financing methods. However, under the decentralized equity structure, there is little research on the impact of Apple Inc.

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and its financing methods on corporate governance. Therefore, this project mainly studies the impact of equity structure and financing methods on corporate governance, using Apple Inc. as an example. It is hoped that through the analysis of Apple Inc., it can give suggestions for the current industry's company financing and equity structure adjustments.

2. Literature review

2.1. Equity structure

Berle and Means claim that the core of corporate governance is equity structure, and equity structure is presented through the shareholding ratio of the actual managers of the company [1-2]. In corporate governance, Mahrt-Smith argues that the interplay between capital structure and ownership structure has an impact on firm value, and more centralized ownership will have more debt, which will further affect the company's performance [3-5]. Equity diversification can reduce the liquidity risk of shareholders' shares. At the same time, in the case of highly decentralized ownership, shareholders have created a mechanism of checks and balances that facilitates more democratic decision-making. However, this decentralization of decision-making power leads to a decline in decision-making efficiency, making it impossible for companies to respond to market changes promptly and potentially missing opportunities.

2.2. Financing methods

Financing is one of the most important conditions for understanding and running a business [6]. The financing methods commonly used by enterprises are debt financing and equity financing. When financial institutions conduct assessments for corporate finance, they often choose to investigate corporate governance and boards of directors as the basis for their financial position [7]. Through debt that claims have a positive effect on debt costs [8]. In addition, from the influence of board gender on debt financing costs, it is found that female directors and board diversity reduce financing costs and agency costs [7]. Compared to equity financing, debt financing can alleviate the problem of overinvestment [9].

3. CASE - Apple Inc.

3.1. Introduce Apple Inc.

On April 1, 1976, Apple Inc. was co-founded by Steven Jobs, Stephen Wozniak, and Ron Wayne. Apple Inc. went public on December 12, 1980, with an initial public offering of 4.6 million shares at USD$22 each. The market value created by Apple Inc.'s IPO ranks the highest among all IPO companies. At the close of the first day of the IPO, Apple Inc.'s market value reached USD$ 1.778 billion. In the 1990s, Apple Inc.'s performance fell sharply due to Microsoft's computer entering the market. Apple Inc.'s stock price went from a high of USD$73.36 in April 1991 to a low of USD$12.88 in December 1997 [10]. By the end of 2004, the stock had climbed to USD$64.40 per share as Apple Inc. introduced a more advanced version of the iPod. Jobs took Apple Inc. to unprecedented heights. When Jobs was CEO, Apple Inc.'s stock price had risen to USD$376.18. On August 25, 2011, when he resigned as CEO, Apple Inc.'s stock price fell 5.07% after hours, and its market value decreased by about USD$18 billion. On October 7, 2011, after the death of Steve Jobs, Apple Inc.'s stock price opened lower and moved higher. As of the close, it fell 0.23%, and the stock price fell slightly by US$0.88 to USD$377.37 per share.

As of today, the stock price on August 4, 2023, has closed at USD$188.06, which means that Apple Inc.'s market value has reached USD$2.958 trillion, which is 9 times the previous value.

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From August 2011 to the present, the current CEO of Apple Inc. is Tim Cook. As soon as he took office, he adjusted the warehouse and supplier systems to improve operational efficiency. At the same time, he has strengthened cooperation with Chinese manufacturers and increased investment in the Chinese market. As a result, he stabilized the stock price, and in the three quarters he was in power, Apple Inc.'s profit was USD$ 31 billion.

Apple Inc. made its first financing in August 1976 and received Mike Markkula's investment of USD$ 91,000, mastered 1/3 of Apple Inc.'s shares, and other venture capital of more than USD$ 600,000, of which Arthur Rock invested USD$57,600.

The first batch of financing, due to successful sales of Apple I 50 computers as soon as they went on the market, attracted the first batch of financing for them.

At the end of 1979, Apple Inc. chose private equity financing before going public. It successfully introduced some individual investors and a total of 16 investors, including Xerox Corporation and LF Rothschild Capital Corporation.

As of 2023, major Apple Inc. Shareholders include Warren Buffett's Berkshire Hathaway, which holds a 5.73% stake in the company. Then there are other individual shareholders, such as Apple Inc. CEO Tim Cook owns 33,000 shares, Chairman Arthur D. Levinson owns more than 45,000 shares, etc.

3.2. Analysis

3.2.1. Equity structure in Apple Inc.

Through the impact of changes in Apple Inc.'s equity structure in some key events on its stock price, the company's initial equity structure is in a state of basic equality. Whenever a new shareholder invests, the shares held by the existing shareholder are diluted. It leads to a reduction in the ownership of the original shareholders and a gradual reduction in control of the company. That's why Jobs was forced to leave. In 1997, Apple Inc. was in trouble, and its stock price plummeted from US$70 in 1991 to US$14. The board made the decision and agreed to Jobs' request to return him to the company, for which management paid for agency costs. Compared with the company's bankruptcy dilemma, the cost of the agency is not worth mentioning. Jobs has reformed its ownership design to address this dilemma. The company adopted a decentralized shareholding structure, determining that Apple Inc. had no controlling shareholder and that its actual controller was the board of directors. At the same time, it also established long-term control over Apple Inc.'s board of directors [11]. Jobs, as management, may have some conflicts of interest and corporate governance issues with shareholders. When Jobs died, Tim Cook took over. For now, Apple Inc. is the responsibility of the entire board. The board of directors plays a vital role in corporate governance, and a good board will lead to better development and greater shareholder returns for the company [12]. The board of directors adjusts and governs in response to changes in the company's internal and external environment. It also helps shareholders monitor management to ensure the proper implementation of every resolution. At the same time, it also influences the company's strategy and planning with its professional knowledge and skills [13]. Through this structure, effective governance of the company can improve the company's performance [14]. From the net income of the past five years, it can be seen that since Tim Cook took over, this structural model has continued to make Apple Inc. profitable.

In Figure 1, although it declined in 2019, it showed an overall upward trend. It can be seen that the current equity structure is suitable for Apple Inc.'s development [15].

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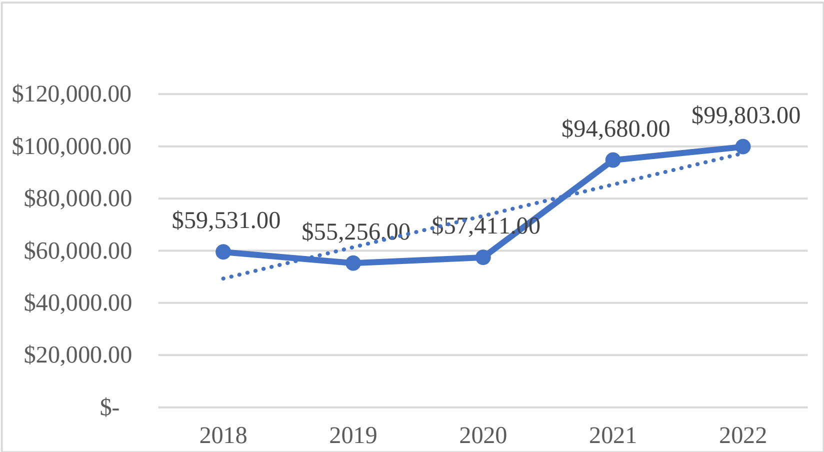

Figure 1: Changes in Apple Inc.'s net income from 2018 to 2022(in million).

3.2.2. Financing methods in Apple Inc.

As can be seen from Apple Inc.'s 2018-2022 annual report, its total liabilities and total assets are generally showing an increasing trend year by year (Figure 2 and Figure 3). There was a slight decline in 2018-2019, likely due to the impact of COVID-19. It can be seen from the calculation of the Debt-to-Equity Ratio over the past five years that it has also increased year by year. So Apple Inc. is mainly based on debt financing. The MMI theory shows that the use of debt financing can raise the market value of the securities issued by the company. Although Apple Inc. has high debt, its asset value is also very high. It also attracts more financing for the company, while also giving investors' confidence that it can repay debt [11]. At the same time, the higher its debt, the higher its tax shield, and the higher the deductible interest tax. It also shows that this company is more suitable for debt financing. By calculating the equity ratio and profit growth rate, it can be seen that Apple Inc.'s earnings have slowed in recent years, and the distribution of profits to shareholders has shown a decreasing trend (Figure 4 and Figure 5).

Apple Inc. also raises funds through equity financing. In 1980, Apple Inc. made its initial public offering. At the same time, Apple Inc. compensates its management and many other employees by issuing stock options. However, when the stock price falls or even falls below the strike price of the stock option, it creates a corporate governance problem in that the stock option loses its incentive value [11]. This measure will have no compensatory effect on employees, which will cause them to protest. In turn, Apple Inc. adopted an "option exchange program" to restore employees' confidence in the company.

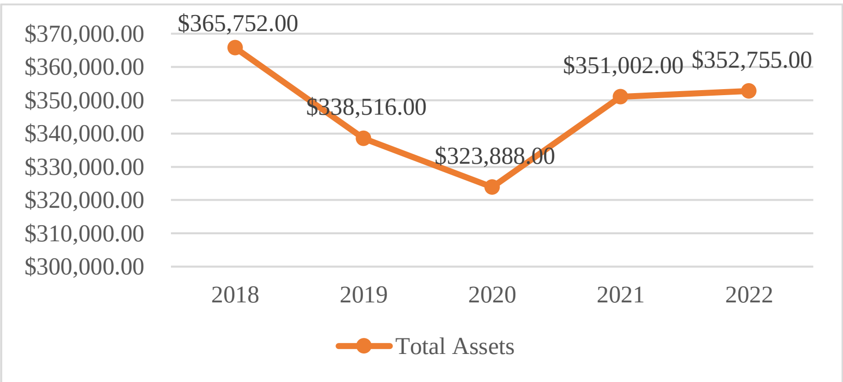

Figure 2: Changes in Apple Inc.'s total assets from 2018 to 2022(in million).

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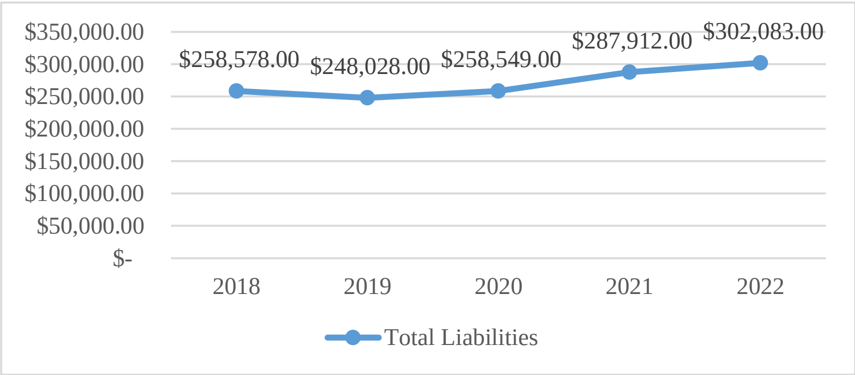

Figure 3: Changes in Apple Inc.'s total liabilities from 2018 to 2022(in million).

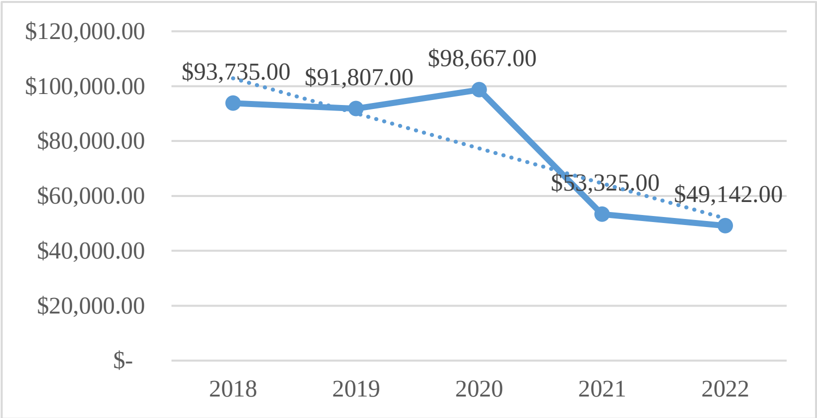

Figure 4: Changes in Apple Inc.'s term debt from 2018 to 2022(in million).

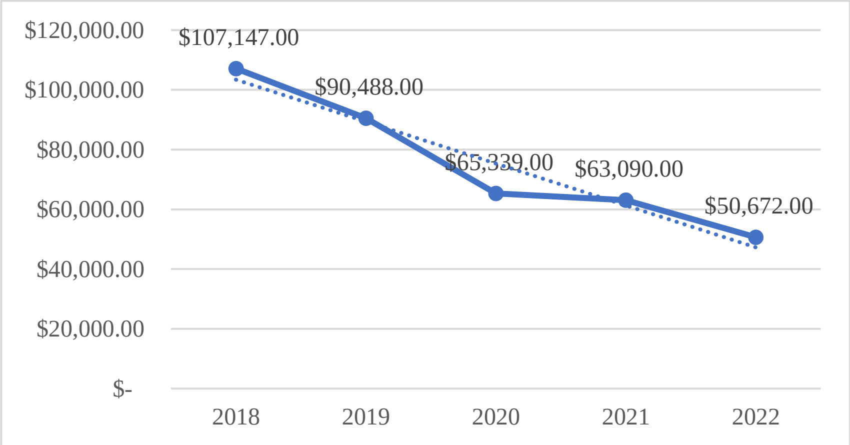

Figure 5: Changes in Apple Inc.'s total shareholders' equity from 2018 to 2022(in million).

4. Discussion

A study of Apple Inc.'s equity structure and financing methods shows that they all have a significant impact on corporate governance. From the perspective of equity structure, Apple Inc.'s decentralized structure has resulted in sustained profitability. But as can be seen from the slowdown in its earnings growth rate, this structure also has a relative impact on the company's long-term development. Therefore, the management should be vigilant about the current situation at Apple Inc. Under this structure, its board of directors plays a considerable role in corporate governance. It can fully embody democracy. But also pay attention to the efficiency of decision-making.

From the perspective of financing methods, Apple Inc. has obtained a large amount of financial support mainly through debt financing. To consolidate the relationship with shareholders, employees, and management, it has also introduced relevant equity plan support. The way a company uses financing will have a beneficial impact on shareholders and managers. From the manager's point of view, continuing to pay attention to a company's financing methods shows that the company's corporate governance problems can be avoided.

This series of initiatives is all for a company to have better operation management, solve some potential corporate governance problems, and make the company's future development better.

5. Conclusion

This article analyzes Apple Inc.'s corporate governance issues mainly from two aspects: equity structure and financing methods. From the analysis, it can be seen that these two parts will have a significant impact on the company's profitability. At the same time, it is also an important factor for investors and financiers to make investment forecasts and analyses. There are some shortcomings in this study, such as the small range of data. In the future research direction, researchers can analyze Apple Inc. from a more comprehensive and complete perspective or conduct more in-depth research on corporate governance from the impact of equity structure and financing methods.

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