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Exploration of Control Struggle Issues with JonjeE HI-TECH as an Example

Zimeng Hui, Kaiwen Zhao*

School of Business, Xi'an International Studies University, Xi'an 710128, Shaanxi, China

**Author to whom correspondence should be addressed.*

Abstract: This paper sorts out relevant theories of control struggle, constructs a theoretical model of control struggle from three dimensions of resource dependence, subject relationship, and institutional environment, and deeply explores the causes and strategies of conflicts between shareholders, management, and major shareholders. Taking JonjeE HI-TECH as an example, this paper analyzes the process and causes of its control struggle, and draws a conclusion that enterprises should formulate long-term strategic planning and resource integration ability is the key to capital game, and puts forward suggestions such as capital operation should be aimed at supporting the development of the main business, the stability of corporate governance is the foundation of long-term development of enterprises, and the maintenance of market confidence.

Keywords: Battle for control; Theoretical model of control contest; JonjeE HI-TECH; Long-term strategic planning

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1. Theoretical overview

Current research on control struggle mainly focuses on shareholder relations, corporate governance, resource management, and other issues. This research involves management theories, including principal-agent theory, conflict theory, and resource dependence theory, among others. In terms of shareholder relations, the principal-agent theory was first put forward by Burleigh and Means in the 1930s due to their insights into the significant drawbacks of the practice where owners and operators of enterprises are the same individuals. The core of this theory lies in resolving the conflict of interest between shareholders and management, as well as balancing the interests between major shareholders and minority shareholders [1]. However, despite the fact that the separation of ownership and management has alleviated these problems to a certain extent, the principal-agent problem still persists in shareholder relationships. Therefore, shareholder relationships often face challenges such as the "tunneling" issue between the ultimate shareholder and minority shareholders, and the principal-agent problem between shareholders and management due to ownership and management issues. As major shareholders increase their shareholding ratios, corporate performance may gradually improve, but the private interests of major shareholders can potentially harm the interests of minority shareholders, having a strong negative impact on the long-term development of enterprises.

Due to their high shareholding proportions, major shareholders often have a significant influence on enterprise decision-making and can even control the business direction of the enterprise. Such control may be used by major shareholders to seek private gains, thereby damaging the interests of minority shareholders [2]. Furthermore, there may be related-party transactions, equity transfers, manipulation of information disclosure, and other methods employed by major shareholders to seize corporate resources and pursue private interests at the expense of minority shareholders [3]. By controlling enterprise resources, shareholders can transfer benefits within the enterprise, resulting in short-term improvements in enterprise performance. However, in the long run, enterprise resources will be depleted by shareholders, severely damaging enterprise competitiveness and market value. Regarding corporate governance, conflict theory emphasizes that conflicts among behavioral subjects may lead to the breakdown of harmonious relations within organizations.

However, moderate conflicts can improve the scientificity of decision-making to a certain extent [4]. The key to corporate governance lies in managing conflicts and ensuring they play a positive role within a controllable scope. The existing corporate governance model has gradually shifted from "centralism of shareholders' meetings" to "centralism of the board of directors," with shareholders resorting to "voting with feet" instead of "voting with hands" [5]. With a relatively dispersed ownership structure, it is difficult for any single shareholder to obtain absolute control. To meet the needs of shareholders, the right of control gradually shifted from the ownership of material capital to the right of use of corresponding capital. Consequently, management replaced shareholders as the main body of value creation, reconstructing the traditional agency relationship between shareholders and management, and further enhancing the enterprise's ability to utilize key resources [6]. This transition facilitated the transformation from "capital as the wage-earning factor" to "labor as the wage-earning capital."

In the traditional agency relationship, shareholders ensured that management's behavior aligned with shareholders' interests through incentive and supervision mechanisms. However, under the board-centric governance model, management gradually gained actual control of the company, weakening the influence of shareholders. As a result, shareholders' roles shifted from direct controllers to indirect supervisors, while management became the core force driving the company's value creation by mastering the company's key resources. In terms of resource management, resource dependence theory posits that resources are the foundation of enterprise strategy and can be leveraged to enhance the core competitiveness and value growth of enterprises [7]. From the perspective of control struggle, the resources involved often encompass shareholder resources, social capital, and risk capital, among others. Their heterogeneity and dependence contribute to the combination and competition among shareholders. In the actual process of resource management and allocation, differences in the will of multiple actors lead to agency conflicts and interest transfers among shareholders, the board, and operators. The diversity of shareholders' resource portfolios and the specificity of social capital comprehensively reflect the ability of founders and managers to utilize resources to form technology, marketing, culture, and other aspects of the enterprise.

As owners of the enterprise, shareholders expect to maximize their returns through investment. The board of directors, as the agent of shareholders, is responsible for overseeing the operation and management of the enterprise. Meanwhile, as the operators of the enterprise, management is responsible for specific business operations [8]. Due to their differing roles and interest demands, power struggles and interest conflicts may arise within the enterprise. Therefore, a sound governance mechanism is necessary to balance the interest relationships among shareholders, the board of directors, and management. By leveraging social relationship networks, enterprises can obtain market channels and technical resources, and improve operational efficiency through resource allocation and process optimization.

2. Construction of theoretical model

Based on the above theoretical analysis, to further comprehensively explore and uncover the motivations and game dynamics behind the struggle for control rights, this paper establishes a theoretical model of the struggle for control rights from three dimensions: resource dependence, subject relationships, and institutional environment, and conducts quantitative analysis on each of them respectively. This allows for a clearer understanding of the optimal decision-making direction for corporate holdings and provides relevant pathway guidance for enterprises to achieve sustainable development in the struggle for control rights.

For the dimension of resource dependence, it focuses on the allocation and utilization of key resources in the struggle for control rights. Resources are the foundation of corporate power, and the struggle for control rights often revolves around the acquisition and allocation of resources, including both financial and non-financial resources. When facing issues of resource dependence, it is necessary to consider that the scarcity and specificity of different resources determine their value in the struggle for control rights, and the ability to integrate resources determines the pattern of power distribution. Therefore, the following resource allocation optimization model is constructed:

$$\max_{x1,x2} (\alpha U_1(x_1) + (1-\alpha)U_2(x_2)) \tag{1}$$

With x_1 and x_2 representing the resources allocated to different participating entities, and $U_1(x_1)$ and $U_2(x_2)$ representing the corresponding utility functions, α denotes the shareholder's weight in resource allocation, reflecting their power. In this model, it embodies the power game within the enterprise during the resource allocation process, aiding in discovering the optimal actual control right allocation for the enterprise.

For the dimension of subject relationships, it lies in identifying the specific relationships among the participating entities in the struggle for control rights, generally including shareholders and management, major and minor shareholders, major shareholders and management, and multiple major shareholders. Information asymmetry and conflict of interest among participating entities are the main driving factors. Major shareholders may harm the interests of minority shareholders through "tunneling," management may consolidate their position through equity incentives or strategic adjustments, and multiple major shareholders may influence the allocation of control rights through alliances or competition. Therefore, the following game model among participating entities is constructed:

$$\forall i, s_i^* = arg \max_{s_i} (\pi_i(s_i, s_{-i}^*)) \tag{2}$$

With S_i represents the policy of the i participating agent, s_{-i}^* denoting the optimal strategies of other participants, and πi indicating the profit function of the i th participant, the model illustrates the optimal strategy formed through independent decision-making based on the mutual game among multiple participants. It embodies the balance of interests among different participants, which influences the allocation of control rights.

For the dimension of institutional environment, it focuses on the impact of the external environment on the struggle for corporate control rights, generally including the policy environment, economic environment, and competition within industry. These factors constitute external constraints for the struggle for corporate control rights. The policy environment refers to the constraints and guidance imposed on corporate operating behaviors by the government through laws and regulations, industrial policies, and regulatory measures. Changes in the policy environment may directly affect the ways and outcomes of the struggle for control rights. The economic environment refers to the impact of macroeconomic conditions on corporate operations, which may affect a company's financing capabilities, market performance, and the costs of the struggle for control rights. Competition within the industry refers to the impact of the behaviors of other companies in the industry on a company's operations. Competition within the industry may influence a company's struggle for control rights through methods such as competing for market share, technological innovation, and price wars. Based on this, the following quantitative model of the institutional environment is constructed:

$$\begin{cases} P(Y = y|X_{p,e,c}) = f(X_{p,e,c}, \theta_{p,e,c}) \\ X_p = \sum_{i=1}^{n} w_i \cdot \Delta P_i \\ X_e = \beta_1 \Delta GDP + \beta_2 \Delta Interest + \beta_3 \Delta Market \\ X_c = \sum_{i=1}^{n} \gamma_i \cdot \Delta C_i \cdot \Delta D_i \end{cases} \quad (3)$$

Y represents the strategic adjustment made by the struggle for control, $X_{p,e,c}$ represents the change caused by the policy environment, economic environment, and industry competition, $f(X_{p,e,c},\theta_{p,e,c})$ represents the influence function, $\theta_{p,e,c}$ is the parameter. w_i represents the weight of the policy change for item i, and ΔPi represents the magnitude of its impact. ΔGDP is the change of GDP growth rate, ΔInterest is the change of interest rate level, ΔMarket is the change of capital market index, and $\beta 1$, $\beta 2$ and $\beta 3$ are the corresponding index weights. γ_i represents the impact weight of the ith firm, ΔCi represents its market share, and ΔDi represents its level of technological innovation. This model mainly explains the adjustment of control battle strategies caused by environmental changes and provides more refined decision support for corporate governance practices.

3. Conflict analysis between shareholders and management

In order to further verify the theoretical model of control struggle, this paper will take the conflict between shareholders and management as an example to explore the motivation and related strategies behind the conflict between shareholders and management.

From the perspective of resource dependence, the difference in control rights between shareholders and management is the starting point of the conflict. Shareholders typically control financial resources, while management controls technical and operational resources. The heterogeneity of resources leads to intransigence in strategic decision-making. For example, management may prefer to invest in long-term research and development to consolidate technological advantages, while shareholders are more focused on short-term financial returns, demanding that R&D budgets be cut to increase dividends. Management adds value by pooling resources, but the process can weaken direct shareholder control. When management brings in strategic investors to acquire technology resources, it can dilute the stakes of the original shareholders and trigger a battle for control. According to Formula (1), if the utility difference between shareholders and management is too large, it is difficult to achieve a balance in resource allocation.

From the subject relation dimension, there is information asymmetry and interest conflict between them. As the owners of enterprises, the core goal of shareholders is to maximize the return on investment, and they expect to obtain rich dividends and capital appreciation through the efficient operation and good financial performance of enterprises. However, as the operator of the enterprise, the objectives of the management are often more diversified and complex. Management may be more inclined to pursue occupational safety and avoid the risk of being fired for bad business decisions. They may also seek to expand their power, increasing their influence by controlling more resources and decision-making power. In addition, the maintenance of personal reputation is also an important consideration for management; they hope to win recognition and praise in the industry through good performance. When management accumulates shares through stock incentive, it may change from "agent" to "actual controller". For example, at Apple, Steve Jobs had a strong influence on the board through a combination of technical authority and equity.

According to Formula (2), if the management strategy deviates from the optimal solution for shareholders, the battle for control rights will intensify. From the dimension of system environment, mainly from the policy environment, economic environment, industry competition respectively in-depth research. In terms of policy environment, binding policies will limit the management's space for information manipulation, but also increase compliance costs, which may lead to shareholders' questions about the efficiency of management. Supportive policies may be used by management to expand personal power and exacerbate agency problems. In terms of economic environment, when the economy is down, shareholders tend to adopt conservative strategies, while the management may resist maintaining organizational stability, and when the economy is up, shareholders may expand the scale more aggressively than the management in an attempt to obtain more profits. In terms of peer competition, when industry competition intensifies, management may require more resources to be invested in the market competition, while shareholders prefer cost control.

According to Formula (3), the implementation of multiple policies may lead to different degrees of conflict between shareholders and management. With the increase of economic fluctuation, the conflict probability between shareholders and management increases significantly. Once the competitive pressure increases, the divergence between the two sides on the allocation of resources will be further widened.

4. Further discussion and analysis of shareholder checks and balances

In various fields, green development has achieved remarkable results, and green development is an important symbol of China's shift from a speed economy to high-quality development [9]. In Xi'an, Shaanxi Province, for example, the government is advocating and implementing energy-saving technologies to promote the goal of energy conservation and emission reduction. By applying digital technologies, the government has improved its ability to manage energy conservation and consumption reduction, successfully reduced energy consumption per unit of product, and significantly improved energy efficiency in industries such as thermal power and cement. These achievements have verified that the concept of high-quality development of enterprises should be centered on green, low-carbon, and environmental protection, and have provided strong support for enterprises to move towards sustainable development.

However, despite the fact that the manufacturing industry has established a relatively well-developed industrial system, its major reliance on traditional manufacturing has led to a relatively low input-output ratio and still high resource and energy consumption. This may imply that there is still room for improvement in the development and utilization of resources by enterprises, and that the competitiveness of their products and services in the market needs to be improved. Efficient resource utilization and high-quality products and services will be the key to the future development of enterprises, and the realization of the greening of the whole process is also a pressing issue for manufacturing enterprises.

Therefore, in order to improve competitiveness and achieve sustainable development, manufacturing enterprises not only need to further optimize the use of resources and improve the quality of products and services, but also need to integrate the green concept into the whole process. Further promoting green development, focusing on resource conservation and environmental protection in the process of economic development, and promoting technological innovation and industrial upgrading, so as to realize the sustainable development of enterprises, is an inevitable path to promote high-quality economic development. Manufacturing enterprises actively introduce green innovation technology, adhere to resource regeneration and recycling, reduce pollution emissions, strengthen the protection and repair of the ecosystem, achieve green development of enterprises, and help achieve the modernization process of harmonious coexistence between human beings and nature.

In the process of conflict, the board of directors is the main focus of the control battle, and it is the external characteristic of the shareholder conflict behavior, which is generally manifested by the new major shareholders holding the shareholders' meeting to reelect the board of directors and the resistance of the original major shareholders. In the result of the conflict, a new shareholder balance has been formed, which appears to be the victory of one group, but in fact, it is more than one group. On the whole, the conflicts of major shareholders have not produced actual positive benefits for either party. Therefore, how to effectively avoid major shareholder conflicts or control the scale of major shareholder conflicts to form effective shareholder checks and balances is the governance approach for sustainable development of enterprises.

5. Case analysis of JonjeE HI-TECH control battle

5.1. Case introduction

5.1.1. Company profile

JonjeE HI-TECH (Group) Co., Ltd. was established in 1993 and listed on the Shanghai Stock Exchange in 1995 (600872). Its business mainly covers condiment production and sales, national high-tech zone operation and urban development, auto parts, and other fields. Its core business is condiment. Before 2015, Torch Group was the largest shareholder of JonjeE HI-TECH, and the actual control was the Management Committee of Zhongshan Torch High-tech Industrial Development Zone. In 2015, Baoneng quickly increased its shares and became the first major shareholder of JonjeE HI-TECH through its Qianhai Life Insurance, and Yao Zhenhua became the actual controller.

5.1.2. Event introduction

In 2015, after Qianhai Life Insurance held a number of billboards to enter the JonjeE HI-TECH, Baoneng Department through Qianhai Life Insurance in the secondary market to buy a large number of JonjeE HI-TECH stocks, surpassing the Torch Group to become the largest shareholder. In 2018, Foresea Life transferred 24.92% of its shares to Zhongshan Runtian, and Baoneng officially entered JonjeE HI-TECH.

In 2020, Baoneng began to reduce the shares of JonjeE HI-TECH due to the debt crisis, and its shares were repeatedly pledged and enforced, and Torch Group and its concerted actors took the opportunity to increase their shares. In 2022, the Torch Group has increased its shareholding several times, reaching 15.48%, surpassing the 13.75% of Zhongshan Runtian, and becoming the largest shareholder again. In July 2023, Torch Group dismissed four directors with Baoneng background, including He Hua, Huang Wei, Cao Jianjun and Zhou Yanmei, through an extraordinary shareholders' meeting, and elected three new directors related to Torch Group, marking the loss of Baoneng's control over JonjeE HI-TECH.

On July 12, 2023, Baoneng real-name reported the Torch Group and other shareholders on suspicion of false litigation, manipulation of the securities market, and continued to change their own executives. On July 19, 2023, Yao Zhenhua went to the company for research and was turned away by security guards, which set off an uproar. On July 24, 2023, Baoneng issued a statement saying that the extraordinary shareholders' meeting organized by Torch Group was "illegal and irregular", but failed to stop the Torch Group's action.

5.2 Analysis and discussion

The battle for control of JonjeE HI-TECH is a typical conflict between major shareholders, which is mainly caused by the difference in strategic objectives and fundamental interests. Under the guidance of the encouragement policy, Foresea Life is rich in capital but is forced by high debt cost, so the investment target is mainly short-term returns, and Baoneng intends to expand its business scale through the acquisition of enterprises, while Torch Group, as the former major shareholder, aims at sustainable development and maintaining its own control.

In the dimension of resource dependence, the resource of new shareholders is the core resource of the battle. Baoneng system through the secondary market increase and equity transfer, once became the first major shareholder, mastered the control of the company. The Torch Group regained control by increasing its stake and joining forces with concerted actors. Baoneng entered Torch High-tech with the financial support of Foresea Life from 2015 to 2018, but after 2020, due to its own debt crisis, its capital strength was greatly weakened, resulting in its inability to maintain new control of Torch High. Baoneng was forced to reduce its shares due to debt problems, and even part of its shares were auctioned by judicial authorities, which led to its gradually weakening control over JonjeE HI-TECH. The change of resource dependence directly affects the direction of the scramble. Baoneng lost control due to declining capital strength, and Torch Group regained control of the company through resource integration. In the course of the battle, the utility difference between Baoneng System and Torch Group in strategic decision-making was significantly reversed, which also led to Torch Group's successful introduction of strategic investment to regain the control.

In the subject relationship dimension, as an external capital, Baoneng entered JonjeE HI-TECH by holding a license and increasing its holdings, trying to control the company through capital operation. However, Baoneng's capital operation model is not fully aligned with JonjeE HI-TECH's core business, leading to challenges in corporate governance. Torch Group, as the founding shareholder of Torch High new and the capital force of local government background, Torch Group pays more attention to the long-term development and main business of the company. In the early days of Baoneng's ownership, Torch Group and Baoneng had a brief cooperation, but with Baoneng's debt crisis and differences in business philosophy, the relationship between the two sides deteriorated rapidly, and eventually evolved into an open confrontation. The Torch Group strengthened its capital strength and negotiating power by cooperating with CDH Investment and other concerted actors and finally gained the upper hand in the final battle. The dynamic change of subject relation directly affects the course of battle. The transformation of Baoneng Group and Torch Group from cooperation to confrontation reflects the complexity of profit distribution and power struggle in the capital game.

6. Conclusions

This paper first sorted out the relevant theories and existing studies on the struggle for control rights, and on this basis further constructed the theoretical model of the struggle for control rights from three dimensions of resource dependence, subject relationship and institutional environment, and deeply explored the motivations and strategies of the conflicts between shareholders, management and major shareholders. At the same time, this paper starts with the theoretical model of control struggle, explores the process and causes of control struggle of JonjeE HI-TECH, and reflects the external characteristics and fundamental motivations of major shareholder conflict. Based on this, the following suggestions are obtained:

First, resource dependence is the foundation of the scramble, subject relationship is the core of the scramble, and institutional environment is the rule frame of the scramble. The interaction of the three factors jointly determines the direction of the battle. Enterprises should make clear long-term strategic planning to avoid sacrificing long-term development for short-term interests. Second, in the capital game, the ability of resource integration is the key to determine the outcome. The change of the subject relationship directly affects the course of the battle, and the transformation of cooperation and confrontation needs to be flexibly dealt with. The legal and regulatory environment provides the rule framework for the capital game, and the participant should pay close attention to the change of the regulatory policy to ensure that capital operation meets the regulatory requirements. At the same time, it should be good at finding opportunities and space in the institutional environment.

Furthermore, the process from the ownership of Baonengs to the loss of control rights indicates that capital operation should be aimed at supporting the development of the main business, avoiding the damage of the main business caused by excessive financialization. The stability of corporate governance is the basis for the long-term development of enterprises. The game between shareholders should focus on the interests of the company, avoid management turmoil, and pay attention to maintaining market confidence to avoid market fluctuations caused by shareholder games.

Disclosure statement

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