SHEIN

A Corporate Governance Review

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1. Introduction

As a leader in fast fashion, SHEIN's business model of quick inventory turnover and affordability has fueled its success. Yet, beneath it lies a complex ownership and management structure, diverse stakeholder interests, and contentious ESG practices. This analysis delves into SHEIN's unique structure, analyzing its ownership and management structure, and how they pose potential opportunities and challenges. In anticipation of a potential IPO, these factors gain relevance as SHEIN must reconcile its growth with stakeholder commitments and ESG principles. This exploration provides a deeper understanding of SHEIN's business and a guide for its potential future. This report aims to provide potential investors, stakeholders, and observers with a comprehensive understanding of SHEIN's corporate governance.

2. Ownership Structure

SHEIN's ownership structure is intricate and opaque, creating a puzzle of interconnections that can be difficult to untangle and comprehend fully[1]. The ownership stakes of the founders of Shein are undisclosed, but it is estimated that Xu Yangtian owns approximately 33%, while the remaining founders, Miao Miao, Gu Xiaoqing, and Ren Xiaoqing, each own around 7.6% (Feng & Mak, 2022). Collectively, the founders hold an estimated 55.8% ownership. Under this structure, the founders wield considerable control, with majority ownership and key management positions (Feng & Mak, 2022). The central entity within this complex arrangement is Beauty of Fashion Investment Co., LTD, which is strategically registered in the British Virgin Islands, a widely acknowledged tax haven (Geerts, 2023). Subsidiaries span across multiple jurisdictions like Hong Kong, Singapore, China, Great Britain, Ireland, Poland, Germany, and Russia, and their specific roles and ownership percentages are largely intransparent (Orbis, 2023). SHEIN has recently raised $2 billion in funding at a valuation of $66 billion. This fundraising round saw participation from high-profile investors including General Atlantic, Sequoia, and Mubadala Investment Company. The ownership percentage of these investors are not disclosed (Yang, 2023).

SHEIN's ownership structure is emblematic of a pyramid structure, a form of Control Enhancing Mechanism (CEM) that facilitates the maintenance of control by the founders. The pyramid structure enables the founders to have a high degree of

[1] See appendix 1: Ownership Structure of Shein.

control while diversifying risk through various entities. This implies that the founders can continue their stewardship over the company, effectively steering it towards their objectives.

SHEIN's rapid growth, despite its complex and somewhat opaque governance structure, testifies to its successful operational and strategic model. Yet, with rumors of a potential IPO in the US, optimizing corporate governance becomes a crucial endeavor (Wu, 2023). Enhancing transparency, ensuring regulatory compliance across jurisdictions, establishing robust mechanisms for accountability, and streamlining control and oversight are all essential to align with the expectations of a broader investor base, regulatory bodies, and to mitigate potential agency problems. The appeal and success of the IPO would significantly depend on these governance improvements.

Operating in diverse regions comes with its set of challenges and controversies. For instance, SHEIN's operation in Russia could be controversial due to the nation's current political climate. Similarly, maintaining consistent corporate culture or ethical business practices across regions, ensuring fair labor practices, and minimizing environmental impact are aspects that the company needs to navigate carefully. The complex, spread-out structure might make oversight difficult, potentially affecting SHEIN's reputation and compliance with ethical and legal standards. On the upside, the wide span of SHEIN's operations and the associated pyramid structure enables effective risk management. By having multiple subsidiaries in different locations, the risk is diversified. If one region faces a crisis, the entire operation is not significantly affected, thereby contributing to the resilience of the business.

3. Management & Board Structure

While SHEIN's intricate and multi-layered ownership structure has been explained in the previous analysis, its management and board structure remain opaque. In the complex network of SHEIN's pyramid ownership structure, three entities stand out - "Beauty of Fashion Investment," "Roadget Business Pte Ltd," and "Zoetop Business Co." (Orbis, 2023). Yet, the transparency about their board composition varies. No known board members exist for "Beauty of Fashion Investment," while "Roadget Business Pte Ltd" includes four members, and "Zoetop Business Co." is managed by three (Orbis, 2023). These board members for "Roadget Business Pte Ltd" are none other than the original founders of SHEIN: Xu Yangtian, Gu Xiaoqing, Miao Miao, and Ren Xiaoqing (Orbis, 2023). They are at the core of SHEIN's ownership structure with an estimated 55.8% ownership (Feng & Mak, 2022). As they hold key management positions and board seats while maintaining majority ownership, they wield considerable power and control over the company.

The concentration of power within the founders also raises concerns about corporate governance, particularly regarding conflict resolution and accountability. With limited information on the presence or ratio of independent to dependent directors, questions arise about SHEIN's decision-making processes. Independent directors play a vital role in corporate governance by offering unbiased perspectives and serving as a check on majority shareholders. Their absence could lead to decisions that overly favor the founders.

Transparency, or lack thereof, is another critical aspect of SHEIN's management and board structure. The opacity of the structure compromises the principles of good corporate governance, which advocate for openness and accountability. This lack of transparency could potentially alienate shareholders and stakeholders, affecting their trust in the company.

As SHEIN prepares for its proposed IPO, the need to address these governance challenges becomes more pressing (Wu, 2023). The appeal and success of the IPO significantly depend on these governance improvements. Mitigating potential agency problems, enhancing transparency, ensuring regulatory compliance, establishing robust mechanisms for accountability, and streamlining control and oversight are all key areas that need attention.

4. Stakeholders & ESG

SHEIN's ESG report projects a strong commitment to sustainable practices (ESG Reports – SHEIN Group, 2023). However, allegations of environmental negligence and accusations of toxic waste and chemicals management contradict the narrative (Rajvanshi et al., 2023). SHEIN has recently hired an ESG executive, Adam Whinston (Roshitsh, 2021). His role would be integral in guiding SHEIN's approach towards more sustainable and responsible practices. As the company operates across diverse geographical regions, it faces a considerable challenge in ensuring consistency in environmental standards and compliance, potentially affecting stakeholder trust.

On the social dimension, SHEIN has been embroiled in controversies regarding poor working conditions (Waldersee, 2021) and allegations of child labor and sweatshops (Meyersohn, 2023). These allegations pose a significant risk to its reputation and could lead to decreased trust from stakeholders, particularly customers and potential investors.

In the agency theory context, these situations could be seen as an example of agency type 3 problems, where the agents (managers and executives) are not acting in the best interest of a broader group of stakeholders (employees, society, and the environment). The company's founders and executives might be prioritizing growth and cost-cutting at the expense of socially responsible behavior.

SHEIN's intricate ownership structure, with its pyramid formation, allows founders to maintain control while diversifying risk. However, this structure can become problematic, particularly in the face of an IPO. Pre-IPO, the common objective of increasing the company's valuation minimizes agency problems, aligning the founders' and shareholders' goals. Post-IPO, potential divergence in objectives between the founders (agents) and new shareholders (principals) could lead to agency type 2 problems. Founders might continue focusing on long-term growth, while shareholders may lean towards short-term returns. This potential conflict underlines the importance of robust corporate governance mechanisms that can align stakeholder interests.

SHEIN's board structure further complicates this issue. The potential overlap between the board and management roles, the uncertain presence of independent directors, and opaque board appointment procedures could compromise the effectiveness of corporate governance. As a result, the ability of the board to monitor management activities and safeguard shareholder interests could be hindered.

For SHEIN, ensuring greater transparency in its operations, governance, and ESG commitments should be a priority. Addressing allegations and working towards creating an equitable and safe work environment should be an integral part of their strategy. Furthermore, as SHEIN moves towards an IPO, establishing a more transparent, accountable, and effective governance structure that aligns the interests of the founders, shareholders, and broader stakeholders would be critical for its sustained success. By doing so, SHEIN can mitigate agency problems, ensure stakeholder engagement, and uphold its commitment to ESG principles.

5. Conclusion

In summary, the complexity and opacity of SHEIN's ownership and management structure, coupled with its ESG challenges, are factors that the company must navigate carefully. While SHEIN's intricate ownership structure presents a puzzle, it has also allowed the founders to maintain control, diversify risk, and steer the company towards their strategic vision. However, this concentration of power could present significant corporate governance challenges, particularly in terms of decision-making processes, accountability, and transparency. Simultaneously, SHEIN's ESG practices and alleged controversies surrounding environmental negligence, alleged poor working conditions, and accusations of child labor have raised questions about its commitments to broader stakeholder interests. As the company contemplates its IPO, it faces a critical inflection point to reassess its governance mechanisms, address its ESG controversies, and align its interests with those of a broader range of stakeholders. By embracing transparency, strengthening its governance structure, and upholding its ESG commitments, SHEIN could potentially unlock further growth, build stronger stakeholder relationships, and ensure its long-term sustainability. This paper has aimed to shed light on these critical facets of SHEIN's business, thereby providing a deeper understanding of its operations and the potential path it can chart for a sustainable and successful future.

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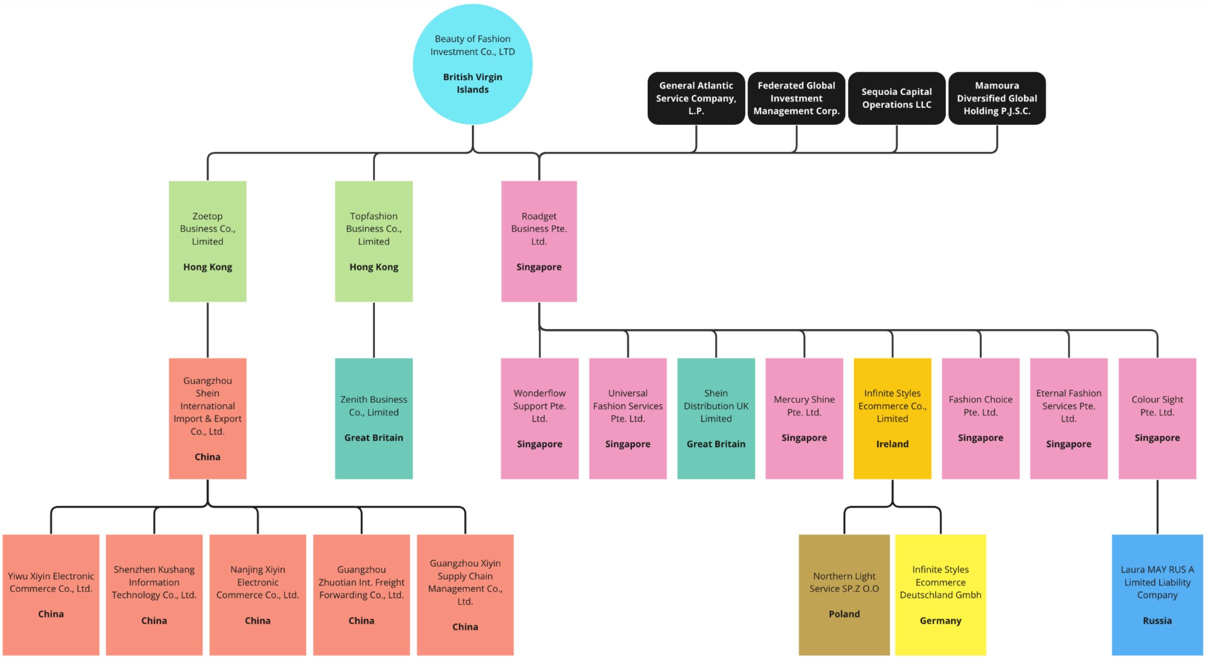
Appendices:

Appendix 1: Ownership Structure of Shein



***Orbis Database: Private Companies Database.**