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The Impact of the Proportion of Independent Directors on Corporate Profitability—A Comparative Analysis Based on Wuliangye and ST Yanshi

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Abstract

There are huge differences in the governance environments of different companies in China. State-controlled companies, which follow stricter governance rules, can provide a solid institutional foundation for independent directors to do their jobs. But some privately controlled companies have highly concentrated ownership and a situation where one shareholder dominates, so independent directors often end up as ‘figurehead directors’ and struggle to effectively supervise. This study uses a comparative double-case method and concludes that this reality makes the relationship between the proportion of independent directors and company profits not simply linear, but influenced by the overall governance environment of the company.

Keywords

corporate governance, comparison of two case studies, proportion of independent directors

1. Introduction

In the real-world situation of China’s A-share market, many companies have issues like weak corporate governance, a dominant shareholder, independent directors being mostly figureheads, and insufficient independence in their duties. The actual effectiveness of independent directors in governance has long been debated, and existing research has not yet reached a consensus [1]. The independent director system is a key design for improving internal governance of listed companies, restraining management and major shareholders, and protecting the rights of small and medium investors. In theory, it should have a noticeable positive impact on earnings quality and long-term business performance [2]. Most existing literature focuses on large-sample empirical tests, and few studies intuitively break down the differences in logic between independent director ratios and profitability under different governance environments through strong-weak governance enterprise pairing or in-depth dual-case comparisons. Targeted local case studies are relatively lacking. To explore whether independent directors can effectively play their roles in companies with weakened governance, and whether increasing the proportion of independent directors in this environment can effectively improve corporate profitability, this article selects two representative companies in the liquor industry: Wuliangye, a state-controlled leading company, and ST Rock, a privately controlled delisted company, for a dual-case comparative study. These two companies both operate deeply in the liquor sector, but their corporate governance structures, independent director ratios, and equity control models are completely different. So they are comparable in this industry. In that case, their business outcomes show a stark contrast, clearly showing that the corporate profitability might be impacted by independent director proportion, governance environment, and corporate profitability. Thus, such case study is quite typical [3]. The regulators can optimize differentiated management rules for independent directors, improving special governance for highly concentrated private equity, and standardize the cancellation of single-layer supervisory boards with this reaserch findings. Meanwhile, when the small and medium investors want to invest to some company. It is noticeable to recognize that this findings can also offer a practical reference for them. It lead investors not just focusing on the proportion of independent directors, but also evaluating investment risk based on equity structure, supervisory framework, and the stability of actual controller performance, thereby better protecting their own interests.

2. The First Case: Wuliangye

In terms of the board of directors and independent director setup, there are 11 board members with 4 independent directors in this firm and such number keeps stable from 2023 to 2025. The independent director porprotion is about 36.4%, which is higher than the minimum one-third requirement set by regulators. It must be emphasized that the independent directors are consist of professionals from accounting and legal fields, so their expertise aligns well with the company’s operational and financial oversight needs, enabling the board a fairly strong level of independence. Moving on the company’s profit data from 2023 to 2025, the core profit indicators are as follows: in 2023, revenue was 83.272 billion yuan, net profit attributable to shareholders was 30.211 billion yuan, and the gross margin was 75.8%, showing steady growth; in 2024, revenue reached 89.175 billion yuan, net profit attributable to shareholders was 31.853 billion yuan, and the gross margin was 77.1%, there are a stable upward trend in profitcan be seen. In 2025, due to changes in revenue recognition accounting policies and the overall industry environment, revenue and reported net profit saw a short-term decline, but the gross margin remained high at 77.5%, and the company’s core profitability did not materially deteriorate.

3. The Second Case: ST Rock

ST Rock is a privately-held listed company, with its shares highly concentrated in the hands of its actual controller, Han Xiao. After several adjustments, its main business has focused on the low-end liquor sector. Previous studies have shown that when ownership is highly concentrated, corporate value tends to start declining. The company has long faced issues like equity imbalance and chaotic internal management. Its business has spanned construction ceramics, real estate, internet finance, and liquor, frequently changing its main focus, earning it market nicknames like the ‘Phoenix of A-shares’ or the ‘King of Renaming’. As of 2023, independent directors make up about 42.86%. Even though the proportion of independent directors is high, it hasn’t changed the fact that the actual controller still dominates the board. In 2025, the shareholders decided to abolish the supervisory board, transferring all oversight functions to the board’s audit committee, forming a governance structure of ‘board self-supervision.’ Relying on just three independent directors to oversee finance, internal controls, executive performance, and related-party transactions is not enough [4]. The chairman, Han Xiao, is linked to the 70 billion yuan Haisheng Wealth fundraising fraud case, and as a core member of the Han family, he was criminally detained by the police. Losses have been increasing year by year. Independent directors can’t correct business deviations or prevent financial risks.

4. Comparison of Corporate Governance Environment and the Proportion of Independent Directors

From the perspective of the company’s ownership characteristics, Wuliangye’s actual controller is the Yibin State-owned Assets Supervision and Administration Commission. It is not only regulated by the CSRC but also bound by rules like the ‘Regulations on the Honest Conduct of Leaders of State-owned Enterprises’ from the SASAC. Responsibilities within the company are clearly divided, management actions are closely monitored, and the overall governance environment is standardized and transparent. The company has a mechanism for selecting management, and since executives in state-controlled enterprises are mostly appointed administratively and face performance evaluations during their terms, their behavior tends to be more cautious. At the same time, major decisions need prior review by the Party Committee, creating multiple layers of checks. This forms a multi-layered control system of ‘Party Committee - Board of Directors - Management’. Although this kind of institutional restraint might reduce decision-making efficiency, it objectively provides ‘institutional soil’ for independent directors to perform their duties — their opinions are more likely to be recorded and held accountable. A solid institutional foundation can help independent directors do their job [5]. ST Rock operates under a governance model dominated by private controlling shareholders, with overly concentrated equity and the controller holding absolute power. The checks and balances of the board of directors and the supervisory board are weakened, internal governance tends to be ‘one-man rule,’ and the external regulatory constraints on private companies are relatively weak, lacking rigid supervision measures like pre-approval from the party committee in state-owned enterprises or routine inspections of state assets. This harsh external governance environment fundamentally limits the ability of independent directors to fulfill their supervisory role [6]. Introducing the principal-agent theory to further analyze the core conflicts in two types of companies: In state-owned enterprises, the agency problem mainly shows up as an ‘absent owner’ issue, where management lacks long-term equity incentives and tends to run conservative operations and avoid risks. In highly centralized private companies like ST Rock, the main agency conflict is ‘major shareholders harming minority shareholders.’ The actual controller can use their absolute control to divert company funds and channel benefits to related parties. The case of the Han family’s Han Xiao in the Haiyin Wealth 70 billion yuan fundraising fraud and huge losses is a typical example of how controllers can hollow out listed companies. Under these two ownership models, independent directors face fundamentally different supervision challenges: in state-owned enterprises, their main job is to monitor management, while in private companies, independent directors have to check the power of controlling shareholders, making their supervision and responsibilities much tougher.

Looking at the proportion numbers, from 2007 to 2022, ST Rock had 36%, just above the regulatory red line. But because one shareholder dominated internally, independent directors only had a small amount of voting power, making it hard to effectively restrain major shareholders and the management team. After 2023, ST Rock increased the proportion of independent directors to 42.86%, but this didn’t change the fundamental internal control issues, like the ultimate controller being deeply tied to the board and management holding multiple board roles. So the effectiveness of independent directors didn’t really improve despite the higher proportion. At the same time, there’s a clear gap in professional qualifications: Wuliangye matches independent directors’ accounting and legal expertise with its high cash flow and high-margin industry to address governance risks. ST Rock’s independent directors, however, are disconnected from the company’s operational and financial supervision needs, which further magnifies governance problems caused by the insufficient proportion. In 2025, the company’s annual reports received qualified opinions from accounting firms and its internal control report was given a negative opinion, but when independent directors reviewed the reports, they still all voted in favor. Their duties were basically just for show. The combination of having too few independent directors and a flawed governance environment made them completely lose their supervisory function [7,8].

In short, the strengths and weaknesses of independent directors in the two listed companies aren’t just by chance. They’re the inevitable result of the entirely different ownership structures—state-controlled versus family-owned private companies—which create distinct institutional environments and agency conflicts. The fundamental differences in ownership shape completely different governance logics: state-owned enterprises have rigid oversight systems that restrain managers’ self-serving behaviors, while private family businesses lack effective checks and balances, leading the independent director system to have very different governance outcomes and value in different companies.

5. How the proportion of highly independent directors affects company profits under different governance

Wuliangye: High proportion of independent directors and standard governance → stable and improving profits. With good governance in a state-controlled environment, a higher proportion of independent directors creates an effective internal check-and-balance system, effectively easing principal-agent problems, restraining management from chasing short-term gains, and ensuring the implementation of the company’s long-term business strategies [9].

ST Rock: High proportion of independent directors leads to unbalanced governance → continuous decline in profitability. Even if the company later tries internally to fix governance issues like flawed financial disclosure and perfunctory review of related-party transactions by increasing the proportion of independent directors, actions like illegal operations and benefit transfers by the actual controller can't be restrained. The company's management is chaotic, revenue keeps shrinking, and losses worsen year by year. Independent directors can't correct operational deviations or prevent financial risks. In 2023, revenue was 282 million yuan, net profit attributable to the parent company was -33 million yuan, and the company started to incur losses; in 2024, revenue was 284 million yuan, net profit attributable to the parent was -99 million yuan, with losses further expanding; in 2025, revenue sharply dropped to 39 million yuan, net profit was a loss of 266 million yuan, consecutive losses and operational disorder piled up, and in 2026, the Shanghai Stock Exchange issued a delisting notice.

This shows that when there are serious flaws in corporate governance, even though the independent directors ratiohave a high level, it won't reduce operational risks and may actually accelerate a company's profit collapse [10].

6. Conclusion

Based on the above analysis, we can draw the following conclusions: First, the proportion of independent directors is a key indicator affecting board independence, and its effectiveness depends on the overall corporate governance environment. To be specific, Wuliangye, which is a state-controlled company and it has standardized governance. The higher proportion of independent directors effectively plays a supervisory and balancing role, enabling the company maintain stable long-term profits. In contract to Rock, which is privately controlled and poorly governed, even increasing the proportion of independent directors makes no difference if one shareholder dominates, completely neutralizing the independent directors, leading to continuous losses until delisting. Second, the corporate governance environment can influence the relationship between the proportion of independent directors and company profits. A well-functioning governance environment can enhance the positive impact of independent directors, boosting profitability, whereas a poor governance environment can weaken or even negate their value, worsening profits. Third, the independent director system cannot rely solely on setting proportions; it also requires complementary mechanisms like professional staffing, performance assessment, and external supervision to truly optimize governance and improve company profitability.

Based on the conclusions from this dual-case analysis, the following suggestions are offered for listed companies with different governance types: 1. Set a reasonable proportion of independent directors and strictly follow compliance rules: All listed companies should strictly adhere to regulatory requirements, ensuring that independent directors make up at least one-third of the board, as legally required. For companies with concentrated ownership or private control, it's advisable to increase the proportion of independent directors to strengthen independent supervision. This can help break the 'insider control' pattern at the board level and provide a solid institutional foundation for stable profits. 2. Match professional talent to improve independent directors' effectiveness: Companies should hire independent directors with expertise in accounting, law, and industry operations, considering their own industry characteristics and business risks. In industries like liquor, which have strong cash flow and frequent related-party transactions, prioritizing financial and legal independent directors allows them to genuinely participate in financial oversight and risk management, indirectly protecting profitability. 3. Optimize corporate governance according to company type: State-owned enterprises should continue to deepen their existing governance strengths, leveraging the state asset supervision system to further enhance independent directors' decision-making and supervision role, focusing on long-term profit growth. Private enterprises should concentrate on improving shareholding structures, reducing excessive control by actual controllers, attracting diverse shareholders, and building a governance framework of checks and balances. This creates room for independent directors to perform their duties and prevents profit decline caused by poor governance. 4. Strengthen supervision and accountability to avoid 'token' independent directors: Regulators should intensify checks on independent directors' performance, holding accountable those directors and companies that fail to meet the required proportion, consistently miss meetings, or do not raise reasonable objections. External oversight pushes companies to take the independent director system seriously, preventing independent directors from being mere 'decorations' and ensuring the system truly supports business operations and profit growth.

Limitations and shortcomings of this study: First, only two liquor companies were selected as cases, and the sample size is small, so the research conclusions have limitations when applied across industries. Second, the study mainly relies on qualitative case analysis and does not conduct quantitative tests through large-sample empirical models, so the conclusions lack strong statistical support. Third, the analysis only considers proportions and board performance, without fully accounting for macroeconomic factors, industry cycles, or management capabilities, meaning potential endogeneity issues aren't entirely avoided. Fourth, due to limitations in publicly available information, we couldn't access internal discussions or detailed performance data of independent directors, so the analysis depth is somewhat limited. In the future, expanding the sample size, lengthening the research period, and combining empirical analysis methods could help deepen the research further.

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Conflicts of Interest

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