An Empirical Taxonomy of SOE Governance in Transitional China

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Abstract. China’s State-Owned Enterprises (SOEs) traditionally have been governed by the Communist Party. Privatization has brought greater numbers of investors who have a stake and demand a voice in how SOEs are managed. Three traditional governance perspectives are agency theory, resource dependence, and institutional theory, but China’s transition introduces several additional governance approaches. Are “capitalism with Chinese characteristics” and “bureaucratic entrepreneurialism” paradoxes? Based on initial interviews of SOE executives, a survey of top managers and board chairs of listed companies, and subsequent interviews and observations in select case companies, this paper develop a taxonomy of SOE governance that now exists in China. Two of the approaches represent the extremes of the old state-centered regimes and the new shareholder-centered regimes. Considering China’s historical and cultural contexts coupled with its current stage of economic transition, two additional approaches to corporate governance are to have a vacuum as neither the state nor shareholders dominate or – in unique contrast to other countries – a hybrid of both.

Key words: capitalism with Chinese characteristics, governance taxonomy, institutionalism, state-owned enterprises, transition economies

Abbreviations: ARBE, accounting regulations for business enterprises; ASBE, accounting standards for business enterprises; FIEs, foreign-invested enterprises; NTCs, new three committees; OTCs, old three committees; SMEs, small and midsize enterprises; SOEs, state-owned enterprises; TVEs, township and village enterprises

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1. Introduction

“Walk along the old road in new shoes.” (Top manager during interview)

China’s transition from a centrally-planned socialist economy to one with increasing market liberalization is a unique context in which to explore the benefits and limits of alternative corporate governance approaches to its State-Owned Enterprises (SOEs): Institutional and cultural contexts change slowly and with great difficulty, and economic transitions are fraught with market uncertainties (e.g., labor, capital, suppliers, customers, etc.), managerial inexperience, and intense competition. This combination makes corporate governance (gongsi zhili) complex, uncertain, and multi-layered. We especially know little about their structure and effectiveness in developing economies. Tai and Wong (2003) note that SOE corporate governance is now the Chinese government’s top priority. This will require new laws, incentives, and achieving world-class codes, guidelines, and stock listing requirements. But how should these enterprises deal with the tension between the old and new corporate leadership systems? What are the unique characteristics of governance approaches in transitional China? As the reform proceeds, will different approaches appear as the enterprises deal with the relationship between old and new leadership systems in their own ways or will there be a convergence to universal standards?

These three questions provide an understanding, solution, and evolution. That is, understanding current SOE governance characteristics and learning ways to resolve tensions between the economic and political systems exemplified in these approaches will enable us to speculate about the evolution of SOE governance over time. To try to answer these questions, this paper first briefly reviews the background on SOEs then summarizes the traditional corporate governance literature. We then examine SOE governance in transitional China. The next section presents how this study empirically developed a taxonomy of alternative approaches and their characteristics as well as presents case examples. We conclude by speculating about the future of SOE governance in transitional China.

2. Background on state-owned enterprises

As a consequence of “The New World Order,” many countries around the world are facing radical economic transformation and none more so than China. All Chinese enterprises – be they State-Owned Enterprises (SOEs), foreign-invested enterprises (FIEs), township and village enterprises (TVEs), small and midsize enterprises (SMEs), or family businesses – are undergoing