Corporate Governance and Corporate Social Responsibilities in China

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Introduction

Corporate governance in China developed with the gradual shift of the country from a planned economy to a market economy. As Chinese enterprises switched over to modern corporate entities from government affiliates, it became necessary to establish a new corporate governance framework. The country underwent transformation through various phases, namely, reform and opening up, the establishment of a socialist market economic system, accession to the World Trade Organization, and the period thereafter (Kang et al., 1975).

Corporate social responsibility emerged as a crucial part of corporate governance when China’s development model shifted its one-sided focus on economic growth to a balanced improvement in the economic, social and environmental scenario, with a special emphasis on sustainability. In the changed economic order, companies started taking a more comprehensive view of the impact that their decisions and actions might have on stakeholders. They undertook different forms of social responsibility across economic, legal, moral and social issues in order to have fruitful interactions with the internal, as well as external, environment and to achieve favorable results for their long-term operations.
History and development of corporate governance in China

Chinese enterprises were state-owned under the planned economic regime until 1978. The management mechanism of such enterprises was administration-driven, with a unified and collective form of governance (Clarke, 2003). It was the national plan (and its sub-plans) that were the guiding factors for corporate production plans, and not market forces. Business performance was measured by the number of planned targets achieved rather than the market value realized. Managers had neither independence in business activities, nor were they allowed to share the benefits of successful business operations. The only incentive managers and employees enjoyed was political entitlements. Therefore, the drive to improve enterprise management was largely missing. Managers could gain autonomy and the corresponding administrative ranks only if the size and economic resources of their companies registered significant growth. This motivated the managers to boost the size of the enterprise without paying much attention to its business performance (Grossman and Hart, 1986).

The need to reform the state-owned enterprises (SOE) was soon felt, as inefficiencies crept in with the old enterprise system. To revitalize the SOEs, restructuring the old enterprise system began after the Third Plenary Session of the 11th Communist Party of China’s (CPC) National Congress in 1978. Corporate governance started gaining importance with the introduction of the modern enterprise system. The history and development of China’s corporate governance has been a 30-year long process with four distinct phases (Gillan, 2006).

Phase 1: 1978–1984

Decentralization was the major focus of this phase. The State Council formed a number of rules and regulations in 1979 to bring about reform in the management mechanism of the enterprises, including realignment of the relationship between the state and its enterprises, appropriately empowering the SOE managers in the matter of business activities and installing an economic, incentives-driven management model in place of direct administrative control of the state over the SOEs (Xu and Wang, 1999; Peng, 2001).

Several motivating measures were taken in the form of investments in fixed assets and working capital, and efforts made to introduce